Ternium S.A.
Form F-1/A
January 27, 2006
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As filed with the Securities and Exchange Commission on January 27, 2006

Registration No. 333-130950

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

AMENDMENT NO. 1

TO

FORM F-1

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

Ternium S.A.

(Exact Name of Registrant as Specified in its Charter)

Grand Duchy of Luxembourg	**3312**	**Not Applicable**
(Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

46a, Avenue John F. Kennedy 2nd floor

L-1855 Luxembourg

(352) 4661-11-3815

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Registered Office)

Giovanni Gallo

Techint Inc.

420 Fifth Avenue, 18th Floor

New York, New York 10018

(212) 376-6500

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434 under the Securities Act, check the following box. ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION. DATED JANUARY 27, 2006

P R O S P E C T U S

24,844,720 American Depositary Shares

Ternium S.A.

(Organized under the laws of The Grand Duchy of Luxembourg)

Representing 248,447,200 Shares of Common Stock

$ per ADS

We are selling 24,844,720 American Depositary Shares, or ADSs. Each ADS represents the right to receive 10 shares of our common stock.

The ADSs that we are selling are being offered in the United States and Canada by the underwriters named in this prospectus. We have granted the underwriters an option to purchase up to 3,726,708 additional ADSs to cover over-allotments.

An application has been made to list the ADSs on the New York Stock Exchange under the symbol TX. Prior to the offering, there has been no public market for our ADSs or our shares. It is estimated that the initial offering price will be in the range of $16.50 to $18.50 per ADS.

Investing in the ADSs involves risks. See "Risk Factors" beginning on page 25.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per ADS	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds to us (before expenses)	$	$

The underwriters expect to deliver the ADSs to investors on or about , 2006.

Citigroup

Deutsche Bank

JPMorgan

Morgan Stanley

BNP PARIBAS Calyon Securities (USA) Inc. Hypo Vereinsbank

, 2006

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We are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus.

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Until , 2006 (the 25th day after the date of this prospectus), all dealers that buy, sell or trade our securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Certain defined terms

In this prospectus, unless otherwise specified or if the context so requires:

References to the Company, we, us or our are exclusively to Ternium S.A., a joint stock corporation (*société anonyme* holding) organized under the laws of the Grand Duchy of Luxembourg;

References to Ternium refer to the flat and long steel manufacturing, processing and distribution businesses of various companies under the common control of San Faustín N.V. As part of a corporate reorganization, these companies were reorganized as our subsidiaries. See notes AP A and B to the combined consolidated financial statements of Ternium included elsewhere in this prospectus and Formation of Ternium and Related Party Transactions Corporate reorganization transactions;

References to Siderar are to Siderar S.A.I.C., a corporation (*sociedad anónima industrial y comercial*) organized under the laws of the Republic of Argentina (Argentina);

References to Amazonia refer to Consorcio Siderurgia Amazonia Ltd., a holding company organized under the laws of the Cayman Islands;

References to Sidor are to Sidor C.A., a corporation (*compañía anónima*) organized under the laws of the Bolivarian Republic of Venezuela (Venezuela);

References to Hylsamex are to Hylsamex, S.A. de C.V., a corporation (*sociedad anónima de capital variable*) organized under the laws of the United Mexican States (Mexico);

References to Ylopa are to Ylopa Serviços de Consultadoría Lda., a company established under the laws of Portugal and registered in the Madeira Free Zone;

References to the Ternium companies are to Ternium s manufacturing subsidiaries, namely Siderar, Sidor and Hylsamex and their respective subsidiaries;

References to Usiminas are to Usinas Siderurgicas de Minas Gerais S/A USIMINAS, a company organized under the laws of Brazil and a shareholder of the Company;

References to Tenaris are to Tenaris S.A., a joint stock corporation (*société anonyme* holding) organized under the laws of Luxembourg and a shareholder of the Company that holds the Techint Group s interests in steel pipe manufacturing, processing and distribution;

References to ISL are to Inversora Siderurgica Limited, a company organized under the laws of Gibraltar and the Company s principal shareholder;

References to San Faustín are to San Faustín N.V., a corporation organized under the laws of the Netherlands Antilles and the Company s indirect controlling shareholder;

References to the Techint Group are to an international group of companies with operations in the steel, energy, engineering, construction and public service sectors over which San Faustín exercises either control or significant influence; and

References to the Techintrade Commercial Network, the Techintrade Network or Techintrade are to an international group of companies that markets and provides worldwide distribution services for products offered primarily by Ternium.

References to tons are to metric tons; one metric ton is equal to 1,000 kilograms, 2,204.62 pounds or 1.102 U.S. (short) tons.

References to billions are to thousands of millions.

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Presentation of financial information

Summary

For convenience, the table below summarizes the financial information included in this prospectus.

Financial Information	Period	Combined / consolidated entities	Accounting Principle	Status	Page No.
Ternium pro forma	Annual 2004	Siderar, Ylopa, Techintrade, Amazonia and Hylsamex	IFRS	Unaudited	62
	Interim June 30, 2005	Siderar, Ylopa, Techintrade, Amazonia and Hylsamex	IFRS	Unaudited	54, 70
Ternium	Annual 2003	Siderar, Ylopa and Techintrade	IFRS	Audited	F-49
	Annual 2004	Siderar, Ylopa and Techintrade	IFRS	Audited	F-49
	Interim June 30, 2004	Siderar, Ylopa and Techintrade	IFRS	Unaudited	F-6
	Interim June 30, 2005	Siderar, Amazonia, Ylopa and Techintrade	IFRS	Audited	F-6
Amazonia	Annual 2003	Sidor	IFRS	Audited	F-100
	Annual 2004	Sidor	IFRS	Audited	F-100
Hylsamex	Annual 2002	Hylsamex and subsidiaries	Mexican GAAP	Audited	F-164
	Annual 2003	Hylsamex and subsidiaries	Mexican GAAP	Audited	F-164
	Annual 2004	Hylsamex and subsidiaries	Mexican GAAP	Audited	F-164
	Interim June 30, 2004	Hylsamex and subsidiaries	Mexican GAAP	Unaudited	F-152
	Interim June 30, 2005	Hylsamex and subsidiaries	Mexican GAAP	Unaudited	F-152

Presentation of unaudited pro forma combined consolidated financial information for Ternium

The unaudited pro forma combined consolidated financial data of Ternium included in this prospectus have been compiled to show what the Company s financial condition as of June 30, 2005 and its financial results for the year ended December 31, 2004 and for the six-month period ended June 30, 2005 might have been had the following (collectively, the Pro Forma Transactions) been in place as of the balance sheet date or since January 1, 2004, as the case may be:

the capitalization in February 2005 of certain debt instruments convertible into shares of Amazonia described elsewhere in this prospectus;

the acquisition in August 2005 of Hylsamex and the interests of Hylsamex s former controlling shareholder, Alfa, in Amazonia and Ylopa described elsewhere herein;

the acquisition of Usiminas s interests in Siderar, Amazonia and Ylopa and of Sivensa s interest in Amazonia in exchange for shares of the Company described elsewhere in this prospectus; and this offering and the consummation of the transactions contemplated in the Corporate Reorganization Agreement, the related payment of indebtedness and the conversion of the Subordinated Convertible Loans described elsewhere in this prospectus. For this purpose, we estimate that the gross proceeds from this offering will be USD500 million if the underwriters exercise their over-allotment option in full, at an assumed initial public offering price of USD17.50 (the midpoint of the range of the initial public offering price set forth on the cover page of this prospectus).

See Use of Proceeds, Formation of Ternium and Related Party Transactions Corporate reorganization transactions and Hylsamex acquisition financing.

However, the pro forma financial information may not reflect what our actual financial condition and results of operations would have been if the above-mentioned transactions had been in place as of such dates and if we had operated on that basis during such periods. We have compiled our unaudited pro forma combined consolidated financial data in accordance with IFRS and a reconciliation of such information to U.S. GAAP is also being provided. IFRS differs in certain significant respects from U.S. GAAP.

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Presentation of financial information for Ternium

The audited combined consolidated financial statements of Ternium as of December 31, 2003 and 2004 and for the years then ended included in this prospectus combine and consolidate the results and other financial data of each of Siderar, Ylopa and Techintrade, and recognize the investment in Amazonia under the equity method, as of each such date and for each of the periods then ended, on the basis that such companies were under the common control of San Faustín as of each such date and for each such period. The effect of this presentation is to show the combined historical results, financial condition and other data of the various companies under the common control of San Faustín as though these companies had been our subsidiaries at the dates and during the periods presented.

The audited combined consolidated condensed interim financial statements of Ternium as of June 30, 2005 and for the six-month period then ended included in this prospectus combine and consolidate, in addition to the consolidated results and other financial data of each of Siderar, Ylopa and Techintrade, the results and other financial data of Amazonia, which company came under the control of San Faustín in February 2005. As a result of the consolidation of Amazonia s results and other financial data, Ternium s results and other financial data for the six months ended June 30, 2005 are likely to vary significantly from the results and other financial data for the six months ended June 30, 2004 and for the years ended December 31, 2003 and 2004.

Unless otherwise indicated, the financial information relating to Ternium contained in this prospectus for the years ended December 31, 2003 and 2004 and for the six months ended June 30, 2004 and 2005 and as of December 31, 2003 and 2004 and June 30, 2004 and 2005 has been prepared in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board, or IFRS, and is presented in U.S. dollars. IFRS differs in certain significant respects from generally accepted accounting principles as applied in the United States, or U.S. GAAP. For a discussion of these differences, as they relate to Ternium, and a reconciliation of net income and shareholders equity to U.S. GAAP, see notes AP T and 32 and 33 to Ternium s combined consolidated financial statements and note 17 to Ternium s combined consolidated condensed interim financial statements included in this prospectus.

Presentation of financial information for Amazonia

Also contained in this prospectus are the consolidated financial statements of Amazonia as of December 31, 2003 and 2004 and for the years then ended. The combined consolidated financial statements of Ternium as of December 31, 2003 and 2004, and for the periods then ended, do not combine or consolidate such financial statements. According to Rule 3-09 of Regulation S-X, we are required to file separate financial statements of significant equity investees, such as Amazonia. The financial information relating to Amazonia contained in this prospectus as of and for the years ended December 31, 2003 and 2004 has been specially prepared for use in this prospectus in accordance with IFRS and is presented in U.S. dollars. IFRS differs in certain significant respects from U.S. GAAP. For a discussion of these differences, as they relate to Amazonia, and a reconciliation of net income and shareholders equity to U.S. GAAP, see note 37 to Amazonia s consolidated financial statements included in this prospectus.

Presentation of financial information for Hylsamex

Also contained in this prospectus are the consolidated financial statements of Hylsamex as of December 31, 2003 and 2004 and as of June 30, 2005 and for the periods ended December 31, 2002, 2003 and 2004 and June 30, 2004 and 2005. The Company, together with Siderar, acquired a 99.3% equity interest in Hylsamex on August 22, 2005 (which percentage has since increased to 99.8% as further described in this prospectus). According to Rule 3-05 of Regulation S-X, we are required to file separate financial statements of businesses acquired or to be acquired if the acquisition meets the conditions set forth therein. Hylsamex is an acquired business and meets such conditions under Rule 3-05 of Regulation

S-X.

The financial information relating to Hylsamex contained in this prospectus as of December 31, 2003 and 2004 and as of June 30, 2004 and 2005 and for the periods ended December 31, 2002, 2003 and 2004 and

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June 30, 2004 and 2005 has been prepared in accordance with generally accepted accounting principles as applied in Mexico, commonly referred to as Mexican GAAP. Mexican GAAP differs in certain significant respects from U.S. GAAP. For a discussion of these differences, as they relate to Hylsamex, and a reconciliation of net income and shareholders equity to U.S. GAAP, see note 16 to Hylsamex s consolidated financial statements as of and for the years ended December 31, 2002, 2003 and 2004 and note 16 to Hylsamex s interim consolidated financial statements at June 30, 2004 and 2005 and for the six-month periods then ended included in this prospectus.

The financial information relating to Hylsamex contained in this prospectus is presented in constant Mexican pesos as of June 30, 2005. The financial statements of Hylsamex included in this prospectus were prepared giving effect to Bulletin B-10 Recognition of Effect of Inflation on Financial Information, as amended, and Bulletin B-12, Statements of Changes in Financial Position, issued by the Mexican Institute of Public Accountants, or the MIPA, each of which became effective in 1990, and Bulletin B-15, Foreign Currency Transactions and Translation of Financial Statements of Foreign Operations, also issued by the MIPA and adopted by Hylsamex in 1998. Generally, Bulletin B-10 provides for the recognition of the effects of inflation by requiring Mexican companies to restate inventories and fixed assets at current replacement cost, to restate all other non-monetary assets and non-monetary liabilities as well as the components of shareholders equity using the Mexican consumer price index and to record gains or losses in purchasing power from holding monetary liabilities or assets. The Third Amendment to Bulletin B-10 requires restatement of all financial statements to constant Mexican pesos as of the date of the most recent balance sheet presented. The Fifth Amendment to Bulletin B-10 was issued effective January 1, 1997, by the MIPA. Under the Fifth Amendment, Mexican companies are no longer permitted to restate fixed assets at current replacement cost, but are instead required to restate them using the Mexican consumer price index or inflation factors of the country of origin in the case of imported assets. Bulletin B-12 specifies the appropriate presentation of the statement of changes in financial position when the financial statements have been adjusted for inflation and restated in constant Mexican pesos in accordance with Bulletin B-10. Bulletin B-12 identifies the sources and applications of resources representing differences between beginning and ending financial statement balances in constant Mexican pesos. Bulletin B-15 prescribes the methodology for foreign currency transactions and the recognition of inflation in the financial information of foreign subsidiaries. Unless otherwise noted, all data in the consolidated financial statements of Hylsamex included in this prospectus and all other Hylsamex financial data included throughout this prospectus and relating to dates or periods covered by the consolidated financial statements have been adjusted for inflation and restated in constant Mexican pesos as of June 30, 2005.

Currencies

In this prospectus, unless otherwise specified or if the context so requires:

References to dollars, U.S. dollars, $ or USD are to United States dollars;

References to Argentine pesos or ARP are to the lawful currency of Argentina;

References to Venezuelan bolívares or VEB are to the lawful currency of Venezuela; and

References to Mexican pesos or MXN are to the lawful currency of Mexico.

On January 25, 2006, the exchange rate between the Argentine peso and the U.S. dollar (as published by *Banco Central de la República Argentina*, or the Argentine Central Bank) was ARP3.0415=USD1.00; the noon buying rate for the Venezuelan bolívar as certified for customs purposes by the Federal Reserve Bank of New York was VEB2,144.60=USD1.00; and the noon buying rate for the Mexican peso as published by the Federal Reserve Bank of New York was MXN10.50=USD1.00. Those rates may differ from the actual rates used in the preparation of Ternium s combined consolidated financial statements or in the preparation of Amazonia s or Hylsamex s consolidated financial statements. We do not represent that Argentine pesos, Venezuelan bolívares or Mexican pesos could have been or could be converted into U.S. dollars or that

U.S. dollars could have been or

could be converted into Argentine pesos, Venezuelan bolívares or Mexican pesos at these rates or at any other rates. See Exchange Rates Argentine pesos, Exchange Rates Venezuelan bolívares and Exchange Rates Mexican pesos for additional information regarding the exchange rates between the U.S. dollar and the Argentine peso, the Venezuelan bolívar and the Mexican peso, respectively.

Rounding

Certain monetary amounts, percentages and other figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% or, as applicable, when aggregated may not be the arithmetic aggregation of the percentages that precede them.

No Internet site is part of this prospectus

Ternium and Sidor maintain an Internet site at www.ternium.com and www.sidor.com, respectively. Information contained in or otherwise accessible through these websites is not a part of this prospectus. All references in this prospectus to these Internet sites are inactive textual references to these uniform resource locators, or URLs, and are for your informational reference only. We assume no responsibility for the information contained on these sites.

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SUMMARY

To understand the offering and the businesses of Ternium more fully, you should read this entire prospectus carefully, especially the risks of investing in our ADSs discussed under Risk Factors and Ternium s combined consolidated financial statements and notes to those financial statements included elsewhere in this prospectus.

Overview

The Company holds the Techint Group s investments in flat and long steel manufacturing, processing and distribution businesses, including its controlling direct and indirect equity interests in Argentina s largest steel company, Siderar, Venezuela s largest steel company, Sidor, the recently acquired Hylsamex, one of Mexico s largest steel companies, and Techintrade.

Ternium is one of the leading flat and long steel producers in Latin America and a strong competitor in the Americas, with strategic presence in several major steel markets through a broad network of distribution, sales and marketing services. We believe Ternium is among the largest producers of crude steel in Latin America, with manufacturing, processing and finishing facilities that have aggregate annual production capacity of approximately 11.6 million tons. Of this total production capacity, 2.8 million tons correspond to Ternium s operations in Argentina, 5.0 million tons to its operations in Venezuela and 3.8 million tons to its operations in Mexico. The Company believes that it is one of the lowest cost steel producers in the Americas due to its integrated operations, state-of-the-art steel production facilities, access to diversified sources of low-cost raw materials and other production inputs and operating efficiencies.

Ternium produces and distributes a broad range of semi-finished and finished steel products, including value-added products such as cold rolled coils and sheets, tin, galvanized and electrogalvanized sheets, pre-painted sheets and tailor-made flat products. Ternium also produces long steel products such as bars and wire rod.

Ternium primarily sells its steel products in the regional markets of North, Central and South America, where its manufacturing facilities are located, allowing it to provide specialized products and delivery services to its clients. We believe that Ternium is the leading supplier of flat steel products in Argentina and of flat and long steel products in Venezuela, a significant competitor in the Mexican market for flat and long steel products, and a competitive player in the international steel market for flat and long steel products. Ternium maintains a strategic presence in several other major steel markets, such as Europe, Asia (mainly China) and Africa, through its broad network of commercial offices, which allows it to reach clients outside its regional markets and place products in case of slower demand in domestic economies, achieve improved effectiveness in the supply of its products and maintain a fluid commercial relationship with its clients by providing continuous services and assistance.

On a pro forma basis giving effect to the Pro Forma Transactions, in 2004, approximately 44.9% of Ternium s sales were made to South and Central America, 48.7% to North America, 4.3% to Europe and 2.2% to the rest of the world. In the first half of 2005, these percentages were approximately 46.2%, 45.9%, 5.7% and 2.1%, respectively.

In 2004, Ternium s net sales were USD1.6 billion, gross profit was USD633.9 million, and net income attributable to equity holders was USD457.3 million. In the first half of 2005, Ternium s net sales were USD1.8 billion, gross profit was USD0.9 billion, and net income attributable to equity holders was USD477.6 million, which amounts reflect the consolidation of Amazonia since February 15, 2005.

On a pro forma basis giving effect to the Pro Forma Transactions, in 2004, Ternium s net sales were USD5.5 billion, gross profit was USD2.4 billion, and net income attributable to equity holders was USD761.5 million, and in the first half of 2005 net sales were USD3.3 billion, gross profit was USD1.4 billion and net income attributable to equity holders was USD500.8 million.

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For information on Ternium s recent results of operation and consolidated financial condition, see Ternium s unaudited summary financial information for the nine-month period ended September 30, 2005, attached as Annex A to this prospectus.

Corporate reorganization

As a part of a recent corporate reorganization, the Techint Group reorganized the Company as a holding company for its flat and long steel interests by contributing all of its interests in Siderar, Sidor (through Amazonia and Ylopa) and Techintrade to the Company.

On August 22, 2005, we acquired, together with Siderar, an indirect 99.3% interest in the Mexican company Hylsamex and its subsidiaries, including Hylsa and Galvak, and the equity stakes owned by Hylsamex s former controlling shareholder, Alfa, S.A. de C.V., or Alfa, in Amazonia and Ylopa. We have subsequently been purchasing shares in the open market, subject to applicable law, and our and Siderar s indirect interest in Hylsamex has increased to 99.8%. As part of the financing for the acquisition, we or our affiliates entered into the following:

- an amended and restated credit agreement, dated as of August 16, 2005, for an aggregate principal amount of USD1.0 billion, among I.I.I. BVI and the lenders named therein (as amended from time to time, the Ternium Credit Facility);
- an amended and restated credit agreement, dated as of August 16, 2005, for an aggregate principal amount of USD380 million among Siderar, as borrower, and the lenders named therein, as lenders (as amended from time to time, the Siderar Credit Facility and, together with the Ternium Credit Facility, the Credit Facilities); and
- several convertible and subordinated loan agreements, dated as of various dates, for an aggregate principal amount of USD594.0 million, each among the Company, I.I.I. BVI, as borrower, and Usiminas, Tenaris or other Techint Group companies (collectively, the Subordinated Convertible Loan Agreements and the loans thereunder, the Subordinated Convertible Loans).

Pursuant to the terms of the Subordinated Convertible Loan Agreements, on the date on which our ADSs are delivered to the underwriters of this offering, the Subordinated Convertible Loans will be converted into shares of the Company at a price per share equal to the price per share paid by the investors in this offering.

In September 2005, Tenaris exchanged its shares in Amazonia and Ylopa for shares of the Company, and in October 2005, Usiminas exchanged its shares in Siderar, Amazonia and Ylopa for shares of the Company.

In November 2005, Siderúrgica del Turbio S.A. SIDETUR (Sidetur), a subsidiary of Siderúrgica Venezolana SIVENSA , S.A. (Sivensa), exchanged with ISL its interest in Amazonia for shares of the Company (the Sivensa Exchange). ISL is expected, under the terms of the Corporate Reorganization Agreement (as defined below), to contribute such interest in Amazonia to the Company in exchange for shares of the Company simultaneously with, or as soon as practicable after, the settlement of the offering.

ISL and the Company will enter into a reorganization agreement (the Corporate Reorganization Agreement) pursuant to which ISL will commit to deliver shares of the Company to the underwriters of this offering and to the Subordinated Lenders (as defined herein) in an amount sufficient to satisfy the Company s obligation to deliver shares of the Company to the underwriters of this offering and to the Subordinated Lenders pursuant to the terms of this offering and the Subordinated Convertible Loan Agreements. As provided in the Corporate Reorganization Agreement, after ISL s delivery of such shares, ISL will contribute all of its assets and liabilities (including the credit against the Company arising from such delivery of shares, its interest in Amazonia resulting from the Sivensa Exchange and any remaining shares of the Company) to the Company in exchange for that number of newly issued shares of the Company equal to the number of shares of the Company held by ISL prior to the Sivensa Exchange.

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We believe that the corporate reorganization of the Techint Group s flat and long steel manufacturing, processing and distribution businesses under the Company will, among other things, allow Ternium to benefit from consolidation in the steel industry, create a platform for growth and realize cost savings and synergies, and will result in increased visibility, improved access to the capital markets and lower costs of capital.

Below is a simplified diagram of Ternium s corporate structure after giving effect to the Pro Forma Transactions, which forms the basis for the preparation and presentation of Ternium s unaudited pro forma combined consolidated financial statements included in this prospectus.

For additional information on Ternium s corporate reorganization and corporate structure, see Formation of Ternium and Related Party Transactions and Business Subsidiaries.

Ternium s competitive strengths

We believe that the following competitive strengths distinguish Ternium from its competitors and enhance its leading market position:

State-of-the-art, low cost producer. The combination of a portfolio of state-of-the-art, low cost steel production mills (some of which are located near proprietary iron ore mines), access to diversified sources of low-cost raw materials and cost-competitive energy and labor sources and other production inputs and operating efficiencies makes Ternium a low cost producer of steel and value-added products;

Strong market position and extensive market reach. Ternium has leading market participation in Argentina and Venezuela and has a strong market position in Mexico. The location of its production facilities gives Ternium favorable access to some of the most important regional markets in the Americas, including the North American Free Trade Agreement, or NAFTA, *Mercado Común del Sur*, or Mercosur, and the *Comunidad Andina de Naciones*, or Andean Community. Additionally, through its broad distribution network and commercial capabilities, Ternium has access to some of the most relevant steel markets in the world;

Experienced and committed management team. Our management team has extensive experience in, and knowledge of, the steel industry, which enhances Ternium s reputation in the global steel markets. A large percentage of our senior managers have spent their entire careers working within the steel businesses of the Techint Group and its related companies. Our management team has substantial experience in increasing productivity and reducing costs, as well as in identifying, evaluating and pursuing growth opportunities and integrating acquisitions; and

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Strong financial position. We believe that, after giving effect to this offering, we will have a solid financial position. In particular, our relatively low debt to equity capital structure, together with our strong cash flow generation, provide us with the flexibility and resources to enhance existing businesses through investment projects and to make strategic investments and acquisitions.

Ternium s business strategy

Our main strategic objective is to enhance shareholder value by strengthening Ternium s position as a low cost producer of steel products in a manner consistent with minority shareholder rights, while further consolidating Ternium s position as a leading flat and long steel producer in Latin America and a strong competitor in the Americas with strategic presence in several other major steel markets.

The main elements of this strategy are:

Further integrate Ternium s operations. We have recently changed our functional organization from three independent companies to one company organized under business units with specific geographic and functional responsibilities. Integrating the operations of our subsidiaries is expected to allow Ternium to better serve its clients, to increase the diversification of its products, to benefit from enhanced flexibility and operative synergies and to rationalize its cost structure;

Enhance Ternium s position as a low cost producer. We believe that further integration of Ternium s operating facilities, including the recently acquired Hylsamex, should improve utilization levels of its plants, increase efficiency and further reduce production costs from levels that we already consider to be among the most competitive in the steel industry;

Implementing Ternium s best practices. We believe that the implementation of Ternium s commercial and production best practices in acquired new businesses should generate additional benefits and savings. For example, we believe that the implementation of Ternium s cost control procedures and performance analysis in Hylsamex will improve control over production variables and lead to future cost savings;

Focus on higher margin value-added products. We intend to continue to shift Ternium s sales mix towards higher margin value-added products, such as cold rolled sheets and coated and tailor-made products, and services, such as just-in-time delivery and inventory management. In addition, the acquisition of Hylsamex will allow Ternium to expand its offerings of value-added products, such as galvanized products and panels;

Maximize the benefits arising from Ternium s broad distribution network. We intend to maximize the benefits arising from Ternium s broad network of distribution, sales and marketing services to reach clients in major steel markets with a comprehensive range of value-added products and services and to continue to expand its customer base and improve its product mix. In addition, the acquisition of Hylsamex is expected to allow us to increase Ternium s participation in the North American market; and

Pursue strategic growth opportunities. The Techint Group has a history of strategically growing its businesses through acquisitions. In addition to strongly pursuing organic growth, we intend to identify and pursue growth-enhancing strategic opportunities to consolidate Ternium s presence in its markets, expand its offerings of value-added products and increase its distribution capabilities.

Risks Related to Our Business

Our business is subject to certain risks that could impact our competitive position and strengths, as well as our ability to execute our business strategy. Many of these risks are beyond our control, such as factors affecting the global demand for steel products, our exposure to the fluctuations in the cost of raw materials, our dependence on a limited number of key suppliers of raw materials and the cyclical nature of the industries and markets that we serve. Furthermore, these risks include those generally associated with being a producer of steel products in Latin America, including foreign exchange exposure and political risk. In addition, intense competition from other steel producers could reduce Ternium s market share in the countries where the Ternium companies operate, and the capital intensive nature of the steel industry and Ternium s dependence on the availability of capital resources to continue to modernize and upgrade its facilities and to expand its operations could affect the implementation of our strategy. For additional risks relating to Ternium s business and this offering, see Risk Factors beginning on page 26 of this prospectus.

Our corporate information

We were organized as a joint stock corporation (*societé anonyme* holding) in the Grand Duchy of Luxembourg on December 22, 2003. Our registered office is located at 46a, Avenue John F. Kennedy 2nd floor, L-1855 Luxembourg and our telephone number is (352) 4661-11-3815. We have appointed Techint Inc. as our agent for service of process in the United States, located at 420 Fifth Avenue, 18th Floor, New York, New York 10018.

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The Offering

Offering	We are offering 24,844,720 ADSs through the underwriters.
Over-allotment Option	We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to 3,726,708 additional ADSs, solely to cover over-allotments. Under the Corporate Reorganization Agreement, ISL will commit to deliver shares of the Company to the underwriters of this offering in an amount sufficient to satisfy the Company s obligation under the over-allotment option.
ADSs	Each ADS represents 10 shares held by The Bank of New York, as depositary. The ADSs will be evidenced by American Depositary Receipts, or ADRs. See Description of American Depositary Shares.
Voting Rights	The holders of our shares have one vote per share. The holders of our ADSs will be able to exercise voting rights with respect to the underlying shares only in accordance with the terms of the deposit agreement. See Description of American Depositary Shares Voting rights.
Use of Proceeds	We estimate that we will receive net proceeds (after deduction of the underwriting discount) from the offering of approximately USD422.8 million (USD486.2 million if the underwriters over-allotment option is exercised in full) at an assumed initial public offering price of USD17.50 (the midpoint of the range of the initial public offering price set forth on the cover page of this prospectus). We intend to use all of the net proceeds we receive from the offering (after the payment of approximately USD6.25 million in fees and expenses) to pay down the indebtedness acquired pursuant to the Ternium Credit Facility. The Ternium Credit Facility was entered into with lenders (including affiliates of Citigroup Global Markets Inc., J.P. Morgan Securities Inc., BNP Paribas Securities Corp., Caylon Securities (USA) Inc. and Bayerische Hypo- und Vereinsbank AG) for an aggregate principal amount of USD1.0 billion in two equal tranches, Tranche A with a maturity of three years and bearing interest at the annual rate of LIBOR plus an applicable margin that ranges from 75 to 400 basis points and Tranche B with a maturity of five years and bearing interest at the annual rate of LIBOR plus an applicable margin that ranges from 137.5 to 300 basis points. The Ternium Credit Facility was entered into in order to finance the acquisition of Hylsamex. For further details on the Ternium Credit Facility, see Formation of Ternium and Related Party Transactions Hylsamex acquisition financing and Management s Discussion and Analysis of Financial Condition and Results of Operations Ternium Recent events.
Shares Outstanding After the Offering	2,055,507,828 shares (including shares in the form of ADSs) will be outstanding upon completion of the offering, conversion of the Subordinated Convertible Loans and consummation of the

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transactions contemplated in the Corporate Reorganization Agreement (assuming the underwriters over-allotment option is exercised in full).

Listings and Trading Markets

An application has been made to list the ADSs on the NYSE under the symbol TX.

Indicative Timetable of Principal Events

Date (2006)	*Event*
	Price determination date January 31
	Public offering commences January 12
	Public offering closes January 31
	Trading of ADSs on the New York Stock Exchange commences February 1
	Delivery of ADSs February 3

The above timetable is only indicative as it assumes, among other things, that the date of our admission to the New York Stock Exchange is February 1, 2006.

The Company expects to deliver the ADSs against payment therefor on February 3, 2006, which will be the third business day following the date of the pricing of the ADSs.

Investors should consult the NYSE s announcement of the trading date on the Internet (at the NYSE website http://www.nyse.com), in major news publications, or check with their brokers on the date on which trading will commence.

Taxation

In the opinion of our Luxembourg counsel, Elvinger Hoss & Prussen, holders of ADSs who are non-resident in Luxembourg are not, except as described in Taxation Grand Duchy of Luxembourg Ownership and disposition of the Company s ADSs, subject to Luxembourg income tax, wealth tax or capital gains taxes with respect to their ADSs, and no withholding tax applies in Luxembourg on dividends distributed by the Company. No taxes apply in Luxembourg on dividends received by holders who are not resident in Luxembourg and who do not maintain a permanent establishment in Luxembourg to which the holding of the ADSs is effectively connected.

In the opinion of our special U.S. counsel, Sullivan & Cromwell LLP, a U.S. holder of ADRs will be treated, for U.S. federal income tax purposes, as the owner of the shares represented by those ADRs and will not be subject to U.S. federal income tax upon the exchange of shares for ADRs or ADRs for shares. A U.S. holder that is not a tax-exempt entity will be subject to U.S. federal income tax upon the gross amount of any dividends paid out of our accumulated earnings and profits on such U.S. holder s ADSs. If certain holding period and

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other requirements are satisfied, such dividends will be treated as qualified dividend income, which if paid to noncorporate U.S. holders in tax years beginning before January 1, 2009 is taxed at a maximum rate of 15%.

Certain Fees and Expenses	ADR holders will be charged a fee for each issuance of ADSs and for each surrender of ADSs in exchange for deposited securities. The fee in each case is USD5.00 or less for each 100 ADSs (or any portion thereof) issued or surrendered. To the extent permitted by the rules of any stock exchange on which ADSs are listed for trading, ADR holders will be charged a fee of $.02 or less per ADS for any cash distribution to them, and certain other fees and expenses. See Description of American Depositary Shares Fees and expenses.
Risk Factors	An investment in the ADSs involves significant risks that a prospective investor should consider carefully. See Risk Factors beginning on page 25.

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SUMMARY FINANCIAL AND OPERATING DATA

Unaudited pro forma combined consolidated financial information of Ternium

The following summary unaudited pro forma combined consolidated financial and other data for Ternium should be read in conjunction with Selected Financial and Operating Data Unaudited pro forma combined consolidated financial information of Ternium, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business and Ternium s historical combined consolidated financial statements and Amazonia s and Hylsamex s historical consolidated financial statements and the notes thereto included elsewhere in this prospectus.

The summary unaudited pro forma combined consolidated financial data of Ternium included in this prospectus have been compiled to show what our financial condition as of June 30, 2005 and our financial results for the year ended December 31, 2004 and for the six-month period ended June 30, 2005 might have been had the following been in place as of the balance sheet date or since January 1, 2004, as the case may be:

- the capitalization in February 2005 of certain debt instruments convertible into shares of Amazonia described elsewhere in this prospectus;
- the acquisition in August 2005 of Hylsamex and the interests of Hylsamex s former controlling shareholder, Alfa, in Amazonia and Ylopa described elsewhere herein;
- the acquisition of Usiminas s interests in Siderar, Amazonia and Ylopa and the completion of the Sivensa Exchange; and
- this offering and the consummation of the transactions contemplated in the Corporate Reorganization Agreement, the related payment of indebtedness and the conversion of the Subordinated Convertible Loans described elsewhere in this prospectus. For this purpose, we estimate that the gross proceeds from this offering will be USD500 million if the underwriters exercise their over-allotment option in full, at an assumed initial public offering price of USD17.50 (the midpoint of the range of the initial public offering price set forth on the cover page of this prospectus).

See Use of Proceeds, Formation of Ternium and Related Party Transactions Corporate reorganization transactions and Hylsamex acquisition financing.

However, the pro forma financial information may not reflect what our actual financial condition and results of operations would have been if the above-mentioned transactions had been in place as of such dates and if we had operated on that basis during such periods. We have compiled our unaudited pro forma combined consolidated financial data in accordance with IFRS and a reconciliation of such information to U.S. GAAP is also being provided. IFRS differs in certain significant respects from U.S. GAAP.

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Ternium

Thousands of U.S. dollars (except for per share data)	For the six-month period ended June 30, 2005							
		Pro forma adjustments						
	I Historical combined consolidated	II Amazonia	III Acquisition of Hylsamex related debt	IV Hylsamex consolidation	V Usiminas and Sivensa acquisitions	VI Pro forma as adjusted	VII Offering and conversion	VIII Pro forma as further adjusted
Summary unaudited pro forma combined consolidated income statement data								
IFRS								
Net sales	$ 1,827,845	$ 260,933		$ 1,178,532		$ 3,267,310		$ 3,267,310
Cost of sales	(905,920)	(111,818)		(850,512)		(1,868,250)		(1,868,250)
Gross profit	$ 921,925	$ 149,115		$ 328,020		$ 1,399,060		$ 1,399,060
Selling, general and administrative expenses	(185,227)	(37,098)		(78,711)		(301,036)		(301,036)
Other operating income (expenses), net	(7,797)	327		1,482		(5,988)		(5,988)
Operating income	$ 728,901	$ 112,344		$ 250,791		$ 1,092,036		$ 1,092,036
Financial expenses, net	(102,723)	(59,044)	$ (3,310)	(14,099)		(179,176)		(179,176)
Interest related to credit facilities			(47,846)			(47,846)	$ 17,626	(30,220)
Subordinated convertible loans interest			(11,299)			(11,299)	11,299	
Excess of fair value of net assets acquired over cost	188,356	(188,356)						
Equity in earnings (losses) of associated companies	19,123	(23,237)				(4,114)		(4,114)
Income (loss) before income tax (expense) benefit	$ 833,657	$ (158,293)	$ (62,455)	$ 236,692		$ 849,601	$ 28,925	$ 878,526
Income tax (expense) benefit	(105,717)	10,297	5,978	(75,339)		(164,781)		(164,781)
Net income (loss) for the period	$ 727,940	$ (147,996)	$ (56,477)	$ 161,353		$ 684,820	$ 28,925	$ 713,745
Attributable to:								
Equity holders of the Company	$ 477,609	$ (210,316)	$ (51,010)	$ 185,230	$ 70,334	$ 471,847	$ 28,925	$ 500,772
Minority interest	250,331	62,320	(5,467)	(23,877)	(70,334)	212,973		212,973
	$ 727,940	$ (147,996)	$ (56,477)	$ 161,353		$ 684,820	$ 28,925	$ 713,745
Number of shares (thousands)	1,168,944				261,409	1,430,353	625,155	2,055,508
Combined earnings per share	$ 0.41					$ 0.33	$ 0.05	$ 0.24
U.S. GAAP								
Net income attributable to equity holders of the Company under IFRS	$ 477,609	$ (210,316)	$ (51,010)	$ 185,230	$ 70,334	$ 471,847	$ 28,925	$ 500,772
Capitalization of interest cost PP&E	(22)					(22)		(22)
Change in fair value of financial assets through profit and loss	50,819					50,819		50,819
Troubled debt restructuring	5,212					5,212		5,212
	(155)					(155)		(155)

Capitalization of interest cost intangible assets			
Inventory valuation	(2,265)	(2,265)	(2,265)

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Thousands of U.S. dollars (except for per share data)	For the six-month period ended June 30, 2005							
		Pro forma adjustments						
	I Historical combined consolidated	II Amazonia	III Acquisition of Hylsamex related debt	IV Hylsamex consolidation	V Usiminas and Sivensa acquisitions	VI Pro forma as adjusted	VII Offering and conversion	VIII Pro forma as further adjusted
Accounting for pension plans	$ (846)					$ (846)		$ (846)
Valuation of fixed assets PP&E	64,149					64,149		64,149
Excess of fair value of net assets acquired over cost	(188,356)	$ 188,356						
Excess of fair value of net assets acquired over cost depreciation expense	10,105					10,105		10,105
Intangible assets and other assets	(415)					(415)		(415)
Deferred income tax	(25,028)					(25,028)		(25,028)
Minority interest	(84,956)	32,411		$ 3,555	$ 7,264	(41,726)		(41,726)
Net income (loss) under U.S. GAAP	$ 305,851	$ (10,451)	$ (51,010)	$ 188,785	$ 77,598	$ 531,675	$ 28,925	$ 560,600
Combined earnings per share	$ 0.26					$ 0.37	$ 0.05	$ 0.27

Column I shows the historical combined consolidated data of Ternium derived from our audited combined consolidated condensed interim financial statements for the six-month period ended June 30, 2005, which already reflects the consolidation of Amazonia since February 15, 2005.

Column II includes Amazonia s results between January 1, 2005 and February 15, 2005 and eliminates primarily non-recurrent results relating to the capitalization as of February 15, 2005 of certain debt instruments convertible into shares of Amazonia.

Column III reflects the effect of interest expense under the Credit Facilities and Subordinated Convertible Loans entered into in connection with the Hylsamex acquisition in Ternium s financial results for the six-month period ended June 30, 2005, and the acquisition of Amazonia s and Ylopa s shares held by Alfa.

Column IV shows the consolidation of Hylsamex s results of operations for the six-month period ended June 30, 2005.

Column V gives effect to the acquisition of Usiminas s interests in Siderar, Amazonia and Ylopa in exchange for 227,608,254 shares of the Company and the contribution of ISL s interest in Amazonia in exchange for 33,800,735 shares of the Company in accordance with the terms of the Corporate Reorganization Agreement.

Column VI shows the cumulative pro forma effect of the transactions in columns II, III, IV and V.

Column VII gives effect to this offering, the partial payment of indebtedness under the Ternium Credit Facility, the conversion of the indebtedness under the Subordinated Convertible Loans into shares of the Company and the consummation of the remaining transactions contemplated in the Corporate Reorganization Agreement.

Column VIII shows the cumulative pro forma effect of the transactions in columns VI and VII.

For further details, see Selected Financial and Operating Data Unaudited pro forma combined consolidated financial information of Ternium.

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Ternium

Thousands of U.S. dollars (except for per share data)	For the year ended December 31, 2004							
			Pro forma adjustments					
	I Historical combined consolidated	**II** Amazonia	**III** Acquisition of Hylsamex related debt	**IV** Hylsamex consolidation	**V** Usiminas and Sivensa acquisitions	**VI** Pro forma as adjusted	**VII** Offering and conversion	**VIII** Pro forma as further adjusted
Summary unaudited pro forma combined consolidated income statement data								
IFRS								
Net sales	$ 1,598,925	$ 1,637,962		$ 2,266,123		$ 5,503,010		$ 5,503,010
Cost of sales	(965,004)	(610,792)		(1,559,173)		(3,134,969)		(3,134,969)
Gross profit	$ 633,921	$ 1,027,170		$ 706,950		$ 2,368,041		$ 2,368,041
Selling, general and administrative expenses	(118,952)	(270,967)		(122,703)		(512,622)		(512,622)
Other operating expenses, net	(798)	(18,383)		6,645		(12,536)		(12,536)
Operating income	$ 514,171	$ 737,820		$ 590,892		$ 1,842,883		$ 1,842,883
Financial income (expenses), net	202,289	(500,433)	$ (2,724)	(91,608)		(392,476)		(392,476)
Interest related to credit facilities			(95,694)			(95,694)	$ 35,253	(60,441)
Subordinated convertible loans interest			(22,597)			(22,597)	22,597	
Equity in earnings (losses) of associated companies	209,201	(210,145)				(944)		(944)
Income (loss) before income tax (expense) benefit	$ 925,661	$ 27,242	$ (121,015)	$ 499,284		$ 1,331,172	$ 57,850	$ 1,389,022
Income tax (expense) benefit	(177,486)	11,227	10,592	(160,243)		(315,910)		(315,910)
Net income (loss)	$ 748,175	$ 38,469	$ (110,423)	$ 339,041		$ 1,015,262	$ 57,850	$ 1,073,112
Attributable to:								
Equity holders of the Company	$ 457,339	$ (78,540)	$ (100,735)	$ 333,089	$ 92,484	$ 703,637	$ 57,850	$ 761,487
Minority interest	290,836	117,009	(9,688)	5,952	(92,484)	311,625		311,625
	$ 748,175	$ 38,469	$ (110,423)	$ 339,041		$ 1,015,262	$ 57,850	$ 1,073,112
Number of shares (thousands)	1,168,944				261,409	1,430,353	625,155	2,055,508
Combined earnings (loss) per share	$ 0.39					$ 0.49	$ 0.09	$ 0.37

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	For the year ended December 31, 2004							
		Pro forma adjustments						
	I	II	III	IV	V	VI	VII	VIII
Thousands of U.S. dollars (except for per share data)	**Historical combined consolidated**	**Amazonia**	**Acquisition of Hylsamex related debt**	**Hylsamex consolidation**	**Usiminas and Sivensa acquisitions**	**Pro forma as adjusted**	**Offering and conversion**	**Pro forma as further adjusted**
U.S. GAAP								
Net income attributable to equity holders of the Company (under IFRS)	$ 457,339	$ (78,540)	$ (100,735)	$ 333,089	$ 92,484	$ 703,637	$ 57,850	$ 761,487
Capitalization of interest cost PP&E	152	272				424		424
Changes in fair value of financial assets through profit and loss	(1,361)					(1,361)		(1,361)
Capitalization of interest cost Intangible assets	313	429				742		742
Inventory valuation	(1,628)	1,498				(130)		(130)
Accounting for pension plans	(164)	(556)				(720)		(720)
Valuation of fixed assets PP&E	79,493	76,192				155,685		155,685
Equity in investments in associated companies Amazonia	(76,926)	76,926						
Deferred income tax	(27,101)	244,165				217,064		217,064
Accounting for convertible debt		(16,657)				(16,657)		(16,657)
Troubled debt restructuring		8,569				8,569		8,569
Other assets valuation		45				45		45
Minority interest	(5,462)	(233,545)		32,979	41,720	(164,308)		(164,308)
Net income under U.S. GAAP	$ 424,655	$ 78,798	$ (100,735)	$ 366,068	$ 134,204	$ 902,990	$ 57,850	$ 960,840
Combined earnings per share	$ 0.36					$ 0.63	$ 0.09	$ 0.47

Column I shows the historical combined consolidated data of Ternium derived from our audited combined consolidated financial statements for the year ended December 31, 2004, included in this prospectus.

Column II shows the consolidation of Amazonia s results of operation for the year ended December 31, 2004. On February 15, 2005, Amazonia came under the control of San Faustín upon the capitalization of certain debt instruments convertible into shares of Amazonia.

Column III reflects the effect of interest expense under the Credit Facilities and Subordinated Convertible Loans entered into in connection with the Hylsamex acquisition in Ternium s financial results for the year ended December 31, 2004, and the acquisition of Amazonia s and Ylopa s shares held by Alfa.

Column IV shows the consolidation of Hylsamex s results of operations under IFRS for the year ended December 31, 2004.

Column V gives effect to the acquisition of Usiminas s interests in Siderar, Amazonia and Ylopa in exchange for 227,608,254 shares of the Company and the contribution of ISL s interest in Amazonia in exchange for 33,800,735 shares of the Company in accordance with the terms of the Corporate Reorganization Agreement.

Column VI shows the cumulative pro forma effect of the transactions in columns II, III, IV and V.

Column VII gives effect to this offering, the partial payment of indebtedness under the Ternium Credit Facility, the conversion of the indebtedness under the Subordinated Convertible Loans into shares of the Company and the consummation of the remaining transactions contemplated in the Corporate Reorganization Agreement.

Column VIII shows the cumulative pro forma effect of the transactions in columns VI and VII.

For further details, see Selected Financial and Operating Data Unaudited pro forma combined consolidated financial information of Ternium.

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Ternium

(Thousands of U.S. dollars)	At June 30, 2005						
		Pro forma adjustments					
	I	II	III	IV	V	VI	VII
	Historical combined consolidated	Acquisition of Hylsamex related debt	Hylsamex consolidation	Usiminas and Sivensa acquisitions	Pro forma as adjusted	Offering and conversion(*)	Pro forma as further adjusted
Summary unaudited pro forma combined consolidated balance sheet data							
IFRS							
Non-current assets:							
Property, plant and equipment, net	$ 3,508,133		$ 2,041,277		$ 5,549,410		$ 5,549,410
Goodwill			451,087		451,087		451,087
Intangible assets, net	15,607		226,975		242,582		242,582
Other investments	13,095				13,095		13,095
Investments in associated companies	7,002		427		7,429		7,429
Receivables, net	51,837	$ 25,129			76,966		76,966
Deferred tax assets			5,679		5,679		5,679
Total non-current assets	$ 3,595,674	$ 25,129	$ 2,725,445		$ 6,346,248		$ 6,346,248
Current assets:							
Other assets			$ 1,048		$ 1,048		$ 1,048
Other receivables	$ 216,500		130,578		347,078		347,078
Inventories	590,057		348,610		938,667		938,667
Trade receivables	329,949		308,418		638,367		638,367
Other investments	760		2,323		3,083		3,083
Cash and cash equivalents	586,012	$ 1,948,893	(2,050,512)		484,393	$ (20,000)	464,393
Total current assets	$ 1,723,278	$ 1,948,893	$ (1,259,535)		$ 2,412,636	$ (20,000)	$ 2,392,636
Total assets	$ 5,318,952	$ 1,974,022	$ 1,465,910		$ 8,758,884	$ (20,000)	$ 8,738,884
Shareholder s equity	$ 1,443,473		$ (87,727)	$ 365,680	$ 1,721,426	$ 1,074,022	$ 2,795,448
Minority interest	2,114,883		(60,691)	(365,680)	1,688,512		1,688,512
Non-current liabilities:							
Provisions	46,221				46,221		46,221
Deferred income tax	603,972		272,834		876,806		876,806
Other liabilities	91,615		249,761		341,376		341,376
Borrowings	239,123	1,974,022	543,035		2,756,180	(1,094,022)	1,662,158
Total non-current liabilities	$ 980,931	$ 1,974,022	$ 1,065,630		$ 4,020,583	$ (1,094,022)	$ 2,926,561
Current liabilities:							
Provisions	$ 1,044				$ 1,044		$ 1,044
Current tax liabilities	98,712		$ 36,395		135,107		135,107
Other liabilities	127,883		254,084		381,967		381,967
Trade payables	347,810		183,436		531,246		531,246
Borrowings	204,216		74,783		278,999		278,999

Total current liabilities	$ 779,665		$ 548,698		$ 1,328,363		$ 1,328,363
Total liabilities	$ 1,760,596	$ 1,974,022	$ 1,614,328		$ 5,348,946	$ (1,094,022)	$ 4,254,924
Total equity and liabilities	$ 5,318,952	$ 1,974,022	$ 1,465,910		$ 8,758,884	$ (20,000)	$ 8,738,884
U.S. GAAP							
Shareholders equity under IFRS	$ 1,443,473		$ (87,727)	$ 365,680	$ 1,721,426	$ 1,074,022	$ 2,795,448
Capitalization of interest cost PP&E	8,200				8,200		8,200
Inventory valuation	(11,696)				(11,696)		(11,696)
Capitalization of interest cost intangible assets	513				513		513
Accounting for pension plans	5,436				5,436		5,436

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(Thousands of U.S. dollars)	At June 30, 2005						
		Pro forma adjustments					
	I	II	III	IV	V	VI	VII
	Historical combined consolidated	Acquisition of Hylsamex related debt	Hylsamex consolidation	Usiminas and Sivensa acquisitions	Pro forma as adjusted	Offering and conversion(*)	Pro forma as further adjusted
Valuation of fixed assets PP&E	$ (1,514,897)				$ (1,514,897)		$ (1,514,897)
Troubled debt restructuring	(21,659)				(21,659)		(21,659)
Revaluation reserve	(91,696)				(91,696)		(91,696)
Excess of fair value of net assets acquired over cost	(285,388)				(285,388)		(285,388)
Excess of fair value of net assets acquired over cost accumulated depreciation	10,105				10,105		10,105
Intangible assets and other assets	(1,042)				(1,042)		(1,042)
Deferred income tax	629,981				629,981		629,981
Purchase accounting differences			$ 146,054	$ 226,164	372,218		372,218
Minority interest	562,442				562,442		562,442
Total shareholders equity under U.S. GAAP	$ 733,772		$ 58,327	$ 591,844	$ 1,383,943	$ 1,074,022	$ 2,457,965

(*) For purposes of this adjustment, we estimate that the gross proceeds from this offering will be USD500 million if the underwriters exercise their over-allotment option in full, at an assumed initial public offering price of USD17.50 (the midpoint of the range of the initial public offering price set forth on the cover page of this prospectus).

Column I shows the audited combined consolidated condensed interim balance sheet of Ternium at June 30, 2005, which already reflects the consolidation of Amazonia.

Column II reflects the effect of the disbursements under the Credit Facilities (USD1,380 million) and the Subordinated Convertible Loan Agreements (USD594 million) entered into in connection with the Hylsamex acquisition, and the acquisition of Amazonia s and Ylopa s shares held by Alfa.

Column III shows the consolidation of Hylsamex s balance sheet at June 30, 2005.

Column IV gives effect to the acquisition of Usiminas s interests in Siderar, Amazonia and Ylopa in exchange for 227,608,254 shares of the Company and the contribution of ISL s interest in Amazonia in exchange for 33,800,735 shares of the Company in accordance with the terms of the Corporate Reorganization Agreement.

Column V shows the cumulative pro forma effect of the transactions in columns II, III and IV.

Column VI gives effect to this offering, the partial payment of indebtedness under the Ternium Credit Facility, the conversion of the indebtedness under the Subordinated Convertible Loans into shares of the Company and the consummation of the remaining transactions contemplated in the Corporate Reorganization Agreement.

Column VII shows the cumulative pro forma effect of the transactions in columns V and VI.

For further details, see Selected Financial and Operating Data Unaudited pro forma combined consolidated financial information of Ternium.

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Ternium

The following summary selected combined consolidated financial and other data for Ternium should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations Ternium and Business and Ternium s combined consolidated financial statements and the notes thereto included elsewhere in this prospectus, and are qualified in their entirety by reference to the information therein.

The summary selected combined consolidated financial data of Ternium have been derived from its combined consolidated financial statements, which are prepared in accordance with IFRS for each of the periods and at the dates indicated. The audited combined consolidated financial statements as of December 31, 2003 and 2004 and for the years then ended and the audited combined consolidated condensed interim financial statements of Ternium as of June 30, 2005 and for the six-month period then ended have been audited by Price Waterhouse & Co. SRL, Argentina, an independent registered public accounting firm. The audited combined consolidated financial statements of Ternium as of December 31, 2003 and 2004 and for the years then ended included in this prospectus combine and consolidate the results and other financial data of each of Siderar, Ylopa and Techintrade, and recognize the investment in Amazonia under the equity method, as of each such date and for each of the periods then ended, on the basis that such companies were under the common control of San Faustín as of each such date and for each such period. The effect of this presentation is to show the combined historical results, financial condition and other data of the various companies under the common control of San Faustín as though these companies had been our subsidiaries at the dates and during the periods presented. The audited combined consolidated condensed interim financial statements of Ternium as of June 30, 2005 and for the six-month period then ended included in this prospectus combine and consolidate, in addition to the consolidated results and other financial data of each of Siderar, Ylopa and Techintrade, the results and other financial data of Amazonia, which company came under the control of San Faustín on February 15, 2005. As a result of the consolidation of Amazonia s results and other financial data, Ternium s results and other financial data for the six months ended June 30, 2005 are likely to vary significantly from the results and other financial data for the six months ended June 30, 2004 and for the years ended December 31, 2003 and 2004. Moreover, the results presented for interim periods are not necessarily indicative of results to be expected for the full fiscal years.

IFRS differs in certain significant respects from U.S. GAAP. See notes AP T and 32 and 33 to Ternium s audited combined consolidated financial statements as of December 31, 2003 and 2004 and for the years then ended and note 17 to Ternium s combined consolidated condensed interim financial statements as of June 30, 2004 and 2005 and for the six months then ended included in this prospectus, which provide a description of the principal differences between IFRS and U.S. GAAP as they relate to Ternium s combined consolidated financial statements and a reconciliation to U.S. GAAP of net income and shareholders equity for the periods and at the dates indicated therein. For a discussion of the currencies used in this prospectus, exchange rates and accounting principles affecting the financial information contained in this prospectus, see Exchange Rates and Presentation of Financial and Other Information.

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Ternium

In thousands of U.S. dollars (except for per share data)	For the year ended December 31, 2003	For the year ended December 31, 2004	For the six-month period ended June 30, 2004	For the six-month period ended June 30, 2005
Selected combined consolidated income statement data				
IFRS				
Net sales	$ 1,056,566	$ 1,598,925	$ 670,503	$ 1,827,845
Cost of sales	(671,720)	(965,004)	(381,990)	(905,920)
Gross profit	$ 384,846	$ 633,921	$ 288,513	$ 921,925
General and administrative expenses	(51,557)	(58,428)	(28,666)	(88,553)
Selling expenses	(62,786)	(60,524)	(30,299)	(96,674)
Other operating (expenses) income, net	(5,721)	(798)	65	(7,797)
Operating income	$ 264,782	$ 514,171	$ 229,613	$ 728,901
Other financial (expenses) income, net[(1)]	$ 1,693	$ (1,140)	$ (2,762)	$ (36,609)
(Loss) income from participation account	73,913	203,429	91,469	(66,114)
Financial (expenses) income, net	$ 75,606	$ 202,289	$ 88,707	$ (102,723)
Excess of fair value of net assets acquired over cost				188,356
Equity in (losses) earnings of associated companies	110,250	209,201	104,522	19,123
Income before income tax	450,638	925,661	422,842	833,657
Income tax	(94,087)	(177,486)	(79,081)	(105,717)
Net income for the period/year[(2)]	$ 356,551	$ 748,175	$ 343,761	$ 727,940
Attributable to:				
Equity holders of the Company	218,215	457,339	211,855	477,609
Minority interest	138,336	290,836	131,906	250,331
	$ 356,551	$ 748,175	$ 343,761	$ 727,940
Weighted average number of shares outstanding[(3)]	1,168,943,632	1,168,943,632	1,168,943,632	1,168,943,632
Basic and diluted earning per share for profit attributable to the equity holders of the Company during the period[(3)]	$ 0.19	$ 0.39	$ 0.18	$ 0.41
U.S. GAAP				
Net sales	$ 1,056,566	$ 1,598,925	$ 670,503	$ 2,088,778
Net income[(4)]	264,173	424,655	192,244	305,851

(1) Other financial (expenses) income, net includes the following: interest expense, interest income, net foreign exchange transaction (losses) gains and changes in fair value of derivative instruments, bank commissions and other bank charges and others.

(2)

For IFRS purposes, net income for the period is shown gross of the interest of minority shareholders in controlled subsidiaries. The portion of net income attributable to the equity holders of the Company and to minority shareholders is disclosed separately. Under U.S. GAAP, net income for the period is shown net of minority interest.

(3) Ternium s combined earnings per share for each of the periods presented have been calculated based on the assumption that 1,168,943,632 shares were issued and outstanding in each of the periods presented. See Formation of Ternium and Related Party Transactions Corporate reorganization transactions.

(4) We are not presenting net income from continuing operations since it is identical to net income for all periods presented.

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Ternium

In thousands of U.S. dollars	At December 31, 2003	At December 31, 2004	At June 30, 2005
Selected combined consolidated balance sheet data			
IFRS			
Non-current assets	$ 1,610,810	$ 1,728,410	$ 3,595,674
Property, plant and equipment, net	1,275,699	1,244,691	3,508,133
Other non-current assets	335,111	483,719	87,541
Current assets	576,078	918,220	1,723,278
Cash and cash equivalents	129,020	194,875	586,012
Other current assets	447,058	723,345	1,137,266
Total assets	2,186,888	2,646,630	5,318,952
Capital and reserve attributable to equity holders	701,821	1,026,725	1,443,473
Minority interest	550,264	745,126	2,114,883
Non-current liabilities	677,649	359,510	980,931
Borrowings	283,914	1,008	239,123
Deferred income tax	374,907	337,473	603,972
Other non-current liabilities	18,828	21,029	137,836
Current liabilities	257,154	515,269	779,665
Borrowings	80,238	121,998	204,216
Other current liabilities	176,916	393,271	575,449
Total liabilities	934,803	874,779	1,760,596
Total equity and liabilities	2,186,888	2,646,630	5,318,952
U.S. GAAP			
Total assets	$ 1,201,734	$ 2,115,271	$ 3,459,060
Non-current liabilities	311,054	44,647	393,182
Total shareholders equity	382,703	954,255	733,772

In thousands of U.S. dollars (except total production and employee data)	For the year ended December 31, 2003	For the year ended December 31, 2004	For the six-month period ended June 30, 2005
Other information (IFRS)			
Depreciation and amortization	$ 85,479	$ 99,192	$ 117,628
Net cash provided by operating activities	346,318	517,565	601,136
Net cash provided by (used in) investment activities	(157,796)	(91,701)	8,793
Net cash used in financing activities	(171,961)	(359,887)	(490,193)
Operating data (unaudited)			
Total production of flat and long steel products (in thousands of tons)	2,471	2,268	2,367
Employees (at period end)	4,795	4,791	10,436

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Amazonia

The following summary selected consolidated financial and other data for Amazonia should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations Amazonia and Business and Amazonia s consolidated financial statements and the notes thereto included elsewhere in this prospectus, and are qualified in their entirety by reference to the information therein.

The summary selected consolidated financial data of Amazonia have been derived from its consolidated financial statements, which have been specially prepared for use in this prospectus in accordance with IFRS for each of the periods and at the dates indicated. The audited consolidated financial statements as of December 31, 2003 and 2004 and for the two years in the period ended December 31, 2004 included in this prospectus have been audited by Price Waterhouse & Co. SRL, Argentina, an independent registered public accounting firm. The combined consolidated financial statements of Ternium as of December 31, 2003 and 2004, and for the periods then ended, do not combine or consolidate such financial statements. According to Rule 3-09 of Regulation S-X, we are required to file separate financial statements of significant equity investees, such as Amazonia.

IFRS differs in certain significant respects from U.S. GAAP. See note 37 to Amazonia s consolidated financial statements included in this prospectus, which provides a description of the principal differences between IFRS and U.S. GAAP as they relate to Amazonia s consolidated financial statements and a reconciliation to U.S. GAAP of net income and shareholders equity for the periods and at the dates indicated therein. For a discussion of the currencies used in this prospectus, exchange rates and accounting principles affecting the financial information contained in this prospectus, see Exchange Rates and Presentation of Financial and Other Information.

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Amazonia

In thousands of U.S. dollars	For the year ended December 31, 2003	2004
Selected consolidated income statement data		
IFRS		
Net sales	$ 1,203,638	$ 1,914,308
Cost of sales	(731,254)	(816,831)
Gross profit	$ 472,384	$ 1,097,477
General and administrative expenses	(127,134)	(138,006)
Selling expenses	(116,141)	(145,712)
Other operating (expenses) income, net	(13,827)	(18,383)
Operating income	$ 215,282	$ 795,376
Other financial (expenses) income, net	(292,017)	(178,917)
Loss from participation account	(124,785)	(343,556)
Financial (expenses) income, net	$ (416,802)	$ (522,473)
Gain on restructuring of debt	508,005	
Equity in loss of associated companies		(1,238)
Income before income tax and asset tax (expense) benefit	306,485	271,665
Income tax and asset tax (expense) benefit	73,051	(8,342)
Net income for the year[1]	$ 379,536	$ 263,323
Attributable to:		
Equity holders of the Company	367,080	146,324
Minority interest	12,456	116,999
	$ 379,536	$ 263,323
U.S. GAAP		
Net sales	$ 1,203,638	$ 1,914,308
Net income[1][2]	320,064	318,540

(1) For IFRS purposes, net income for the period is shown gross of the interest of minority shareholders in controlled subsidiaries. The portion of net income attributable to the equity holders of the Company and to minority shareholders is disclosed separately. Under U.S. GAAP, net income for the period is shown net of minority interest.

(2) We are not presenting net income from continuing operations since it is identical to net income for all periods presented.

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Amazonia

In thousands of U.S. dollars	At December 31, 2003	At December 31, 2004
Selected consolidated balance sheet data		
IFRS		
Non-current assets	$ 2,119,597	$ 1,775,801
Property, plant and equipment, net	2,111,055	1,716,925
Other non-current assets	8,542	58,876
Current assets	519,663	881,875
Cash and cash equivalents	103,912	211,481
Other current assets	415,751	670,394
Total assets	$ 2,639,260	$ 2,657,676
Shareholders equity	$ 723,545	$ 746,157
Minority interest	577,194	595,912
Non-current liabilities	959,664	693,640
Borrowings	799,067	529,312
Deferred income tax	43,951	39,653
Other non-current liabilities	116,646	124,675
Current liabilities	378,857	621,967
Borrowings	84,328	216,713
Other current liabilities	294,529	405,254
Total liabilities	1,338,521	1,315,607
Total equity and liabilities	$ 2,639,260	$ 2,657,676
U.S. GAAP		
Total assets	$ 1,520,597	$ 2,034,245
Non-current liabilities	972,010	714,954
Total shareholders equity	45,206	351,537

In thousands of U.S. dollars (except total production and employee data)	For the year ended December 31, 2003	For the year ended December 31, 2004
Other information (IFRS)		
Depreciation and amortization	$ 143,996	$ 118,101
Net cash flows provided by operating activities	246,290	415,443
Net cash flows used in investment activities	(59,386)	(140,582)
Net cash flows used in financing activities	(148,363)	(149,974)
Operating Data (unaudited)		
Total production of flat and long steel products (in thousands of tons)	2,818	3,057
Employees (at period end)	5,693	5,678

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Hylsamex

The following summary selected consolidated financial and other data for Hylsamex should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations Hylsamex and Hylsamex s consolidated financial statements and the notes thereto included elsewhere in this prospectus, and are qualified in their entirety by reference to the information therein. The Company acquired Hylsamex subsequently to the periods presented in Hylsamex s consolidated financial statements included herein, and neither San Faustín nor any of its affiliates controlled or managed Hylsamex during the periods presented in such financial statements. Accordingly, except for the restatement into constant Mexican pesos as of June 30, 2005, such financial statements were not prepared by or at the direction of the Company.

The selected consolidated financial data of Hylsamex have been derived from its consolidated financial statements, which are prepared in accordance with Mexican GAAP for each of the periods and at the dates indicated, in each case restated in constant Mexican pesos as of June 30, 2005. The audited consolidated financial statements as of December 31, 2003 and 2004 and for the years ended December 31, 2002, 2003 and 2004 have been audited by PricewaterhouseCoopers SC, Mexico, an independent registered public accounting firm. The results presented for interim periods are not necessarily indicative of the results to be expected for the full fiscal years.

Mexican GAAP differs in certain significant respects from U.S. GAAP. See note 16 to Hylsamex s consolidated financial statements included in this prospectus, which provides a description of the principal differences between Mexican GAAP and U.S. GAAP as they relate to Hylsamex s consolidated financial statements and a reconciliation of net income and shareholders equity to U.S. GAAP for the periods and at the dates indicated therein. For a discussion of currencies used in this prospectus, exchange rates and accounting principles affecting the financial information contained in the prospectus, see Exchange Rates and Presentation of Financial and Other Information.

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Hylsamex

In millions of constant Mexican pesos as of June 30, 2005	For the year ended December 31, 2003	For the year ended December 31, 2004	For the six-month period ended June 30, 2004	For the six-month period ended June 30, 2005
Consolidated Income Statement Data				
Mexican GAAP				
Net sales	MXN 16,948	MXN 26,986	MXN 12,355	MXN 13,207
Cost of sales	(14,940)	(18,093)	(8,468)	(9,601)
Gross margin	MXN 2,008	MXN 8,893	MXN 3,887	MXN 3,606
Operating expenses	(1,270)	(1,435)	(697)	(879)
Operating income	MXN 738	MXN 7,458	MXN 3,190	MXN 2,727
Other income (expense), net	(38)	(50)	(41)	16
Comprehensive financing expenses, net	(1,642)	(646)	(516)	(140)
Equity in net income (losses) of associated company	318	788	302	253
Income (loss) before the following provisions	MXN (624)	MXN 7,550	MXN 2,935	MXN 2,856
Income tax and asset tax	(224)	(902)	(712)	(691)
Employees profit sharing	(18)	(359)	(19)	(117)
Consolidated net income (loss)	MXN (866)	MXN 6,289	MXN 2,204	MXN 2,048
Net income (loss) corresponding to minority interest	18	51	(47)	(52)
Net income (loss) corresponding to majority interest	MXN (884)	MXN 6,238	MXN 2,157	MXN 1,996
U.S. GAAP				
Net sales	MXN 16,948	MXN 26,986	MXN 12,355	MXN 13,207
Net income[(1)]	(1,382)	6,586	2,455	2,255

(1) We are not presenting net income from continuing operations since it is identical to net income for all periods presented.

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Hylsamex

In millions of constant Mexican pesos as of June 30, 2005	At December 31, 2003	At December 31, 2004	At June 30, 2005
Consolidated Balance Sheet Data			
Mexican GAAP			
Current assets	MXN 7,004	MXN 10,243	MXN 10,157
Cash and cash equivalents	1,018	1,425	1,585
Other current assets	5,986	8,818	8,572
Non-current assets	24,684	24,143	23,556
Property, plant and equipment	21,753	20,897	20,421
Other non-current assets	2,931	3,246	3,135
Total assets	31,688	34,386	33,713
Current liabilities	3,819	4,575	4,491
Current portion of long-term debt	776	334	782
Other current liabilities	3,043	4,241	3,709
Non-current liabilities	16,728	11,100	9,642
Long-term debt	12,322	7,220	5,888
Notes payable to Alfa	487		
Deferred income tax	2,530	2,720	2,523
Estimated liabilities for seniority premiums and pension plans	1,389	1,160	1,231
Total liabilities	20,547	15,675	14,133
Total majority interest	9,159	16,650	17,472
Minority interest in subsidiaries	1,982	2,061	2,108
Total liabilities, minority interest and shareholders equity	MXN 31,688	MXN 34,386	MXN 33,713
U.S. GAAP			
Total assets	MXN 30,787	MXN 34,320	MXN 33,464
Non-current liabilities	18,268	12,868	11,335
Shareholders equity	6,718	14,816	15,530

In millions of constant Mexican pesos as of June 30, 2005 (except for total production and employee data)	For the year ended December 31, 2003	For the year ended December 31, 2004	For the six-month period ended June 30, 2005
Other information (Mexican GAAP)			
Depreciation and amortization	MXN 1,449	MXN 1,439	MXN 741
Resources provided by operations	421	5,304	2,520
Resources (used in) provided by financing activities	664	(4,390)	(2,004)
Resources used in investing activities	(709)	(505)	(356)
Operating data (unaudited)			
Total production of flat and long steel products (in thousands of tons)	2,511	3,303	1,460

Employees (at period end)	7,219	7,386	7,409

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RISK FACTORS

An investment in our shares or our ADSs is subject to the risks described below. You should carefully review the following risk factors, together with the other information contained in this prospectus, before deciding whether this investment is suited to your particular circumstances. Any of these risks could have a material adverse effect on Ternium s business, financial condition and results of operations, which could in turn affect the price of our shares or our ADSs.

Risks relating to the steel industry

The demand for Ternium s products is cyclical.

The steel industry is highly cyclical in nature and is characterized by intense competition. The financial condition and results of operations of steel companies are generally affected by various factors, including fluctuations in gross domestic product, related market demand, global production capacity, tariffs, cyclicality in the industries that purchase steel products and other factors beyond Ternium s control. The demand for and prices of Ternium s products are directly affected by these fluctuations. For example, the Ternium companies depend on construction activity within their primary markets for a large proportion of their sales. Construction activity is cyclical and significantly affected by changes in global and local economic conditions. A prolonged recession in the construction sector, or in any of the other industry sectors that purchase Ternium s products, in Argentina, Venezuela or Mexico, where most of Ternium s operations are conducted and domestic sales are targeted, could result in a significant decrease in Ternium s operational and sales performance. In addition, like other manufacturers of steel-related products, the Ternium companies have fixed and semi-fixed costs that cannot adjust rapidly to fluctuations in the demand for their products. If demand for Ternium s products falls significantly, the impossibility of rapidly adjusting these costs could adversely affect Ternium s profitability.

Like other steel companies, Ternium is vulnerable to events affecting the steel industry as a whole, such as imbalances between supply and demand. For example, the impact of new production facilities could result in imbalances between supply and demand. Moreover, due to high start-up costs, the economics of operating a steel mill continuously could encourage mill operators to maintain high levels of output, even in times of low demand, which exacerbates the pressures on industry profit margins. Although the demand for steel has grown in recent years, the world steel industry has been affected in the past by generally sluggish demand and substantial excess worldwide steel production. As a result of the general excess capacity in the industry, the world steel industry was subject to substantial downward pricing pressure, which negatively impacted the results of steel companies in the second half of 2000 and the entire year of 2001. For example, as a result of these adverse trends, Sidor experienced significant financial losses and consequently restructured its debt in 2000 and again in 2003. International steel prices generally improved beginning in 2003. However, this new period of high prices for steel have encouraged reactivation of and investment in production capacity, and, consequently, oversupply has led to a decline in steel prices beginning in the last quarter of 2004. If an event occurs that has a negative effect on the steel industry, such as excess production capacity or increased competition in the main steel markets, Ternium s ability to expand sales and increase production in general will be constrained, and as a result, it may not be able to maintain its recent rate of growth in revenues. Furthermore, due to the highly cyclical nature of the steel industry, recent results may not be indicative of future performance, and historical results may not be comparable to future results. Investors should not rely on the results of a single period, particularly a period of peak prices, as an indication of Ternium s annual results or future performance.

Demand for Ternium s products could decline as a result of fluctuations in Ternium s customers inventory levels which could, in turn, cause a decline in Ternium s sales and revenue.

Inventory levels of steel products held by companies that purchase Ternium s products can vary significantly from period to period. These fluctuations can temporarily affect the demand for Ternium s products, as customers draw from existing inventory during periods of low investment in construction and the other industry sectors that purchase Ternium s products and accumulate inventory during periods of high investment and, as a result, these

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companies may not purchase additional steel products or maintain their current purchasing volume. Accordingly, Ternium may not be able to increase or maintain its current levels of sales volumes or prices.

Price fluctuations or shortages in the supply of raw materials and energy could adversely affect Ternium s profits.

Like other manufacturers of steel-related products, Ternium s operations require substantial amounts of raw materials and energy from domestic and foreign suppliers. In particular, the Ternium companies consume large quantities of iron ore, scrap, ferroalloys, electricity, coal, natural gas, oxygen and other gases in operating their blast and electric furnaces. The availability and price of a significant portion of the raw materials and energy Ternium requires are subject to market conditions and government regulation affecting supply and demand. For example, shortages of natural gas in Argentina and the consequent supply restrictions imposed by the government could lead to production cutbacks at Ternium s facilities in Argentina. See Risks relating to the countries in which we operate Argentina Argentina currently has an energy crisis, and restrictions on the supply of energy to Ternium s operations in Argentina could curtail Ternium s production and negatively impact Ternium s results of operations. In the past, Ternium has been able to procure sufficient supplies of raw materials and energy inputs to meet its production needs; however, it could be unable to procure adequate supplies in the future. Any protracted interruption, discontinuation or other disruption of the supply of principal inputs to the Ternium companies (including as a result of strikes, lockouts or other problems) would result in lost sales and would have a material adverse effect on Ternium s business. For further information related to raw materials and energy requirements, see Business Raw materials and energy.

Furthermore, estimated amounts of reserves of iron ore from Hylsamex s mines or from those of Ternium s suppliers may not be recovered, and these suppliers may revise their reserve estimates based on actual production experience. Reserves may not conform to geological, metallurgical or other expectations, and the volume and quality of iron ore recovered may be below the expected levels.

As the steel industry is highly competitive with respect to price, product quality, customer service and technological advances, worldwide competition in the steel industry has frequently limited the ability of steel producers to raise the price of finished products to recover higher raw material and energy costs. Accordingly, increased purchase costs of raw materials and energy may not be recoverable through increased product prices, which would reduce Ternium s gross profit and revenues. Furthermore, limited availability could cause Ternium to curtail production, which could adversely affect Ternium s sales and profitability. For further information related to raw materials, see Business Raw materials and energy.

The Ternium companies depend on a limited number of key suppliers.

The Ternium companies depend on certain key suppliers for their requirements of raw materials and energy. The Ternium companies have entered into long-term contracts for the supply of a substantial portion of their principal inputs, and it is expected that they will maintain and renew these contracts. However, if any of the key suppliers fails to deliver or there is a failure to renew these contracts, the Ternium companies could face limited access to raw materials and energy, higher costs and delays resulting from the need to obtain their raw material and energy requirements from other suppliers.

For example, expenditures for iron ore constitute one of Sidor s largest individual raw material costs. Currently, Sidor purchases all of its iron ore from a single producer in Venezuela at agreed-upon formula prices under a long-term supply agreement expiring in 2017. If Sidor is not able to continue this long-term relationship or to continue purchasing iron ore from such supplier at the agreed-upon prices, it could be unable to obtain sufficient quantities of iron ore from alternative suppliers at prices comparable to those offered by its current supplier and, accordingly, its gross profit could decline. Following a public announcement by the Venezuelan government that sought to pressure Sidor to renegotiate the terms of the agreement for the supply of iron ore, as permitted under the contract s hardship provision, on November 11, 2005, Sidor and CVG Ferrominera del Orinoco, C.A. (FMO) amended the pricing terms of the contract. The amended formula is expected to increase

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Sidor s cost of iron ore from approximately USD19 to approximately USD30 per ton in fiscal year 2006. Furthermore, under the revised contract, the pricing formula may be adjusted every two years, on the basis of public policy, Sidor s competitiveness and the evolution of international steel prices. See Risks relating to the countries in which we operate Venezuela and Management s Discussion and Analysis of Financial Condition and Results of Operations Amazonia Overview. See Business Raw materials and energy Venezuela Iron Ore, Electricity and Natural gas.

Intense competition could cause Ternium to lose its share in certain markets and adversely affect its sales and revenues.

Ternium s subsidiaries have a substantial market share in their countries of operation where they maintain long-term relationships with their clients. Any fall in demand in these markets due to weak economic conditions or other reasons could adversely affect the operations of these subsidiaries and could redirect sales and the focus of Ternium s business to other markets. Competition in the global and regional markets could also be affected by antidumping and countervailing duties imposed on some producers in major steel markets and by the removal of barriers to imported products in those countries where the Ternium companies direct their sales. For further information please refer to Business Regulation Trade regulations. Also, Ternium s foreign competitors would benefit from any fall in the value of their domestic currencies relative to the U.S. dollar, reducing their operating costs and making their products more competitive.

The market for Ternium s steel products is highly competitive, particularly with respect to price, quality and service. In both the global and regional markets, Ternium competes against other global and local producers of flat and long steel products, which in some cases have greater financial and operating resources. In addition, several competitors are implementing modernization programs and expanding their production capacity for products that could compete with those of Ternium. To the extent that these producers become more efficient, Ternium could confront stronger competition and could fail to preserve its current shares of the relevant geographic or product markets. See Business Competition. Moreover, competition from alternative materials (including plastic, aluminum, ceramics, glass, wood and concrete) could adversely affect the demand for, and consequently the market prices of, certain steel products, and, accordingly, could affect the sales volume and revenue of Ternium and its subsidiaries.

In addition, there has been a trend in recent years toward steel industry consolidation among Ternium s competitors, and smaller competitors in the steel market today could become larger competitors in the future. For example, Aceralia, Arbed and Usinor merged in February 2002 to create Arcelor, and LNM Holdings and Ispat International merged in October 2004 to create Mittal Steel, which subsequently acquired International Steel Group. Competition from global steel manufacturers with expanded production capacity such as Mittal Steel and Arcelor, and new market entrants, especially from China, could result in significant price competition, declining margins and reductions in revenue. Ternium s larger competitors could use their resources against Ternium in a variety of ways, including by making additional acquisitions, investing more aggressively in product development and capacity and displacing demand for Ternium s products in certain markets. As a result of such increased competition, Ternium may also lose market share and its sales and revenues could decline.

The steel industry is capital intensive and if Ternium is not able to obtain the capital resources required to continue to modernize and upgrade its facilities, Ternium s results of operations and growth prospects may be adversely affected.

The production of steel is capital intensive and some of Ternium s competitors have recently announced plans to make substantial investments in new equipment and to upgrade existing production facilities. In order to maintain its competitive strengths, Ternium would typically be expected to continue to modernize its production processes, plant and equipment, which would require on-going capital investments. Moreover, as a result of its acquisitions and internal growth, Ternium s business may require capital expenditures in the future. Ternium may not have adequate sources of funds for any future capital expenditures, and additional financing, if needed, may not be available to Ternium or, if available, may not be obtained on terms acceptable to Ternium and within

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the limitations contained in Ternium s existing debt instruments or any future financings. Failure to obtain the required funds could delay or prevent the completion of some of Ternium s capital projects, such as the planned modernization of coating facilities and hot rolling mills in Mexico, which could result in decreased sales.

Risks relating to Ternium s business

If Ternium does not successfully implement its business strategy, its opportunities for growth and its competitive position could be adversely affected.

Ternium plans to continue implementing its business strategy of further integrating the operating and marketing activities of the Ternium companies, developing value-added products, providing services to a wider range of clients in the local and export markets and continuing to pursue strategic acquisition opportunities. Any of these components or Ternium s overall business strategy could be delayed or abandoned or could cost more than anticipated, any of which could impact its competitive position and reduce its revenue and profitability. For example, Ternium could fail to develop its commercial network and lose market share in its export markets. Even if Ternium successfully implements its business strategy, it may not yield the desired goals.

Recent and future acquisitions, significant investments and strategic alliances could disrupt Ternium s operations and adversely affect its profits. Ternium may not realize the benefits it expects from these business decisions.

In the past, Ternium has acquired interests in various companies and engaged in strategic alliances, such as the acquisition of Sidor, the largest steel company of Venezuela, the participation of 49.8% in Matesi, Materiales Siderúrgicos S.A. (Matesi), an iron ore briquette producer that supplies Sidor with part of its raw material requirements, and the recent acquisition of Hylsamex, one of the main steel producers in Mexico.

Ternium may consider other strategic acquisitions and alliances from time to time, and it must necessarily base any assessment of potential acquisitions and alliances on assumptions with respect to operations, profitability and other matters that could subsequently prove to be incorrect. Ternium s future acquisitions, significant investments and alliances may not perform in accordance with its expectations, which could adversely affect its operations and profitability. Furthermore, Ternium may fail to find suitable acquisition targets or fail to consummate its acquisitions under favorable conditions, or could be unable to successfully integrate any acquired businesses into its operations.

Although Ternium has begun taking steps to integrate Hylsamex into its operations since the consummation of its acquisition on August 22, 2005, it may not be able to do so successfully and within a short period of time.

Ternium faces a variety of uncertainties and challenges relating to the acquisition and integration of Hylsamex, including, but not limited to:

- achieving expected synergies,

- loss of key employees,

- difficulties integrating operational and financial systems, which could delay the integration efforts and anticipated cost savings,

- lower than expected sales and profitability returns that may not justify the size of Ternium s investment,

- exposure to potential liabilities, including liabilities related to activities that predate the acquisition, for which Ternium will not be indemnified and which could be material, and

- the possible decline in the market price of our ADSs, if Ternium does not achieve the perceived benefits and anticipated cost savings of the acquisition as rapidly or to the extent anticipated.

These risks, and the fact that integration of the acquired business will require a significant amount of the time and resources of Ternium s management and employees, could disrupt Ternium s ongoing business and could have a material adverse effect on its business, financial condition and results of operations.

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Ternium may be required to record a significant charge to earnings if it must reassess its goodwill or other amortizable intangible assets.

In accordance with IFRS, management must test all of Ternium s assets, including goodwill, annually for impairment, or more frequently if there are indicators of impairment, and recognize a non-cash charge in an amount equal to the impairment. In connection with the acquisition of Hylsamex completed on August 22, 2005, we expect that Ternium will record USD538.1 million in goodwill. See Selected Financial and Operating Data Unaudited pro forma combined consolidated financial information of Ternium Summary unaudited pro forma combined consolidated balance sheet data. If Ternium s management were to determine in the future that the goodwill from its acquisition of Hylsamex was impaired, Ternium would be required to recognize a non-cash charge to write down the value of this goodwill, which would adversely affect Ternium s financial condition and results of operations.

Credit agreements and other instruments of indebtedness of Ternium and its subsidiaries contain covenants and financial tests which could restrict their activities and cross-payment-default provisions which could result in the acceleration of Ternium s indebtedness.

The debt contracts of Ternium and its subsidiaries, including the financing agreements entered into in connection with the acquisition of Hylsamex, contain a number of significant covenants that limit their ability to, among other things:

- pay dividends to their shareholders or make other restricted payments;
- administer their cash flow;
- grant certain liens;
- borrow additional money or prepay principal or interest on subordinated debt;
- change their business or amend certain significant agreements;
- effect a change of control; and
- merge, acquire or consolidate with another company, make additional investments or dispose of their assets.

These contracts also require Ternium and its subsidiaries to meet certain financial covenants, ratios and other tests, which could limit their operational flexibility and could prevent Ternium from taking advantage of business opportunities as they arise, growing its business or competing effectively. Moreover, a failure by Ternium and its subsidiaries to comply with applicable financial measures could result in defaults under those agreements or instruments. Ternium and its subsidiaries are in compliance with all of their financial covenants, ratios and tests.

In addition, if Ternium or any of its subsidiaries failed to meet its payment obligations under their financial agreements, debt under that agreement could become immediately due and payable, and could trigger cross-payment-default provisions contained in the Ternium Credit

Facility and in certain of the Ternium companies other credit agreements and debt instruments, which would permit their creditors to accelerate the indebtedness evidenced thereby. If this occurs, Ternium may not be able to pay its debt or borrow sufficient funds to refinance it. Even if new financing is available, it could entail terms that are not as favorable to Ternium and could limit the cash flow available for its operations, place it at a competitive disadvantage and limit its ability to pursue its business strategy. In addition, these credit agreements contain indemnification provisions. For information concerning these credit agreements and debt instruments, see Management s Discussion and Analysis of Financial Condition and Results of Operations Ternium Recent events.

Ternium s related party transactions with members of the Techint Group may not always be on terms as favorable as those that could be obtained from unaffiliated third parties.

Some of Ternium s sales and purchases are made to and from other Techint Group companies. These sales and purchases are primarily made in the ordinary course of business, and Ternium believes that they are made on terms no less favorable than those it could obtain from unaffiliated third parties. Ternium will continue to engage in related party transactions in the future, and these transactions may not be on terms as favorable as those that could be obtained from unaffiliated third parties. For information concerning the principal transactions between Ternium and related parties, see Formation of Ternium and Related Party Transactions.

Ternium s transactions with certain business partners and shareholders may not always be on terms as favorable as those that could be obtained from unaffiliated third parties.

Some of Ternium s sales and purchases are made to and from certain partners and shareholders of its subsidiaries. For example, Sidor has a variety of trade and services-related contractual relationships with entities owned by its minority shareholder, the government of Venezuela, including the purchase of iron ore from, and the sale of pellets to, the state-owned steel company Corporación Venezolana de Guayana (CVG). Moreover, Sivensa, a Venezuelan company that owns an indirect minority stake in the Company, is one of the largest domestic purchasers, through one of its affiliates, of Sidor s flat steel products. Although we believe that each of its business relationships with business partners and shareholders is on an arm s length basis, any of these arrangements may not provide terms to Ternium that are substantially similar to, or as favorable as, those that might have been obtained from unaffiliated third parties.

Labor disputes at Ternium s operating subsidiaries could result in work stoppages and disruptions to Ternium s operations.

A substantial majority of Ternium s employees at its manufacturing subsidiaries are represented by labor unions and are covered by collective bargaining or similar agreements, which are subject to periodic renegotiation. Strikes or work stoppages could occur prior to or during the negotiations leading to new collective bargaining agreements, during wage and benefits negotiations or, occasionally, during other periods for other reasons.

The various measures that Ternium s subsidiaries Siderar and Hylsamex have taken in order to become more competitive have not resulted in significant labor unrest. However, its subsidiary Sidor has from time to time suffered labor disruptions, including the last plant stoppages in 2003 and 2004. Ternium could suffer additional plant stoppages or strikes as a result of future work force reductions in connection with its productivity improvement and cost reduction plans. Ternium may not be able to maintain a satisfactory relationship with its employees, and any future stoppage, strike, disruption of operations or new collective bargaining agreements could result in lost sales and could increase Ternium s costs. For more information on labor relations, see Business Employees.

The Ternium companies ability to hedge risks could be limited by contractual and regulatory restrictions.

The international operations of the Ternium companies expose them to a variety of financial risks, including the effects of changes in foreign currency, exchange rates and interest rates. A portion of Ternium s business is carried out in currencies other than the U.S. dollar. As a result of this foreign currency exposure, exchange rate fluctuations impact the Ternium companies results as reported in their income statements in the form of both translation risk and transaction risk. In addition, interest rate movements create a degree of risk by affecting the amount of the Ternium companies interest payments. Other than those imposed by legal or monetary control entities (like the Argentine Central Bank or the exchange and transfer control entity CADIVI in Venezuela), Ternium s subsidiaries (other than Sidor) have no restrictions on the use of derivative agreements for hedging purposes. Sidor, however, is limited by both contractual and regulatory restrictions for these types of derivatives contracts. These restrictions and regulations could cause the Ternium companies to be more vulnerable to market fluctuations than they would be if their hedging activities were unlimited. In the ordinary course of business, the Ternium companies (other than Sidor) from time to time enter into exchange rate and interest rate derivatives agreements to manage their exposure to exchange rate and interest rate changes.

Future regulatory or financial restrictions in the countries where Ternium operates may affect its ability to hedge its exposure to financial risks, and thus cause an adverse impact on Ternium s results of operations and financial condition.

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Ternium s results of operations and financial condition could be adversely affected by movements in exchange rates.

The revenues of the Ternium companies are primarily U.S. dollar-denominated (other than revenues from domestic sales in Mexico), while a significant portion of their costs are denominated in local currency in the markets where they operate. As a result, movements in the exchange rate of the U.S. dollar against these local currencies can have a significant impact on Ternium s revenue, results and financial condition. A rise in the value of the local currencies relative to the U.S. dollar will increase Ternium s relative production costs, thereby creating a competitive disadvantage for Ternium relative to some of its competitors. Conversely, a decrease in the value of the local currencies relative to the U.S. dollar will decrease their relative production costs. For instance, during 2004, Siderar benefited from a gain of USD10.5 million due to an exchange rate depreciation of 1.4%. During the same period, an exchange rate depreciation of 19.7% resulted in a loss of USD118.4 million for Amazonia, while an exchange rate appreciation of 0.8% resulted in a loss of USD10.6 million for Hylsamex.

Volatility in the exchange rates between the U.S. dollar and the Argentine peso and between the U.S. dollar and the Mexican peso as well as changes to the exchange rate between the U.S. dollar and the Venezuelan bolívar are likely to continue in the future. Such fluctuations will affect Ternium s production costs, revenues and financial results. For more information on the exchange rates affecting Ternium s business, see Exchange Rates below.

A significant rise in interest rates could adversely affect Ternium s business and results.

Changes in interest rates affect the amount of Ternium s interest payments as well as the value of its fixed rate debt. Most of Ternium s long-term borrowings are at variable rates, and accordingly, Ternium is exposed to the risk of increased interest expense in the event of a significant rise in interest rates. Moreover, a substantial rise in interest rates in developed economies such as the United States could adversely affect the economies in the countries where Ternium conducts its operations and markets its products and would increase Ternium s debt service requirements for its floating rate debt.

For example, Ternium s indebtedness under the Ternium Credit Facility bears interest at the annual rate of LIBOR plus an applicable margin. Ternium has hedged 25% (USD250 million) of its indebtedness under the Ternium Credit Facility using an interest rate swap derivative. The remaining 75% (USD750 million), prior to the application of proceeds from this offering, is exposed to changes in interest rates, and, for each 1% increase in interest rates, Ternium s interest expenses will increase by USD7.5 million.

Risks relating to the structure of the Company

As a holding company, our ability to pay dividends and obtain financing depends on the results of operations and financial condition of our subsidiaries and could be restricted by legal, contractual or other limitations.

We conduct all of our operations through our subsidiaries. Dividends or other intercompany transfers of funds from our subsidiaries are expected to be our primary source of funds to pay our expenses, debt service and dividends. We will not be conducting operations at the holding company level, and any expenses that we incur, in excess of minimum levels, that cannot be otherwise financed will reduce amounts available for distribution to our shareholders. This could result in us being unable to pay any dividends on our ADSs.

The ability of our subsidiaries to pay dividends and make other payments to us will depend on their results of operations and financial conditions and could be, including in the circumstances described below, restricted by, among other things, applicable corporate and other laws and regulations, including those imposing foreign exchange controls, and agreements and commitments of such subsidiaries. In addition, our ability to pay dividends is subject to legal and other requirements and restrictions at the holding company level. For example, we may only make distributions out of net profits, retained earnings and available reserves and premiums, each as defined under Luxembourg regulations.

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Our ability and the ability of the Ternium companies to pay dividends and make other payments depends in part on contractual arrangements relating to the distribution of profits. The credit agreements entered into by us and Siderar to finance the acquisition of Hylsamex contain limitations on our ability to declare or pay dividends until 2010. These debt covenants prohibit us from declaring or paying any dividends until we have paid the full amount due on the first anniversary of the Ternium Credit Facility and impose limits on the funds available for payment of dividends. Also, 70% of the outstanding capital of Hylsamex was pledged to secure the Ternium Credit Facility, and Siderar granted drag-along rights requiring the sale of its shares in Hylsamex in the event the collateral agent under the Ternium Credit Facility forecloses on such pledge. In addition, under the terms of its restructuring agreements, Sidor may not pay dividends until 2008. For further information about the impact of such restrictions and covenants, please see Risks relating to Ternium s business Credit agreements and other instruments of indebtedness of Ternium and its subsidiaries contain covenants and financial tests which could restrict their activities and cross-payment-default provisions which could result in the acceleration of Ternium s indebtedness above and Dividend Policy.

The Company s controlling shareholder may be able to take actions that do not reflect the will or best interests of other shareholders.

As of December 31, 2005, our principal shareholder is Inversora Siderurgica Limited, or ISL, which will hold at least a majority of our shares after the settlement of the offering. As of December 31, 2005, San Faustín beneficially owned 100% of ISL s outstanding voting stock. San Faustín is controlled by Rocca & Partners. As a result, Rocca & Partners is indirectly able to elect a substantial majority of the members of our board of directors and has the power to determine the outcome of most actions requiring shareholder approval, including, subject to the requirements of Luxembourg law, the payment of dividends by us. The decisions of the controlling shareholder, including the decisions with respect to this offering, may not reflect the will or best interests of other shareholders. For example, our articles of association permit our board of directors to waive, limit or suppress preemptive rights in certain cases. Accordingly, our controlling shareholder may cause our board of directors to approve an issuance of shares for consideration without preemptive rights, thereby diluting the minority interest in the Company. See Risk Factors Risks related to our ADSs Holders of our shares and ADSs in the United States may not be able to exercise preemptive rights in certain cases.

Remaining minority interests in the Company s subsidiaries could delay or impede our ability to complete our strategy.

We do not own one hundred percent of the interests in our subsidiaries. As of December 31, 2005, approximately 35.7% of Siderar was publicly held and approximately 8.4% was held by certain Siderar employees. As of the same date, approximately 29.7% of Sidor was held by the Venezuelan government and *Banco de Desarrollo Económico y Social de Venezuela*, or BANDES (a bank owned by the Venezuelan government), and approximately 10.7% was held by certain Sidor employees. Also as of the same date, 0.2% of Hylsamex was owned by minority shareholders. As of December 19, 2005, Hylsamex s shares were deregistered in accordance with applicable Mexican law. In connection with the deregistration of Hylsamex s shares, Siderar established, on December 1, 2005, a fiduciary account (*fideicomiso*) with a term of at least six months in an amount sufficient to purchase all remaining Hylsamex shares held by the public. However, Mexican law does not provide for the automatic acquisition of any remaining publicly held shares at the expiration of the fiduciary account, nor does it allow us to proceed with such an acquisition unilaterally. To the extent that other interests in Siderar, Sidor and Hylsamex remain outstanding, those remaining minority shareholders could prevent Ternium from taking actions that, while beneficial to us at the holding company level, might not be beneficial at the level of any of our individual subsidiaries. As a result, we could be delayed or impeded in the full implementation of our strategy or the maximization of Ternium s competitive strengths.

We will be subject to a capital duty on any capital increase in connection with our corporate reorganization if we fail to obtain relief from the Luxembourg tax authorities, or if such relief is successfully challenged.

Under Luxembourg law, any increase in the capital of a Luxembourg company is subject to a 1% capital duty. Capital contributions to a Luxembourg company involving all of the assets and liabilities of a company organized in a European Union, or EU, member country are exempt from such capital duty. We expect that our

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corporate reorganization, consisting of a series of such contributions of assets and liabilities by EU companies, including ISL (which is organized in Gibraltar), to the Company will qualify for such exemption. In addition, we expect that the Luxembourg tax authorities will confirm the availability of the exemption separately for each such contribution upon its consummation. Such relief was obtained for the first three transactions of the series, as we expect to obtain it for the remaining reorganization transactions, including, as provided in the Corporate Reorganization Agreement, the delivery of shares of the Company by ISL on our behalf to the underwriters for this offering and to the Subordinated Lenders, and the subsequent contribution to us by ISL of all of its assets and liabilities. If we fail to obtain relief from the Luxembourg tax authorities, or if the relief granted is successfully challenged, we will be subject to a 1% capital duty on the amount of the corresponding capital increase, plus any applicable penalties.

Risks relating to the countries in which we operate

Negative economic, political and regulatory developments in certain markets where Ternium has a significant portion of its operations and assets could hurt Ternium s financial condition, revenues and sales volume and disrupt its manufacturing operations, thereby adversely affecting its results of operations and financial condition.

The results of Ternium s operations are subject to the risks of doing business in emerging markets and have been, and could in the future be, affected from time to time to varying degrees by political developments, events, laws and regulations, such as forced divestiture of assets; restrictions on production, imports and exports; interruptions to essential energy inputs; exchange and/or transfer restrictions; inflation; devaluation; war or other international conflicts; civil unrest and local security concerns that threaten the safe operation of company facilities; price controls; tax increases; changes in interpretation or application of tax laws and other retroactive tax claims or challenges; expropriation of property; changes in laws, norms or regulations; cancellation of contract rights; delays or denial of government approvals; and environmental regulations. Both the likelihood of such occurrences and their overall effect upon Ternium vary greatly from country to country and are not predictable. Realization of these risks could have an adverse impact on the results of operations and financial condition of Ternium s subsidiaries located in the affected country.

Argentina

Ternium has significant manufacturing operations and assets located in Argentina and a significant portion of its sales are made in Argentina. Ternium s main revenues from its Argentine operations, therefore, are indirectly related to market conditions in Argentina and to changes in Argentina s gross domestic product, or GDP, and per capita disposable income. Accordingly, Ternium s business could be materially and adversely affected by economic, political and regulatory developments in Argentina.

Economic and political instability resulted in a severe recession in 2002, which has had a lasting effect on Argentina s economy.

In the second half of 2001, a sustained period of economic recession culminated in severe social, monetary and financial turmoil and a series of dramatic political and legislative developments in Argentina. President de la Rúa resigned on December 21, 2001, amid large-scale, violent demonstrations against his administration. After three interim presidents in rapid succession, Senator Eduardo Duhalde, a member of the opposition Peronist party, was elected by the Legislative Assembly and assumed the presidency on January 2, 2002, to serve for the remainder of former president de la Rúa s term. The Duhalde administration quickly adopted a series of emergency measures affecting Argentina s monetary and fiscal policies. These measures included, among others, approval on January 6, 2002 by the Argentine Congress of the Public Emergency Law, ending more than a decade of uninterrupted U.S. dollar Argentine peso parity, eliminating the requirement that the Argentine peso be fully backed by gold and foreign reserves and establishing a framework for the resulting devaluation of the Argentine peso.

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During the first half of 2002, the events described above caused an abrupt rise in the exchange rate, reaching a high of ARP3.90 per U.S. dollar in June 2002, as well as the inflation rate, with the cumulative consumer price index rising by 55% from December 2001 through December 2004 and the cumulative wholesale price index, or WPI, rising by 140% during the same period.

Presidential elections were held on April 27, 2003, but no candidate obtained the requisite percentage of votes to be elected president. Although a run-off election between the two candidates that obtained the highest number of votes, Carlos Menem and Néstor Kirchner, was initially required, Carlos Menem withdrew from the run-off election and, as a result, Néstor Kirchner was elected president; the new president assumed office on May 25, 2003.

Since taking office, Mr. Kirchner has enjoyed high levels of popular support and the economy has shown signs of recovery. GDP grew by 8.7% in 2003 and by 9.0% in 2004. Unemployment rates dropped to 12.1% in 2004 from a high of 24.1% in June 2002. Economists also expect the Argentine economy to continue performing well during 2005 when GDP is projected to increase by 4.7%. Inflation has been stable, helped in part by an appreciation of the Argentine peso and by unused productive capacity in the domestic economy. However, inflation has started to rise again recently. The WPI increased by 7.9% in 2004, compared to 2% in 2003, and by 2% in the first quarter of 2005.

Siderar s sales in the domestic market were severely affected by Argentina s recession during 2001 and 2002. Domestic sales as a percentage of total sales decreased to 47% in 2001 and 35% in 2002. The domestic economic recovery during 2003 and 2004, with sustained growth in industrial activity, agriculture, construction and a significant improvement in the automobile industry, increased Siderar s domestic sales as a percentage of total sales to 55% in 2003 and 72% in 2004.

Nevertheless, many of Argentina s economic problems remain unresolved. If an inflationary environment were to reappear, inflation could have a negative impact on the revenues of Ternium s subsidiary in Argentina when they are restated in constant currency. Thus, even if Ternium s revenues were to rise in nominal terms, its reported revenues would decrease unless the rate of increase in nominal revenues is at least as great as the rate of inflation. The Argentine economy may not continue to experience growth. Economic conditions in Argentina have deteriorated rapidly in the past and could deteriorate rapidly in the future and Ternium s business and operations in Argentina could be adversely affected by rapidly changing economic conditions in Argentina and by the Argentine government s response to such conditions.

Argentine government policies will likely significantly affect the economy and, as a result, Ternium s Argentine operations.

The Argentine government has historically exercised significant influence over the economy. Since December 2001 the Argentine government has promulgated numerous, far-reaching laws and regulations that affect the economy in significant respects. Laws and regulations currently governing the economy could change in the future, and any such changes could adversely affect Ternium s business, financial condition or results of operations.

The Argentine Central Bank has imposed restrictions on the transfer of funds outside of Argentina and other exchange controls in the past and may do so in the future, which could prevent Ternium from paying dividends or other amounts from cash generated by its Argentine operations.

In 2001 and 2002 and until February 7, 2003, the Argentine Central Bank restricted Argentine individuals and corporations from transferring U.S. dollars abroad without the prior approval of the Argentine Central Bank. In 2003 and 2004, the government reduced some of these restrictions, including those requiring the Argentine Central Bank s prior authorization for the transfer of funds abroad in order to pay principal and interest on debt obligations. Nevertheless, significant government controls and restrictions remain in place, and the Argentine

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government may impose new restrictions on foreign exchange in the future. On June 10, 2005, the Argentine government issued Decree No. 616/2005 establishing certain restrictions on capital inflows into Argentina. The existing controls and restrictions, and any additional restrictions of this kind that may be imposed in the future, could impair Ternium s ability to transfer funds generated by Ternium s Argentine operations in U.S. dollars outside Argentina to fund the payment of dividends or other amounts and to undertake investments and other activities that require payments in U.S. dollars. Furthermore, these restrictions could affect Ternium s ability to finance its investments and operations in Argentina. For additional information on current Argentine exchange controls and restrictions, see Exchange Rates Argentine pesos.

In addition, Ternium is currently required to repatriate U.S. dollars collected in connection with exports from Argentina (including U.S. dollars obtained through advance payment and pre-financing facilities) into Argentina and convert them into Argentine pesos at the market-based floating exchange rate applicable on the conversion date. This requirement, and any similar requirement that may be imposed in the future, subjects Ternium to the risk of losses arising from an abrupt devaluation of the Argentine peso.

Despite the results of the recent restructuring of its debt with private creditors, Argentina is limited in its ability to obtain financing in the future, which may restrict its ability to implement reforms and create the conditions for sustained economic growth and, as a result Siderar may be unable to obtain financing.

The Argentine government has recently restructured its public debt with private creditors, with approximately 76% of its creditors surrendering their claims in exchange for new bonds worth approximately USD0.35 on the dollar. However, at this time it is impossible to determine what effect the restructuring will have, if any, on investor confidence or on the Argentine economy generally. In addition, as a consequence of the restructuring Argentina will still have obligations outstanding with bondholders of approximately USD54.8 billion (approximately USD35.3 billion under the new bonds plus approximately USD19.5 billion under the old bonds not tendered for exchange) and will have to withstand any legal actions that may be filed by bondholders who did not accept the Argentine government s exchange offer. On December 15, 2005, the Argentine government announced its intention to make an early repayment of all of its outstanding obligations to the International Monetary Fund (IMF), amounting to approximately USD9.9 billion. This prepayment, together with Argentina s limited access to foreign capital, could curtail its ability to access international credit markets.

To date, Argentina has experienced difficulty and greater costs when accessing the international credit markets, in spite of the recovery of economic and financial conditions. If Argentina is not able to honor its outstanding financial agreements, or if it does not obtain the required financing to implement the economic and political reforms necessary to obtain sustainable development and GDP growth, the resulting economic environment could negatively affect Ternium s operating costs, sales and results of operations. In particular, to the extent Siderar is not able to maintain high levels of export, Siderar s ability to obtain financing could be limited.

The economic and financial crisis, the deepening of the economic recession and the restrictions on external debt payments during 2002, severely limited the ability of Argentine companies to gain access to bank loans and capital markets, affecting the financial situation of Ternium s operations in Argentina and preventing the normal renewal of credit facilities at maturity. In this context, during 2002, Siderar initiated discussions with its creditors aimed at adapting principal payments to the flow of funds generated by operations, on the basis of a manageable schedule of maturities, as well as to obtain time until the economic and political situation had stabilized, enabling it to normalize its access to sources of finance.

As a result of such negotiations, Siderar signed an agreement with its creditors for the restructuring of the terms and conditions of its financial debt for a total of approximately USD473.3 million. During 2004, Siderar s favorable financial situation allowed it to settle in full its restructured debt at the end of the third quarter, obtaining the release of all guaranties and lifting of restrictive conditions included in the loan contracts.

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The Argentine government has increased taxes on Ternium s operations in Argentina, and could further increase the fiscal burden on its operations in Argentina in the future.

Since 1992, the Argentine government has not permitted the application of an inflation adjustment on the value of fixed assets for tax purposes. Since the substantial devaluation of the Argentine peso in 2002, the amounts that the Argentine tax authorities permit Ternium to deduct as depreciation for its past investments in plant, property and equipment have been substantially reduced, resulting in a higher effective income tax charge. In addition, in 2002, the Argentine government imposed a 5% tax on the export of manufactured products. If the Argentine government continues to increase the tax burden on Ternium s operations in Argentina, Ternium s results of operation and financial condition could be adversely affected.

Argentina currently has an energy crisis, and restrictions on the supply of energy to Ternium s operations in Argentina could curtail Ternium s production and negatively impact Ternium s results of operations.

As a result of several years of recession, the forced conversion into Argentine pesos at the one-to-one exchange rate and the subsequent freeze of gas and electricity tariffs, there has been a lack of investment in gas and electricity supply and transport capacity in Argentina in recent years. Over the course of the last several years, demand for natural gas has increased substantially, driven by a recovery in economic conditions and low prices in comparison with alternative fuel sources. In addition, supplies of electricity generated from alternative sources, principally hydroelectric, have been affected by lower levels of rainfall than usual. This has resulted in shortages of natural gas and energy and consequent supply restrictions.

The Argentine government is taking a number of measures to alleviate the short-term impact of supply restrictions on residential and industrial users, including measures to limit the growth of residential consumption, to increase the price of compressed natural gas and to import natural gas from Bolivia, electricity from Brazil and fuel oil from Venezuela. It has announced several measures intended to address the situation in the medium- and long-term including allowing natural gas prices for industrial users to rise and implementing a tax increase on the export of crude oil and a new tax on the export of natural gas. In addition, the Argentine government has created a new state-owned energy company, which would in turn fund, or otherwise promote, investments in expanding existing pipeline transportation capacity and building new pipelines and additional power generation capacity.

If the measures that the Argentine government is taking to alleviate the short-term impact of the crisis prove to be insufficient, or if the investment that is required to increase natural gas generation energy production and transportation capacity and power generation capacity over the medium- and long-term fails to materialize on a timely basis, Ternium s production in Argentina (or that of its main suppliers) could be curtailed and Ternium s sales and revenues could decline. Although Ternium is taking measures, like the purchase of alternative fuels such as fuel oil, to limit the effect of supply restrictions on its operations in Argentina, such efforts may not be sufficient to avoid any impact on Ternium s production in Argentina (or that of its main suppliers) and Ternium may not be able to similarly limit the effect of future supply restrictions. See Risks relating to the steel industry Price fluctuations or shortages in the supply of raw materials and energy could adversely affect Ternium s profits above.

Venezuela

Ternium has manufacturing operations and assets located in Venezuela and a significant portion of its sales are made in Venezuela. Ternium s main revenues derived from its Venezuelan operations, therefore, are indirectly related to market conditions in Venezuela and to changes in its GDP and per capita disposable income. Ternium s business could be materially and adversely affected by economic, political and regulatory developments in Venezuela.

In prior years, events in Venezuela produced significant social and political tensions, which could worsen and have an adverse effect on Venezuela s economy.

In the past several years, Venezuela has experienced intense political and social turmoil involving groups that oppose and those that support the Chávez administration. Between December 2001 and February 2003,

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opposition groups have staged four nationwide strikes, the most recent of which began in 2002 and at times halted a substantial part of the operations of the Venezuelan oil industry before it ended in February 2003. The strikes were accompanied by increased capital drains, loss of bank deposits and reduced tax revenues.

Although the political scene remains divided, the Chávez administration, through coalitions with other political parties, effectively controls a majority in the *Asamblea Nacional*, or the National Assembly, as well as most state governments, and has broad support among the poorer segments of Venezuelan society. On August 15, 2004, Venezuelan citizens voted on a recall referendum in accordance with the Venezuelan constitution regarding the removal of President Chávez from office for the remainder of his term. Approximately 59% of the voters voted in favor of retaining President Chávez.

State and local elections were held in Venezuela on October 31, 2004. Candidates supported by President Chávez won 21 of the 23 gubernatorial elections, with the two remaining governships being retained by opposition parties.

In November 2004, the National Assembly began the process of appointing 17 new justices to the Supreme Tribunal of Justice, or TSJ, in accordance with a law that allows judges to be appointed by a simple majority if the National Assembly holds three sessions and lawmakers fail to reach the necessary qualified majority of two-thirds of the National Assembly.

Parliamentary elections were held on December 4, 2005. As a result of such elections, candidates supported by President Chávez currently hold 114 of the 167 seats in the National Assembly.

Despite organized political opposition against his administration, President Chávez is expected to serve the remainder of his current presidential term, which ends in 2006. If significant domestic instability in Venezuela reemerges and affects political and economic conditions in Venezuela, Ternium s business in Venezuela and, accordingly, its financial results could be negatively affected.

The Venezuelan government could take measures related to the Venezuelan steel industry in general, or related to its minority stake in Sidor, that could affect Ternium s operations in Venezuela.

The Venezuelan government traditionally has played a central role in the development of Venezuela s steel industry and has exercised, and continues to exercise, significant influence over many other aspects of the Venezuelan economy. Venezuelan governmental actions have had in the past, and could have in the future, significant effects on the financial condition and results of operations of Venezuelan companies and on the ability of Venezuelan companies to make capital expenditures. For example, the Venezuelan government has sought to pressure foreign oil companies to either partner with state-run Petróleos de Venezuela, increase royalties to the government and cede operational control of oilfields or leave the country by December 31, 2005. The Venezuelan government has also canceled mining concessions and has proposed that a state-run mining corporation administer mining operations. Accordingly, if political or economic measures such as expropriation, nationalization, renegotiation or nullification of contracts (like those for the supply of raw materials or energy), or currency, fiscal or transfer restrictions were implemented on Ternium s subsidiary in Venezuela, its operations and revenues, and consequently Ternium s financial results, could be adversely affected.

Furthermore, the Venezuelan government owns a minority stake in Sidor, and, as a minority shareholder, could be able to intervene in Sidor s business. For example, as a minority shareholder, the Venezuelan government has the right to approve (i) investments worth USD85 million or more, (ii) dispositions of material assets, (iii) guarantees in an amount of USD15 million or more, (iv) related-party transactions other than on an arm s length basis and (v) certain material amendments of Sidor s articles of association.

In addition, Sidor s operations rely on a number of trade- and services-related contractual relationships with entities owned by the government of Venezuela, including the purchase of iron ore from the state-owned company FMO, the purchase of electricity from Electrificadora del Caroní, C.A. (EDELCA) and the purchase

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of natural gas from PDVSA Gas, S.A. (PDVSA Gas). Following a public announcement by the Venezuelan government that sought to pressure Sidor to renegotiate the terms of the agreement for the supply of iron ore, as permitted under the contract s hardship provision, on November 11, 2005, Sidor and FMO amended the pricing terms of the contract. The amended formula is expected to increase Sidor s cost of iron ore from approximately USD19 to approximately USD30 per ton in fiscal 2006. Furthermore, under the revised contract, the pricing formula may be adjusted every two years, on the basis of public policy, Sidor s competitiveness and the evolution of international steel prices. In conjunction with the changes in price conditions for the supply of iron ore to Sidor by FMO, the Venezuelan government is offering a price reduction on raw materials acquired from state-owned enterprises, such as FMO, that may reach 10% over the agreed market reference price. These preferential supply terms, as established in a presidential decree and related regulations, are conditioned on commitments by potential beneficiaries to assist development of the domestic industrial sector and to support certain community needs. In connection with the initial assessment of Sidor s proposed industrial development plan, Sidor was granted a provisional 6% discount on its iron ore price, which discount could increase up to 10% upon completion of the mandatory review process. See Risks relating to the steel industry The Ternium companies depend on a limited number of key suppliers. See Business Raw materials and energy Venezuela and Management s Discussion and Analysis of Financial Condition and Results of Operations Amazonia Overview.

Venezuelan government policies will likely significantly affect the economy and, as a result, Ternium s Venezuelan operations.

The Venezuelan government frequently intervenes in the Venezuelan economy and occasionally makes significant changes in policy. Recently the government s actions to control inflation and implement other policies have involved wage and price controls, currency devaluations, capital controls and limits on imports, among other things. Ternium s business, financial condition, and results of operations could be adversely affected by changes in policy involving tariffs, exchange controls and other matters such as currency devaluation, inflation, interest rates, taxation, industrial laws and regulations and other political or economic developments in or affecting Venezuela. Several measures imposed by the Venezuelan government, such as exchange controls and transfer restrictions, have affected and may further affect the operations of Ternium s subsidiary in Venezuela and could prevent Ternium from paying dividends or other amounts from cash generated by Ternium s Venezuelan operations. For additional information on current Venezuelan exchange controls and restrictions see Exchange Rates Venezuelan bolívares and the following risk factor.

Several measures imposed by the Venezuelan government, such as exchange controls and transfer restrictions, have affected and may further affect the operations of Ternium s subsidiaries in Venezuela and could prevent Ternium from paying dividends or other amounts from cash generated by its Venezuelan operations.

In February 2003, after a significant devaluation in 2002 and a sharp decline in economic activity, the Venezuelan government and the Central Bank of Venezuela suspended the trading of foreign currencies and adopted a series of exchange regulations that established a new exchange control regime. A new commission, referred to as the *Comisión de Administración de Divisas*, or CADIVI, composed of five members appointed by the President of Venezuela, was created for establishment and administration of the new exchange control regime. Under the new regime, the Ministry of Finance, together with the Central Bank of Venezuela, sets the exchange rate with respect to the U.S. dollar and other currencies and has discretion to modify, at any time, the existing exchange control regime or the free float of the bolívar. The new regime centralizes the purchase and sale of foreign currencies, by permitting such sales to be made only through the Central Bank.

Under current regulations, entities that incur or maintain indebtedness denominated in foreign currencies and wish to obtain U.S. dollars from the Central Bank of Venezuela to pay principal, interest and other amounts in respect of such indebtedness must obtain approval from, and have the indebtedness registered with, CADIVI. In accordance with these regulations, Ternium s subsidiary in Venezuela, Sidor, has registered its external indebtedness and trade account payables. Any modification to the registered use of proceeds at CADIVI will require additional approval. If Sidor fails to obtain any required approvals or to register any debt under these regulations, CADIVI could impose penalties which could negatively affect its business.

In addition to the foregoing approval, Ternium s subsidiaries in Venezuela must obtain from CADIVI a separate approval for the purchase from the Central Bank of foreign currency necessary to make payments under their registered indebtedness. These approvals may only be obtained at or around the time each payment becomes due under such indebtedness. Pursuant to the current regulations, CADIVI s approval for the purchase or sale of foreign currency from the Central Bank is subject to the availability of such foreign currency at the time of such request, and any foreign currency obtained may only be utilized for the purposes previously approved by CADIVI. If CADIVI fails to issue such approvals with respect to amounts due under the indebtedness or if one of Ternium s subsidiaries in Venezuela fails to obtain such approval prior to the dates on which such amounts are due and payable, it may not be able to pay its debt under the agreed conditions. Moreover, if timely payments in respect of the indebtedness cannot be made due to delays in obtaining the CADIVI approvals, certain of Sidor s creditors will have the right to accelerate its indebtedness. A delay in payments made to suppliers could also result in requests for additional payment guarantees from Sidor or other assurances of payment, or could otherwise adversely affect Sidor s commercial relationship with suppliers and affect its business opportunities.

Furthermore, in the past, Sidor, like other Venezuelan companies, made sales denominated in bolívares to customers located in neighboring countries of Venezuela. These sales were made in accordance with the terms of sale agreed by the parties. However, export sales in bolívares were afterwards prohibited by CADIVI and a review process was opened for past sales. CADIVI could penalize Sidor for these past exports.

Mexico

Ternium has significant manufacturing operations and assets located in Mexico and a significant portion of its sales are made in Mexico. Ternium s main revenues derived from its Mexican operations, therefore, are indirectly related to market conditions in Mexico and to changes in its GDP and per capita disposable income. Ternium s business could be materially and adversely affected by economic, political and regulatory developments in Mexico.

Economic conditions and government policies in Mexico could negatively impact Ternium s business and results of operation.

In the past, Mexico has experienced several periods of slow or negative economic growth, high inflation, high interest rates, currency devaluation and other economic problems. Furthermore, the Mexican national economy tends to reflect changes in the economic environment in the United States. If problems such as deterioration in Mexico s economic conditions, social instability, political unrest, reduction in government spending or other adverse social developments reemerge in the future, they could lead to increased volatility in the foreign exchange and financial markets, and, depending on their severity and duration, could adversely affect the business, results of operations, financial condition, liquidity or prospects of Ternium. For example, adverse economic conditions in Mexico could result in higher interest rates accompanied by reduced opportunities for refunding or refinancing, foreign exchange losses associated with dollar-denominated debt, increased raw materials and operating costs, reduced domestic consumption of Ternium s products, decreased operating results and delays in capital expenditures dependent on U.S. dollar purchases of equipment. Severe devaluation of the Mexican peso may also result in disruption of the international foreign exchange markets, hindering Ternium s ability to convert Mexican pesos into U.S. dollars and other currencies for the purpose of making purchases of raw materials or equipment.

Political conditions in Mexico could materially and adversely affect Mexican economic policy and, in turn, Ternium s financial condition and results of operations.

The Mexican political environment is in a period of change, and political uncertainty could adversely affect economic conditions in Mexico or Ternium s financial condition and results of operations. In July 2000, Vicente Fox, a member of the National Action Party (*Partido Acción Nacional*, or PAN), the oldest opposition party in the country, won the presidential election. He took office on December 1, 2000, ending 71 years of rule by the Institutional Revolutionary Party (*Partido Revolucionario Institucional*, or PRI). Currently, no party has a working majority in either house of the Mexican Congress, which has made governance and the passage of legislation more difficult. National elections are scheduled to occur in 2006. Following these elections, there could be, as in the past, significant changes in laws, public policies and regulations that could adversely affect Mexico s political and economic situation, and, as a result, could possibly adversely affect Ternium s business, results of operations, financial condition, liquidity or prospects.

Mexican government policies will likely significantly affect the economy and as a result, Ternium s Mexican operations.

Future actions of the Mexican government or the effect in Mexico of international events could adversely affect Ternium s results and financial condition. The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Mexican government actions concerning the economy could have adverse effects on private sector entities in general and on Ternium in particular. Economic plans of the Mexican government in the past have not always fully achieved their objectives. Beginning in 1994, and continuing through 1995, Mexico experienced an economic crisis characterized by exchange rate instability, a devaluation of the Mexican peso, high inflation, high domestic interest rates, economic contraction, a reduction of international capital flows, reduced consumer purchasing power and high unemployment. In response to the economic crisis, the Mexican government implemented broad economic reform programs, which improved economic conditions until growth declined again in 2001, accompanied by increased inflation rates in 2000, 2001 and 2002. It is not possible to determine what effect existing or future government economic plans or their implementation could have on the Mexican economy or on Ternium s financial condition or results of operations.

Certain regulatory risks and litigation risks

International trade actions or regulations and trade-related legal proceedings could adversely affect Ternium s sales, revenues and overall business.

International trade-related legal actions and restrictions pose a constant risk for Ternium s international operations and sales throughout the world. Additionally, increased global trade liberalization, with many countries forming free trade blocs or otherwise reducing restrictions on imported goods, including flat steel products, and persistent excess global steel capacity have increased competition in many markets in which Ternium sells flat steel products. Such risks and increased competition are likely to continue into the foreseeable future.

Increased trade liberalization has reduced certain of Ternium s imported input costs and increased Ternium s access to many foreign markets. However, greater trade liberalization has also increased competition for Ternium in its domestic markets. Consequently, Ternium s domestic market share could be eroded in the face of foreign imports if tariffs and other barriers are reduced or eliminated in Ternium s domestic markets. Ternium s increased exports to foreign markets where import barriers have been reduced may not completely offset domestic market share losses resulting from increased foreign competition.

Countries can impose restrictive import duties and other restrictions on imports under various national trade laws. The timing and nature of countries imposition of trade-related restrictions potentially affecting Ternium s exports are unpredictable. Ternium s international operations are vulnerable to such trade actions or restrictions that surface in any country to which Ternium exports or potentially could export. Trade restrictions on Ternium s exports could adversely affect Ternium s ability to sell products abroad and, as a result, Ternium s profit margins, financial condition and overall business could suffer.

One significant source of trade restrictions results from countries imposition of so-called antidumping and countervailing duties, as well as safeguard measures. These additional duties can be quite high and, as a result, severely limit or altogether impede an exporter s ability to export to important markets such as the United States and Europe. In several of Ternium s major export destinations, such as the United States or Europe,

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safeguard duties and other protective measures have been imposed against a broad array of steel imports in certain periods of excess global production capacity. Furthermore, certain domestic producers have filed antidumping and/or countervailing duty actions against particular steel imports. Some of these actions have led to restrictions on Ternium s exports of certain types of steel products to some steel markets. As domestic producers filing of such actions is largely unpredictable, additional antidumping, countervailing duty or other such import restrictions could be imposed in the future, limiting Ternium s export sales to and potential growth in those markets. See Business Regulation Trade regulations.

Potential environmental, product liability and other claims could create significant liabilities for Ternium that could adversely affect its business, financial condition, results of operations and prospects.

Some of the activities for which the Ternium companies supply products, such as canning for consumption, construction and the automotive industry are subject to inherent risks that could result in death, personal injury, property damage or environmental pollution. Furthermore, Ternium s products are also sold to, and used in, certain safety-critical appliances. Correspondingly, defects in Ternium s products or an inconsistency with the specifications of an order or the requirements of an application, could result in death, personal injury, property damage, environmental pollution, damage to equipment or disruption to a customer s production lines. Actual or claimed defects in the products of the Ternium companies could give rise to claims against Ternium or its subsidiaries for losses and expose it to claims for damages, including significant consequential damages. In addition, the Ternium companies are subject to a wide range of local, provincial and national laws, regulations, permits and decrees relating to the protection of human health and the environment, and remediation or other environmental claims could be asserted against Ternium. The insurance maintained by Ternium may not be adequate or available to protect it in the event of a claim or its coverage could be canceled or otherwise terminated. A major claim for damages related to products sold could have a material adverse effect on Ternium s business, financial condition, results of operations or prospects.

Labor regulations in the countries in which Ternium operates could result in higher labor costs and mandatory allowances for employee participation, resulting in lower net income for Ternium.

Certain legal obligations require Ternium s operating subsidiaries to contribute certain amounts to retirement funds and pension plans and restrict their ability to dismiss employees. The Ternium companies are also subject to other obligations, such as those in Venezuela and Mexico, under which such subsidiaries are required to distribute a percentage of their annual income calculated on a fiscal basis to their employees. In addition, certain Venezuelan courts have recently ruled in favor of an increase in benefits payable to retired employees of other Venezuelan companies. Future regulations or court interpretations established in the countries in which Ternium conducts its operations could increase its costs and reduce net income.

Risks related to our ADSs

There has been no public market for our shares or our ADSs, and an active trading market in our shares or our ADSs may not develop or be sustained.

Prior to this offering, there has been no public market for our shares or our ADSs. Although the underwriters have advised us that, following the completion of the offering, they intend to make a market in the ADSs, an active trading market may not develop or be sustained after this offering. While we have applied to list our ADSs on the NYSE, third parties may not find our ADSs to be attractive and other firms may not be interested in making a market in the ADSs. Also, if you purchase ADSs in this offering, you will pay a price that was not established in public trading markets. The initial public offering price of our ADSs will be determined through negotiation between us and the representatives of the underwriters and thus may not be indicative of the market price for our ADSs after this offering. Consequently, you may not be able to resell your ADSs above the initial public offering price and could suffer a loss on your investment. We cannot predict the prices at which our ADSs will trade. For a further discussion of the factors affecting the determination of the initial public offering price of our ADSs, please see Underwriting.

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The market price for our ADSs could be highly volatile and our ADSs could trade at prices below the initial offering price.

The market price for our ADSs after this offering is likely to fluctuate significantly from time to time in response to factors including:

- fluctuations in the Company s periodic operating results;
- changes in financial estimates, recommendations or projections by securities analysts;
- changes in conditions or trends in the steel production industry;
- changes in the economic performance or market valuations of other companies involved in producing steel;
- the trading price of Siderar s shares on the Buenos Aires Stock Exchange;
- announcements by Ternium s competitors of significant acquisitions, divestitures, strategic partnerships, joint ventures or capital commitments;
- events affecting equities markets in the countries in which Ternium operates;
- legal or regulatory measures affecting Ternium s financial condition;
- departures of management and key personnel; or
- potential litigation or adverse resolution of pending litigation against Ternium or its subsidiaries.

Volatility in the price of our ADSs may be caused by factors outside of our control and may be unrelated or disproportionate to Ternium s operating results. In particular, announcements of potentially adverse developments, such as proposed regulatory changes, new government investigations or the commencement or threat of litigation against Ternium, as well as announced changes in Ternium s business plans or those of its competitors, could adversely affect the trading price of our ADSs, regardless of the likely outcome of those developments or proceedings. Broad market and industry factors could adversely affect the market price of our ADSs, regardless of its actual operating performance. As a result, our ADSs may trade at prices significantly below the initial public offering price.

Furthermore, the trading price of our ADSs could suffer as a result of developments in emerging markets. Although the Company is organized as a Luxembourg corporation, all of its assets and operations are located in Latin America. Financial and securities markets for companies with a substantial portion of their assets and operations in Latin America are, to varying degrees, influenced by economic and market conditions in emerging market countries. Although market conditions are different in each country, investor reaction to developments in one country can have significant effects on the securities of issuers with assets or operations in other emerging markets, including Argentina, Venezuela and Mexico. Prices of Latin American securities were adversely affected by, among other things, the economic crises in Russia and in Brazil in the second half of 1998, by the collapse of the exchange rate regime in Turkey in February 2001 and by the Argentine crisis in 2001.

In deciding whether to purchase, hold or sell our ADSs, you may not be able to access as much information about us as you would in the case of a U.S. company.

There may be less publicly available information about us than is regularly published by or about U.S. issuers. Also, Luxembourg regulations governing the securities of Luxembourg companies may not be as extensive as those in effect in the United States, and Luxembourg law and regulations in respect of corporate governance matters might not be as protective of minority shareholders as state corporation laws in the United States. Furthermore, the accounting standards in accordance with which Ternium s combined consolidated financial statements, as well as the consolidated financial statements of its operating subsidiaries, are prepared differ in certain material aspects from the accounting standards used in the United States.

Holders of our ADSs may encounter difficulties in the exercise of dividend and voting rights.

You may encounter difficulties in the exercise of some of your rights with respect to shares if you hold ADSs rather than shares. If we make a distribution in the form of securities, the depositary is allowed, in its discretion, to sell on your behalf those securities and instead distribute the net proceeds to you. Also, under some circumstances, such as our failure to provide the depositary with voting materials on a timely basis, you may not be able to vote by giving instructions to the depositary.

Holders of our shares and ADSs in the United States may not be able to exercise preemptive rights in certain cases.

Pursuant to Luxembourg corporate law, existing shareholders of the Company are generally entitled to preemptive subscription rights in the event of capital increases and issues of shares against cash contributions. Under the Company s articles of association, the board of directors has been authorized to waive, limit or suppress such preemptive subscription rights until October 26, 2010. From the date its shares are listed on a regulated market, however, the Company may issue shares without preemptive rights only if the newly-issued shares are issued:

- for, within, in conjunction with or related to, an initial public offering of the shares of the Company on one or more regulated markets (in one or more instances);

- for consideration other than cash;

- upon conversion of convertible bonds or other instruments convertible into shares of the Company; provided, however, that the pre-emptive subscription rights of the then existing shareholders shall apply in connection with any issuance of convertible bonds or other instruments convertible into shares of the Company for cash; and

- subject to a certain maximum percentage, as compensation to directors, officers, agents or employees of the Company, its direct or indirect subsidiaries or its affiliates, including without limitation the direct issuance of shares or the issuance of shares upon exercise of options, rights convertible into shares or similar instruments convertible or exchangeable into shares issued or created to provide compensation or incentives to directors, officers, agents or employees of the Company, its direct or indirect subsidiaries or its affiliates.

For further details, see Description of Share Capital.

Furthermore, holders of our shares and ADSs in the United States may, in any event, not be able to exercise any preemptive rights, if granted, for shares unless those shares are registered under the U.S. Securities Act of 1933, as amended (the Securities Act) with respect to those rights or an exemption from registration is available. We intend to evaluate, at the time of any rights offering, the costs and potential liabilities associated with the exercise by holders of shares and ADSs of the preemptive rights for shares, and any other factors we consider appropriate at the time, and then to make a decision as to whether to register additional shares. We may decide not to register any additional share, requiring a sale by the depositary of the holders rights and a distribution of the proceeds thereof. Should the depositary not be permitted or otherwise be unable to sell preemptive rights, the rights may be allowed to lapse with no consideration to be received by the holders of the ADSs.

It may be difficult to obtain or enforce judgments against the Company in U.S. courts or courts outside of the United States.

The Company is a corporation organized under the laws of Luxembourg, and most of its assets are located outside of the United States. Furthermore, most of the Company s directors and officers and some experts named in this prospectus reside outside the United States. As a result, investors may not be able to effect service of process within the United States upon the Company or its directors or officers or some experts or to enforce against the Company or them in U.S. courts judgments predicated upon the civil liability provisions of U.S. federal securities law. There is doubt as to the enforceability in original actions in Luxembourg courts of civil liabilities predicated solely upon U.S. federal securities law, and the enforceability in Luxembourg courts of judgments entered by U.S. courts predicated upon the civil liability provisions of U.S. federal securities law will be subject to compliance with procedural requirements under Luxembourg law, including the condition that the judgment does not violate Luxembourg public policy. See Enforcement of Civil Liabilities.

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FORWARD-LOOKING STATEMENTS

The SEC encourages companies to disclose forward-looking information so that investors can better understand a company s future prospects and make informed investment decisions. This prospectus contains forward-looking statements with respect to certain of our plans and current goals and expectations relating to Ternium s future financial condition and performance.

We use words such as aim, will likely result, will continue, contemplate, seek to, future, objective, goal, should, will pursue, expect, project, intend, plan, believe and words and terms of similar substance to identify forward-looking statements, but they are not the o way we identify such statements. All forward-looking statements are management s present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. In addition to the risks related to Ternium s business discussed under Risk Factors, other factors could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to:

- our ability to successfully implement our business strategy;
- our ability to successfully integrate the operations of Hylsamex into the operations of Ternium;
- uncertainties about the degree of growth in the number of consumers in the markets in which Ternium operates and sells its products;
- the impact of existing and new competitors in the markets in which Ternium competes, including competitors that may effect Ternium s customer mix, profitability and revenue and/or offer less expensive products and services, desirable or innovative products, or have extensive resources or better financing;
- other factors or trends affecting the flat and long steel industry generally and our financial condition in particular;
- general economic and political conditions in the countries in which Ternium operates or other countries which have an impact on Ternium s business activities or investments;
- the monetary and interest rate policies of the countries in which Ternium operates;
- inflation or deflation in the countries in which Ternium operates;
- unanticipated volatility in interest rates;
- foreign exchange rates;
- the performance of the financial markets in the countries in which Ternium operates and globally;

- changes in domestic and foreign laws, regulations and taxes;
- changes in competition and the pricing environments in the countries in which Ternium operates;
- regional or general changes in asset valuations; and
- raw material and energy price increases or difficulties in acquiring raw materials or energy supply cut-offs.

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses that may affect Ternium s financial condition and results of operations could differ materially from those that have been estimated.

For further discussion of the factors that could cause actual results to differ, see the discussion under Risk Factors contained in this prospectus. You should not place undue reliance on the forward-looking statements, which speak only as of the date of this prospectus. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

USE OF PROCEEDS

We estimate that we will receive net proceeds (after deduction of the underwriting discount) from the offering of approximately USD422.8 million (USD486.2 million if the underwriters over-allotment option is exercised in full), at an assumed initial public offering price of USD17.50 (the midpoint of the range of the initial public offering price set forth on the cover page of this prospectus). We intend to use all of the net proceeds we receive from the offering (after the payment of approximately USD6.25 million in fees and expenses) to pay down the indebtedness acquired pursuant to the Ternium Credit Facility. The Ternium Credit Facility was entered into with lenders (including affiliates of Citigroup Global Markets Inc., J.P. Morgan Securities Inc., BNP Paribas Securities Corp., Caylon Securities (USA) Inc. and Bayerische Hypo-und Vereinsbank AG) for an aggregate principal amount of USD1.0 billion in two equal tranches, Tranche A with a maturity of three years and bearing interest at the annual rate of LIBOR plus an applicable margin that ranges from 75 to 400 basis points, and Tranche B with a maturity of five years and bearing interest at the annual rate of LIBOR plus an applicable margin that ranges from 137.5 to 300 basis points. The Ternium Credit Facility was entered into in order to finance the acquisition of Hylsamex. For further details on the Ternium Credit Facility, see Formation of Ternium and Related Party Transactions Hylsamex acquisition financing and Management s Discussion and Analysis of Financial Condition and Results of Operations Ternium Recent events.

DIVIDEND POLICY

We do not have, and have no current plans to establish, a formal dividend policy governing the amount and payment of dividends or other distributions. The amount and payment of dividends will be determined by a simple majority vote at a general shareholders meeting, typically, but not necessarily, based on the recommendation of our board of directors. All shares of our capital stock rank *pari passu* with respect to the payment of dividends.

We will conduct all of our operations through subsidiaries and, accordingly, our main source of cash to pay dividends will be the dividends received from our subsidiaries. See Risk Factors Risks relating to the structure of the Company As a holding company, our ability to pay dividends and obtain financing depends on the results of operations and financial condition of our subsidiaries and could be restricted by legal, contractual or other limitations. These dividend payments will likely depend on our subsidiaries results of operations, financial condition, cash and capital requirements, future growth prospects and other factors deemed relevant by their respective boards of directors, as well as on any applicable legal restrictions. See Risk Factors Risks relating to the countries in which we operate Argentina and Risk Factors Risks relating to the countries in which we operate Venezuela and Description of Share Capital Dividends for a discussion of the current Argentine and Venezuelan restrictions on the payment of dividends.

We and our subsidiaries are subject to certain contractual restrictions on our ability to declare or pay dividends. For example, Sidor is restricted from paying dividends until 2008 under the terms of credit arrangements entered into in connection with its 2003 restructuring. Furthermore, our ability to pay dividends may be substantially restricted until 2010 by the terms of the various credit agreements we and our subsidiaries have entered into in connection with the acquisition of Hylsamex. In particular, we may not declare or pay any dividends prior to payment in full of the amount due on the one-year anniversary of the first borrowing under the Ternium Credit Facility. Moreover, prior to repayment in full of the Tranche A loans under the Ternium Credit Facility, we may only declare or make dividend payments in the presence of excess cash (calculated after principal and interest debt service of the Tranche A loans and the Tranche B loans) in a proportion not to exceed an amount equal to 25% of such excess cash calculation. Following such repayment in full of the Tranche A loans, we may only declare or make dividend payments in the presence of excess cash (calculated after principal and interest debt service of the Tranche B loans) in a proportion not to exceed an amount equal to 75% of such excess cash calculation. We expect to repay the Tranche A loans in full with a portion of the proceeds from the offering. We do not believe that the contractual restrictions on us and our subsidiaries will be material to our ability to declare or pay dividends.

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Pursuant to our articles of association, the board of directors has the power to distribute interim dividends in accordance with applicable Luxembourg law, but dividend payments must be approved by our shareholders at the annual general meeting, subject to the approval of our annual accounts. Dividends may be lawfully declared and paid if our net profits and distributable reserves are sufficient under Luxembourg law.

Under Luxembourg law, at least 5% of our net profits per year must be allocated to the creation of a legal reserve until such reserve has reached an amount equal to 10% of our issued share capital. If the legal reserve later falls below the 10% threshold, at least 5% of net profits again must be allocated toward the reserve. The legal reserve is not available for distribution.

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EXCHANGE RATES

The following tables show, for the periods indicated, information concerning the exchange rate between (1) the U.S. dollar and the Argentine peso, (2) the U.S. dollar and the Venezuelan bolívar and (3) the U.S. dollar and the Mexican peso. The average rates presented in these tables were calculated by using the average of the exchange rates on the last day of each month during the relevant period. The high and low columns represent the highest and lowest close rates for the period. We do not represent that Argentine pesos, Venezuelan bolívares or Mexican pesos could have been or could be converted into U.S. dollars or that U.S. dollars could have been or could be converted into Argentine pesos, Venezuelan bolívares or Mexican pesos at these rates or at any other rates. For more information regarding the currencies used in this prospectus, see Presentation of Financial and Other Information.

Argentine pesos

The following table shows changes in exchange rates between the Argentine peso and the U.S. dollar. The data is expressed in nominal pesos per dollar and is based on information reported by the Argentine Central Bank. The Federal Reserve Bank of New York does not publish a noon buying rate for the Argentine peso. On January 25, 2006, the exchange rate between the Argentine peso and the U.S. dollar expressed in nominal Argentine pesos per dollar was ARP3.0415 = USD1.00. The high and low columns represent the highest and lowest closing rates for the period.

	ARP per USD1.00	
	High	Low
June 2005	ARP 2.8963	ARP 2.8650
July 2005	2.8865	2.8598
August 2005	2.9117	2.8592
September 2005	2.9195	2.9043
October 2005	3.0125	2.9082
November 2005	2.9952	2.9405
December 2005	3.0523	2.9700
January 2006 (through January 25, 2006)	3.0632	3.0305

The following table is based on exchange rates as reported by the Argentine Central Bank between Argentine pesos and U.S. dollars for each of 2000, 2001, 2002, 2003, 2004, 2005 and 2006 (through January 25, 2006).

	High	Low	Average	Period End
2000	ARP 1.0000	ARP 1.0000	ARP 1.0000	ARP 1.0000
2001	1.0000	1.0000	1.0000	1.0000
2002	3.8675	1.0000	3.2658	3.3630
2003	3.3625	2.7485	2.9522	2.9330
2004	3.0718	2.8037	2.9434	2.9738
2005	3.0523	2.8592	2.9232	3.0315
2006 (through January 25, 2006)	3.0632	3.0305	3.0436	3.0415

Currently, the Argentine peso is freely convertible into other currencies (including the U.S. dollar). Beginning on April 1, 1991, under the Convertibility Law, the Argentine Central Bank was required to buy or sell dollars at a rate of one Argentine peso per U.S. dollar. The Convertibility Law was repealed on January 6, 2002. On January 11, 2002, the exchange rate began to float for the first time since April 1991. Heightened demand for scarce U.S. dollars caused the Argentine peso to trade well above the one-to-one parity under the Convertibility Law. As a result, the Argentine Central Bank intervened on several occasions by selling U.S. dollars in order to lower the exchange rate. The Argentine Central Bank s ability to support the Argentine peso by selling U.S. dollars depends, however, on its limited U.S. dollar reserves, and the value of the Argentine peso has continued to fluctuate significantly. In response to high demand for U.S. dollars in Argentina and the scarcity of U.S. dollars to meet that demand, the Argentine government has imposed several temporary freezes, or holidays, on exchange transactions since the abrogation of the Convertibility Law. However, beginning in the second half of 2002, the adjustments in Argentina s balance of payments and the stabilization in the value of the

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peso allowed the Argentine Central Bank to more effectively manage the level of liquidity and, as income from trade increased and the demand for pesos began to recover, it was able to begin replenishing its international reserves.

Starting in 2004, the Argentine Central Bank has, from time to time, purchased U.S. dollars in the open market in order to maintain the value of the U.S. dollar around ARP2.9 per U.S. dollar. Additionally, and in order to restrict the inflows of U.S. dollars and avoid volatility in the U.S. dollar market, on June 10, 2005 the Argentine government issued Decree No. 616/2005 establishing certain restrictions on capital inflows into Argentina. Transfers of foreign currency into Argentina are only permitted upon compliance with the following requirements:

- a nominative non-transferable deposit denominated in U.S. dollars for an amount equal to 30% of the relevant transaction must be made with the resulting proceeds of the relevant transaction. This deposit shall be held for a period of 365 calendar days, shall not bear interest (nor yield any other type of profit) and may not be used as collateral in any credit transaction;
- inflows must remain in Argentina for a minimum term of 365 calendar days to be computed starting on the day they were converted into Argentine pesos in the local exchange market;
- inflows and outflows of foreign currency into the local exchange market, and indebtedness transactions by local residents that may result in a foreign currency denominated payment to non-residents, must be registered with the Argentine Central Bank; and
- the funds involved in the transactions covered by the Decree shall be credited in a local banking account.

Such requirements do not apply to foreign trade and export finance related transactions (provided that pre-export financings are repaid exclusively with export proceeds), foreign direct investment, loans granted by multilateral organizations, financings of production activity, long-term investments overseas or to the primary placement of publicly traded securities listed in one or more exchange markets.

For additional information regarding factors affecting the value of the Argentine peso, see Risk Factors Risks relating to the countries in which we operate Argentina.

The market exchange rate of the Argentine peso against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market, although the Argentine government, acting through the Argentine Central Bank, has a number of means by which it may act to maintain exchange rate stability. See Risk Factors Risks relating to Ternium s business Ternium s results of operations and financial condition could be adversely affected by movements in exchange rates.

Venezuelan bolívares

The noon buying rate in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York was VEB2,144.60 = USD1.00 on January 25, 2006. The following table sets forth, for the period indicated, information concerning the number of Venezuelan bolívares for which one U.S. dollar could be exchanged based on the noon buying rate for cable transfers in Venezuelan bolívares as certified for customs purposes by the Federal Reserve Bank of New York. The high and low columns represent the highest and lowest closing rates for the period.

	VEB per USD1.00	
	High	Low
June 2005	VEB 2,144.60	VEB 2,144.60
July 2005	2,144.60	2,144.60
August 2005	2,144.60	2,144.60
September 2005	2,144.60	2,144.60
October 2005	2,144.60	2,144.60
November 2005	2,145.00	2,144.60
December 2005	2,144.60	2,144.60
January 2006 (through January 25, 2006)	2,145.00	2,144.60

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The following table is based on noon buying rates between Venezuelan bolívares and U.S. dollars for each of 2000, 2001, 2002, 2003, 2004, 2005 and 2006 (through January 25, 2006).

	High	Low	Average	Period End
2000	VEB 700.50	VEB 649.75	VEB 680.53	VEB 700.50
2001	768.00	698.75	723.85	758.00
2002	1,496.00	759.25	1,161.20	1,390.50
2003	1,923.50	1,393.50	1,620.11	1,600.00
2004	1,920.00	1,600.00	1,887.28	1,915.20
2005	2,145.00	1,915.20	2,107.28	2,144.60
2006 (through January 25, 2006)	2,145.00	2,144.60	2,144.65	2,144.60

Beginning in 2001, Venezuela experienced intense political and social turmoil involving groups that oppose and those that support the Chávez administration. Between December 2001 and February 2003, the opposition staged four nationwide work stoppages to protest against the Chávez administration, the latest of which began on December 2, 2002 and ended on February 3, 2003. Since that date, pro-government and opposition forces have taken steps towards resolving the political crisis through the electoral process.

The general work stoppage that began in December 2002, however, resulted in a significant decrease in the amount of foreign currency generated from the sale of oil. This decrease was coupled with an extraordinary increase in the demand for foreign currency, resulting in a significant decline in the level of Venezuela s international reserves and a substantial depreciation of the Venezuelan bolívar against the U.S. dollar during the first few weeks of 2003. From December 2, 2002 until January 23, 2003, on which date Venezuela suspended foreign exchange trading in an attempt to stem the depreciation of the Venezuelan bolívar, the Venezuelan bolívar/U.S. dollar exchange rate depreciated from VEB1,322.75 = USD1.00 to VEB1,853.00 = USD1.00. The substantial reduction of oil exports resulting from the work stoppage also damaged the country s trade balance. These problems disrupted Venezuela s economy and threatened to affect negatively Venezuela s ability to service its external debt. In response to those developments, Venezuela suspended foreign exchange trading on January 23, 2003. On February 5, 2003, the government adopted a series of exchange agreements, decrees and regulations establishing a new exchange control regime.

A commission, referred to as the Comisión de Administración de Divisas, or CADIVI, was created for the administration, control and establishment of the new exchange control regime. CADIVI is composed of five members appointed by the President of Venezuela. Under the new regime, the Ministry of Finance, together with the Central Bank of Venezuela, sets the exchange rate with respect to the U.S. dollar and other currencies and has discretion to modify, at any time, the existing exchange control regime or the free float of the bolívar. The new regime centralizes the purchase and sale of foreign currencies by permitting such sales to be made only through the Central Bank.

On February 5, 2003, the Ministry of Finance and the Venezuelan Central Bank fixed the U.S. dollar exchange rate at VEB1,596 = USD1.00 for purchase operations and VEB1,600 = USD1.00 for sale operations. The exchange rate for the payment of the public foreign debt was set at VEB1,600 = USD1.00 on February 7, 2003.

In February 2004, the Venezuelan government reset the exchange rate to VEB1,917 to USD1.00, a devaluation of 16.5%. In addition, in March 2005, the Venezuelan bolívar suffered a subsequent devaluation of 12%, leaving the exchange rate at VEB2,147 to USD1.00.

For additional information regarding factors affecting the value of the Venezuelan bolívar, see Risk Factors Risks relating to the countries in which we operate Venezuela.

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Mexican pesos

The data provided in the following table is expressed in nominal Mexican pesos per dollar and is based on noon buying rates published by the Federal Reserve Bank of New York for the Mexican peso. On January 25, 2006, the exchange rate between the Mexican peso and the U.S. dollar expressed in nominal Mexican pesos per dollar was MXN10.50 = USD1.00. The high and low columns represent the highest and lowest closing rates for the period.

	MXN per USD1.00	
	High	Low
June 2005	MXN 10.88	MXN 10.76
July 2005	10.80	10.59
August 2005	10.90	10.58
September 2005	10.89	10.68
October 2005	10.94	10.69
November 2005	10.77	10.57
December 2005	10.77	10.41
January 2006 (through January 25, 2006)	10.64	10.50

The following table is based on noon buying rates between Mexican pesos and U.S. dollars for each of 2000, 2001, 2002, 2003, 2004, 2005 and 2006 (through January 25, 2006).

Year ended December 31,	High	Low	Average	Period end
2000	MXN 10.09	MXN 9.18	MXN 9.46	MXN 9.62
2001	9.97	8.95	9.34	9.16
2002	10.43	9.00	9.66	10.43
2003	11.41	10.11	10.80	11.24
2004	11.64	10.81	11.29	11.15
2005	11.41	10.41	10.89	10.63
2006 (through January 25, 2006)	10.64	10.50	10.56	10.50

Between November 1991 and December 1994, the Mexican Central Bank maintained the exchange rate between the U.S. dollar and the Mexican peso within a prescribed range through intervention in the foreign exchange market. The Mexican Central Bank intervened in the foreign exchange market as the exchange rate reached either the minimum or the maximum of the prescribed range in order to reduce day-to-day fluctuations in the exchange rate. On December 20, 1994, the Mexican government modified the prescribed range within which the Mexican peso was permitted to float by increasing the maximum Mexican peso price of the U.S. dollar by MXN0.53, equivalent to an effective devaluation of 15.3%. On December 22, 1994, the Mexican government suspended intervention by the Mexican Central Bank and allowed the Mexican peso to float freely against the U.S. dollar. Factors that contributed to this decision included the size of Mexico s current account deficit, a decline in the Mexican Central Bank s foreign exchange reserves, rising interest rates for other currencies (especially the U.S. dollar) and reduced confidence in the Mexican economy on the part of investors due to political uncertainty associated with events in the state of Chiapas and presidential and congressional elections in that year. The value of the Mexican peso against the U.S. dollar rapidly declined by 42.9% from December 19, 1994 to December 31, 1994. The Mexican government has since allowed the Mexican peso to float freely against the U.S. dollar.

Historically, the Mexican economy has suffered 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 Mexican pesos to U.S. dollars and the terms of NAFTA, to which Mexico is a signatory, generally prohibit exchange controls, the Mexican government could institute a restrictive exchange control policy in the future.

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CAPITALIZATION

The following table sets forth our combined consolidated capitalization as of June 30, 2005. Our capitalization is presented:

On a historical combined consolidated basis,

On an adjusted basis giving effect to the events described below, and

On an adjusted basis giving effect to the offering and the application of the proceeds therefrom as described in Use of Proceeds.

You should read this table in conjunction with the financial statements of Ternium and accompanying notes included elsewhere in this prospectus and with the information provided in Management s Discussion and Analysis of Financial Condition and Results of Operations.

	As of June 30, 2005 (in thousands of U.S. dollars)		
	Historical combined consolidated(1)	As adjusted(2)	As adjusted for the offering(3)
Borrowings			
Banking and financial current	$ 204,216	$ 278,999	$ 278,999
Banking and financial non-current	239,123	2,756,180	1,662,158
Total borrowings	$ 443,339	$ 3,035,179	$ 1,941,157
Minority interest	$ 2,114,883	$ 1,688,512	$ 1,688,512
Capital and reserves			
Capital Stock	1,168,944(4)	1,430,353(5)	2,055,508
Other	274,529	291,073	739,940
Total capital and reserves	$ 1,443,473	$ 1,721,426	$ 2,795,448
Total Capitalization	$ 4,001,695	$ 6,445,117	$ 6,425,117

(1) This column shows selected historical data derived from the audited combined consolidated condensed interim balance sheet of Ternium at June 30, 2005.

(2) This column gives effect to the Credit Facilities and the Subordinated Convertible Loans entered into in connection with the Hylsamex acquisition, the consolidation of Hylsamex s balance sheet, the acquisition of Usiminas s interests in Siderar, Amazonia and Ylopa in exchange for 227,608,254 shares of the Company and the contribution of ISL s interest in Amazonia in exchange for 33,800,735 shares of the Company in accordance with the terms of the Corporate Reorganization Agreement.

(3) This column gives effect to the sale of an aggregate amount of 28,571,428 of the Company s ADSs, the conversion of the Subordinated Convertible Loans into shares of the Company, the consummation of the remaining transactions contemplated in the Corporate Reorganization Agreement and the application of the proceeds therefrom as described in Use of Proceeds. For purposes of this adjustment,

we estimate that we will pay down USD500 million of our outstanding indebtedness under the Ternium Credit Facility, and assume that the gross proceeds from this offering will be USD500 million if the underwriters exercise their over-allotment option in full, at an assumed initial public offering price of USD17.50 (the midpoint of the range of the initial public offering price set forth on the cover page of this prospectus).

(4) 1,168,943,632 shares issued and outstanding, USD1.00 par value, as of September 16, 2005.

(5) 1,396,551,886 shares issued and outstanding, USD1.00 par value, as of December 31, 2005, plus 33,800,735 shares to be issued in connection with the contribution of Amazonia s shares owned by ISL in accordance with the terms of the Corporate Reorganization Agreement.

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DILUTION

The following table sets forth our net book value per share and ADS as of June 30, 2005. Net book value per share and ADS is presented:

- on a historical combined consolidated basis, and
- on a pro forma basis giving effect to the Pro Forma Transactions.

Net book value per share is determined by subtracting total liabilities from the total book value of assets and dividing the difference by the number of issued shares on the date as of which the book value is determined. Net book value per ADS is calculated by multiplying the net book value per share by 10, which is the number of shares represented by each ADS.

	As of June 30, 2005						
		Pro forma adjustments					
	Historical combined consolidated	Acquisition of Hylsamex related debt	Hylsamex consolidation	Usiminas and Sivensa acquisitions	Pro forma as adjusted	Offering and conversion(1)	Pro forma as further adjusted
Net book value attributable to equity holders (thousands)	$ 1,443,473		$ (87,727)	$ 365,680	$ 1,721,426	$ 1,074,022	$ 2,795,448
Number of shares (thousands)	1,168,944	$ 1,168,944	1,168,944	1,430,353	1,430,353	625,155	2,055,508
Diluted equity per share	$ 1.23	$ 1.23	$ 1.16	$ 1.20	$ 1.20	$ 1.72	$ 1.36
Diluted equity per ADS	$ 12.3	$ 12.3	$ 11.6	$ 12.0	$ 12.0	$ 17.2	$ 13.6

(1) For purposes of this adjustment, we have assumed (a) the receipt of gross proceeds of USD500 million from the sale of 28,571,428 of our ADSs (assuming the underwriters exercise their over-allotment option in full) at an assumed initial public offering price of USD17.50 (the midpoint of the range of the initial public offering price set forth on the cover page of this prospectus) and (b) the issuance of 339,440,927 shares upon the conversion of the Subordinated Convertible Loans at an assumed conversion price of USD 1.75 (the midpoint of the range of the initial public offering price set forth on the cover page of this prospectus).

Assuming the Pro Forma Transactions had occurred on June 30, 2005, the following table sets forth the numbers and percentage of total outstanding shares owned after giving effect to the Pro Forma Transactions, the total consideration and percentage of total consideration paid and average price per share immediately after the Pro Forma Transactions.

We have also assumed (a) the receipt of gross proceeds of USD500 million from the sale of 28,571,428 of our ADSs (assuming the underwriters exercise their over-allotment option in full) at an assumed initial public offering price of USD17.50 (the midpoint of the range of the initial public offering price set forth on the cover page of this prospectus) and (b) the issuance of 339,440,927 shares upon the conversion of the Subordinated Convertible Loans at an assumed conversion price of USD 1.75 (the midpoint of the range of the initial public offering price set forth on the cover page of this prospectus).

	Outstanding shares (including in the form of ADSs) issued		Total consideration		Average price per share equivalent	Average price per ADS equivalent
	Number	Percent	Amount (USD)	Percent	(USD)	(USD)
ISL	959,482,775	46.68%				
San Faustin[1]	251,536,924	12.24%	440,189,615	40.24%	1.75	17.50
Tenaris	232,163,013	11.29%	39,728,775	3.63%	1.75	17.50
Usiminas	292,810,101	14.25%	114,103,232	10.43%	1.75	17.50
Sidetur	33,800,735	1.64%				
Public	285,714,280	13.90%	499,999,990	45.70%	1.75	17.50
Total	2,055,507,828	100.00%	1,094,021,612	100.0%	1.75	17.50

(1) San Faustin will hold 251,536,923 shares through III CI or Techintrade Corp. and 1 share directly.

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SELECTED FINANCIAL AND OPERATING DATA

Unaudited pro forma combined consolidated financial information of Ternium

The following unaudited pro forma combined consolidated financial and other data for Ternium should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and Business and Ternium s historical combined consolidated financial statements and Amazonia s and Hylsamex s historical consolidated financial statements and the notes thereto included elsewhere in this prospectus.

The unaudited pro forma combined consolidated financial data of Ternium included in this prospectus have been compiled to show what our financial condition as of June 30, 2005 and our financial results for the year ended December 31, 2004 and for the six-month period ended June 30, 2005 might have been had the following been in place as of the balance sheet date or since January 1, 2004, as the case may be:

- the capitalization in February 2005 of certain debt instruments convertible into shares of Amazonia described elsewhere in this prospectus;
- the acquisition in August 2005 of Hylsamex and the interests of Hylsamex s former controlling shareholder, Alfa, in Amazonia and Ylopa described elsewhere herein;
- the acquisition of Usiminas s interests in Siderar, Amazonia and Ylopa and the completion of the Sivensa Exchange; and
- this offering and the consummation of the transactions contemplated in the Corporate Reorganization Agreement, the related payment of indebtedness and the conversion of the Subordinated Convertible Loans described elsewhere in this prospectus. For this purpose, we estimate that the gross proceeds from this offering will be USD500 million if the underwriters exercise their over-allotment option in full, at an assumed initial public offering price of USD17.50 (the midpoint of the range of the initial public offering price set forth on the cover page of this prospectus).

See Use of Proceeds, Formation of Ternium and Related Party Transactions Corporate reorganization transactions and Hylsamex acquisition financing.

However, the pro forma financial information may not reflect what our actual financial condition and results of operations would have been if the above-mentioned transactions had been in place as of such dates and if we had operated on that basis during such periods. We have compiled our unaudited pro forma combined consolidated financial data in accordance with IFRS and a reconciliation of such information to U.S. GAAP is also being provided. IFRS differs in certain significant respects from U.S. GAAP.

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Ternium

	For the six-month period ended June 30, 2005							
		Pro forma adjustments						
Thousands of U.S. dollars (except for per share data)	I Historical combined consolidated	II Amazonia	III Acquisition of Hylsamex related debt	IV Hylsamex consolidation	V Usiminas and Sivensa acquisitions	VI Pro forma as adjusted	VII Offering and conversion	VIII Pro forma as further adjusted
Summary unaudited pro forma combined consolidated income statement data								
IFRS								
Net sales	$ 1,827,845	$ 260,933		$ 1,178,532		$ 3,267,310		$ 3,267,310
Cost of sales	(905,920)	(111,818)		(850,512)[7]		(1,868,250)		(1,868,250)[12]
Gross profit	$ 921,925	$ 149,115		$ 328,020		$ 1,399,060		$ 1,399,060
Selling, general and administrative expenses	(185,227)	(37,098)		(78,711)		(301,036)		(301,036)
Other operating income (expenses), net	(7,797)	327		1,482		(5,988)		(5,988)
Operating income	$ 728,901	$ 112,344		$ 250,791		$ 1,092,036		$ 1,092,036
Financial expenses, net	(102,723)	(59,044)	$ (3,310)	(14,099)		(179,176)		(179,176)
Interest related to credit facilities			(47,846)[4]			(47,846)	$ 17,626[10]	(30,220)
Subordinated convertible loans interest			(11,299)[5]			(11,299)	11,299[11]	
Excess of fair value of net assets acquired over cost	188,356	(188,356)[1]						
Equity in earnings (losses) of associated companies	19,123	(23,237)				(4,114)		(4,114)
Income (loss) before income tax (expense) benefit	$ 833,657	$ (158,293)	$ (62,455)	$ 236,692		$ 849,601	$ 28,925	$ 878,526
Income tax (expense) benefit	(105,717)	10,297	5,978[6]	(75,339)		(164,781)		(164,781)
Net income (loss) for the period	$ 727,940	$ (147,996)	$ (56,477)	$ 161,353		$ 684,820	$ 28,925	$ 713,745
Attributable to:								
Equity holders of the Company	$ 477,609	$ (210,316)	$ (51,010)	$ 185,230	$ 70,334	$ 471,847	$ 28,925	$ 500,772
Minority interest	250,331	62,320	(5,467)	(23,877)	(70,334)	212,973		212,973
	$ 727,940	$ (147,996)	$ (56,477)	$ 161,353		$ 684,820	$ 28,925	$ 713,745
Number of shares (thousands)	1,168,944				261,409	1,430,353	625,155	2,055,508
Combined earnings per share	$ 0.41					$ 0.33	$ 0.05	$ 0.24

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Thousands of U.S. dollars (except for per share data)	For the six-month period ended June 30, 2005							
		Pro forma adjustments						
	I Historical combined consolidated	II Amazonia	III Acquisition of Hylsamex related debt	IV Hylsamex consolidation	V Usiminas and Sivensa acquisitions	VI Pro forma as adjusted	VII Offering and conversion	VIII Pro forma as further adjusted
U.S. GAAP								
Net income attributable to equity holders of the Company under IFRS	$ 477,609	$ (210,316)	$ (51,010)	$ 185,230	$ 70,334	$ 471,847	$ 28,925	$ 500,772
Capitalization of interest cost PP&E	(22)(a)					(22)		(22)
Change in fair value of financial assets through profit and loss	50,819(b)					50,819		50,819
Troubled debt restructuring	5,212(c)					5,212		5,212
Capitalization of interest cost intangible assets	(155)(a)					(155)		(155)
Inventory valuation	(2,265)(d)					(2,265)		(2,265)
Accounting for pension plans	(846)(e)					(846)		(846)
Valuation of fixed assets PP&E	64,149(f)					64,149		64,149
Excess of fair value of net assets acquired over cost	(188,356)(g)	188,356(2)						
Excess of fair value of net assets acquired over cost depreciation expense	10,105					10,105		10,105
Intangible assets and other assets	(415)(h)					(415)		(415)
Deferred income tax	(25,028)(i)					(25,028)		(25,028)
Minority interest	(84,956)(j)	32,411(3)		3,555(8)	7,264(9)	(41,726)		(41,726)
Net income (loss) under U.S. GAAP	$ 305,851	$ 10,451	$ (51,010)	$ 188,785	$ 77,598	$ 531,675	$ 28,925	$ 560,600
Combined earnings per share	$ 0.26					$ 0.37	$ 0.05	$ 0.27

Notes:

Column I

Column I shows the historical combined consolidated data of Ternium derived from our audited combined consolidated condensed interim financial statements for the six-month period ended June 30, 2005, which already reflects the consolidation of Amazonia.

The following is a summary of significant differences between International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles in the United States (U.S. GAAP):

(a) Capitalization of interest cost

Under IFRS, the Company follows the guidance set forth by International Accounting Standard No. 23 Borrowing Costs (IAS No. 23), which states that interest cost should be recognized as an expense in the period in which it is incurred. IAS No. 23 provides for an allowed alternative treatment under which interest cost that is directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. In case the allowed alternative treatment is applied, the amount of interest cost eligible for capitalization should be determined in accordance with IAS No. 23. However, for IFRS purposes, the Company elected to follow the general guidance contained in IAS No. 23 and interest cost has been expensed as incurred.

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Under U.S. GAAP, the Company applies the provisions of Statement of Financial Accounting Standards No. 34, Capitalization of Interest Cost (SFAS No. 34), which requires interest capitalization on assets which require a period of time to be prepared for their intended use. In accordance with these requirements interest was capitalized during the years ended December 31, 2004 and 2003. The net U.S. GAAP adjustment also includes amortization of the interest capitalized.

(b) Changes in fair value of financial assets through profit and loss

The Company has certain investments in trust funds. Under IFRS, the Company is carrying these investments at fair value through profit or loss with unrealized gains and losses, if any, included in the statement of income.

Under U.S. GAAP, the Company is carrying these investments at market value with material unrealized gains and losses, if any, included in other comprehensive income in accordance with Statement of Financial Accounting Standards No. 115 Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115). SFAS No. 115 also states that for such investments an enterprise shall determine whether a decline in fair value below the amortized cost basis is other than temporary. In such event, accumulated unrealized losses included in other comprehensive income shall be reclassified into the statement of income.

(c) Troubled debt restructuring

In June 2003, Amazonia and Sidor concluded the restructuring of their financial indebtedness. Under IFRS, each company accounted for their debt restructuring process in accordance with the guidelines set forth by IAS No. 39 which states that a substantial modification of the terms of an existing debt instrument (whether or not due to the financial difficulty of the debtor) should be accounted for as an extinguishment of the old debt. For purposes of IAS No. 39, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original debt instrument. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred are an adjustment to the carrying amount of the liability and are amortized over the remaining term of the modified loan. As the terms of Sidor s new debt were deemed to be substantially different (as this term is defined by IAS No. 39), Sidor recorded a USD59.5 million gain on restructuring in fiscal 2003.

Under U.S. GAAP, Sidor followed the provisions contained in Statement of Financial Accounting Standards No. 15 Accounting by Debtors and Creditors for Troubled Debt Restructurings (SFAS 15) which states that in the case of a troubled debt restructuring (as this term is defined by SFAS 15) involving a cash payment and a modification of terms, a debtor shall reduce the carrying amount of the payable by the total fair value of the assets transferred and no gain on restructuring of payables shall be recognized unless the remaining carrying amount of the payable exceeds the total future cash payments (including amounts contingently payable) specified by the terms of the debt remaining unsettled after the restructuring. Future interest expense, if any, shall be determined by applying the interest rate that equates the present value of the future cash payments specified by the new terms (excluding amounts contingently payable) with the carrying amount of the payable. Based on the above, no gain on restructuring has been recorded by Sidor under U.S. GAAP.

(d) Inventory valuation

Under both IFRS and U.S. GAAP, the Company values inventory at the lower of cost or net realizable value. Nevertheless, under IFRS, Venezuela was considered a hyperinflationary country through December 31, 2002, while, under U.S. GAAP, Venezuela ceased being hyperinflationary as of January 1, 2002. Accordingly, for IFRS purposes, the historical cost of inventories has been adjusted to reflect the effects of inflation up to December 31, 2002, whereas under U.S. GAAP, no inflation adjustment has been recorded.

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In addition, the outstanding balance of inventories at year-end contains a portion of the depreciation of property, plant and equipment for the year. The value of property, plant and equipment for IFRS purposes has been determined based on a technical revaluation while historical cost has been used under U.S. GAAP. Accordingly, the carrying amount and the annual depreciation charge under IFRS are higher than those determined under U.S. GAAP. Therefore, this U.S. GAAP adjustment reflects the reversal of the excess depreciation of property, plant and equipment capitalized within inventory under IFRS.

(e) Accounting for pension plans

Under IFRS, the Company accounts for benefits granted to its employees in accordance with the provisions contained in International Accounting Standard No. 19 Employee Benefits (IAS No. 19), which requires an enterprise to recognize (i) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and (ii) an expense when the enterprise consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Under U.S. GAAP, the Company follows the guidance set forth by Statement of Financial Accounting Standard No. 87 Employers Accounting for Pensions (SFAS No. 87), which contains provisions substantially consistent with those provided by IAS No. 19. Nevertheless, differences arise as a consequence of the following:

1. Under IFRS Venezuela was considered a hyperinflationary country through December 31, 2002 while under U.S. GAAP Venezuela ceased being hyperinflationary as of January 1, 2002. The effect of such a divergence gave rise to differences in the accounting for employee benefits.

2. Under IFRS, past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period. Under U.S. GAAP, past service costs are recognized over the remaining service lives of active employees.

(f) Valuation of fixed assets property, plant and equipment

Under IFRS, the Company applied the provisions contained in IFRS 1, for the revaluation of property, plant and equipment. Accordingly, a technical revaluation was adopted by the Company as the deemed cost for its property, plant and equipment.

Under U.S. GAAP, no accommodations are given to first-time adopters with respect to estimates of the original value of property, plant and equipment. Accordingly, no revaluations have been made for US GAAP purposes and historical cost has been used by the Company as its basis of accounting for this caption.

(g) Excess of fair value of net assets acquired over cost

On February 3, 2005, Ylopa exercised its option to convert the outstanding balance of the Amazonia convertible debt instrument into newly issued shares of Amazonia. On February 15, 2005, new shares of Amazonia were issued in exchange for the convertible instrument. As a result, Ternium s indirect participation in Amazonia increased from 31.03% to 53.47%. Under IFRS, this acquisition has been accounted for following the provisions contained in IFRS 3 Business Combinations (IFRS 3) and, accordingly, assets acquired and liabilities assumed have been valued at fair value. The excess of Ternium s interest in the net fair value of Amazonia s identifiable assets, liabilities and contingent liabilities over the purchase price (amounting to USD188.4 million) has been recognized in income for the period.

Under U.S. GAAP, the Company applied the provisions contained in Statement of Financial Accounting Standard No. 141 Business Combinations (SFAS No. 141), which states that the excess of fair value of acquired net assets over cost shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired assets except (a) financial assets other than investments accounted for by the

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equity method, (b) assets to be disposed of by sale, (c) deferred tax assets, (d) prepaid assets relating to pension or other postretirement benefit plans and (e) any other current assets. Accordingly, under U.S. GAAP, the Company reversed the gain recognized for IFRS purposes.

(h) Valuation of intangible assets and other assets

Under both IFRS and U.S. GAAP, the Company values intangible assets and other assets at historical cost. Nevertheless, under IFRS, Venezuela was considered a hyperinflationary country through December 31, 2002 while, under U.S. GAAP, Venezuela ceased being hyperinflationary as of January 1, 2002. Accordingly, for IFRS purposes, the historical cost of intangible assets and other assets has been adjusted to reflect the effects of inflation up to December 31, 2002, whereas under U.S. GAAP, no inflation adjustment has been recorded.

(i) Deferred income tax

Under U.S. GAAP the Company calculated the effect of the above-mentioned adjustments on deferred income taxes.

(j) Minority interest

This adjustment represents the effect on minority interest of all the foregoing differences between IFRS and U.S. GAAP.

Column II

Column II includes Amazonia s results between January 1, 2005 and February 15, 2005 and eliminates primarily non-recurrent results relating to the capitalization as of February 15, 2005 of certain debt instruments convertible into shares of Amazonia.

(1) In the combined consolidated condensed interim financial statements at June 30, 2005, the excess of Ternium s interest in the net fair value of Amazonia s identifiable assets, liabilities and contingent liabilities over the purchase price (amounting to USD188.4 million) has been recognized in income for the period. For purposes of preparing the pro forma financial statements for the six-month period ended June 30, 2005, this gain has been reversed. This adjustment has no effect on deferred income taxes under IFRS. See note T(11) of Ternium s combined consolidated condensed interim financial statements for the six-month period ended June 30, 2005.

(2) Reflects the reversal of the USD188.4 million adjustment described in note T(11) to Ternium s combined consolidated condensed interim financial statements for the six-month period ended June 30, 2005 included in this prospectus.

(3) This adjustment represents the effect on minority interest of all the foregoing adjustments between IFRS and U.S. GAAP.

Column III

Column III reflects the effect of interest expense under the Credit Facilities and Subordinated Convertible Loans entered into in connection with the Hylsamex acquisition in Ternium s financial results for the six-month period ended June 30, 2005, and the acquisition of Amazonia s and Ylopa s shares held by Alfa.

(4) This adjustment reflects the accrual of interest expense at the effective interest rate under the Credit Facilities.

(5) This adjustment reflects the accrual of interest expense at the effective interest rate under the Subordinated Convertible Loans.

(6) This adjustment reflects the effect on income tax of Siderar s interest expense under the Siderar Credit Facility.

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The following table sets forth the additional interest expense in pro forma adjustments (4) and (5) for the six-month period ended June 30, 2005 and the effect of a 1/8 percent variance in the interest rate.

For the six-month period ended June 30, 2005

	Amount of Debt	Interest Rate(1)	Period	Interest Expense	Effect Variance plus 1/8	Effect Variance less 1/8
Siderar loan	$ 380,000	7.148%(2)	01/01/2005 - 06/30/2005	$ (13,770)	$ (278)	$ 278
Siderar Investments	238,053	2.416%	01/01/2005 - 06/30/2005	(3,310)	(170)	170
Ternium / Tranche A	500,000	6.954%	01/01/2005 - 06/30/2005	(17,626)	(317)	317
Ternium / Tranche B	500,000	6.490%	01/01/2005 - 06/30/2005	(16,450)	(317)	317
Convertible loans	594,022	3.752%	01/01/2005 - 06/30/2005	(11,299)	(376)	376
Total				(62,455)	(1,458)	1,458

(1) The effective rate was calculated using, for the entire period, the variable interest rate plus the applicable margin and including all financial fees. In the case of loans accruing interest at variable rates, the rate in effect for the current period has been used.
(2) Includes withholding tax.

The following table sets forth the decrease in interest expense in pro forma adjustments (10) and (11) for the six-month period ended June 30, 2005 and the amount of debt repaid / capitalized.

For the six-month period ended June 30, 2005

	Amount of Debt	Interest Rate(1)	Period	Interest Expense	Debt Repaid / Capitalized	Reversed Interest Expense
Siderar loan	$ 380,000	7.148%(2)	01/01/2005 - 06/30/2005	$ (13,770)		
Siderar Investments	238,053	2.416%	01/01/2005 - 06/30/2005	(3,310)		
Ternium / Tranche A	500,000	6.954%	01/01/2005 - 06/30/2005	(17,626)	$ (500,000)	$ 17,626
Ternium / Tranche B	500,000	6.490%	01/01/2005 - 06/30/2005	(16,450)		
Convertible loans	594,022	3.752%	01/01/2005 - 06/30/2005	(11,299)	(594,022)	11,299
Total				(62,455)	(1,094,022)	28,925

(1) The effective rate was calculated using, for the entire period, the variable interest rate plus the applicable margin and including all financial fees. In the case of loans accruing interest at variable rates, the rate in effect for the current period has been used.
(2) Includes withholding tax.

Column IV

Column IV shows the consolidation of Hylsamex s results of operations for the six-month period ended June 30, 2005. For these purposes, Hylsamex s results have been reconciled from Mexican GAAP into IFRS. On August 22, 2005, the Company, together with Siderar, acquired a 99.3% direct and indirect interest in Hylsamex. The Company has subsequently been purchasing shares in the open market, subject to applicable law, and its and Siderar s indirect interest in Hylsamex has increased to 99.8%. Also on August 22, 2005, the Company acquired an additional 7.5% interest in Amazonia and 11.1% interest in Ylopa owned by Alfa. These acquisitions were accounted for using the purchase method of accounting.

(7) The depreciation and amortization expense totals USD72.6 million, which includes USD19.9 million of additional depreciation and amortization for fixed and intangible assets. The remaining useful life of the fixed assets is approximately 15 years.

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The following table shows Hylsamex s reconciliation from Mexican GAAP into IFRS and the pro forma adjustments:

In Thousands	Mex GAAP in MXN	Elimination of inflation adjustment	Other IFRS adjustments	IFRS in MXN	IFRS in U.S. dollars(A)	Purchase price allocation adjustments	Hylsamex consolidation
	For the six-month period ended June 30, 2005						
Net sales	MXN 13,206,503	MXN (23,022)		MXN 13,183,481	$ 1,188,579	$ (10,047)(e)	$ 1,178,532
Cost of sales	(9,600,734)	73,317	MXN 84,685(a)	(9,442,732)	(851,326)	814(f)	(850,512)
Gross profit	MXN 3,605,769	MXN 50,295	MXN 84,685	MXN 3,740,749	$ 337,253	$ (9,233)	$ 328,020
Selling, general and administrative expenses	(878,985)	5,943		(873,042)	(78,711)		(78,711)
Other operating income (expenses), net	16,445	(2)		16,443	1,482		1,482
Operating income	MXN 2,743,229	MXN 56,236	MXN 84,685	MXN 2,884,150	$ 260,024	$ (9,233)	$ 250,791
Financial expenses, net	(139,629)	(34,804)	18,045(b)	(156,388)	(14,099)		(14,099)
Equity in losses of associated companies	253,057	(51)	99,981(c)	352,987	31,824	(31,824)(g)	
Income (loss) before income tax (expense) benefit	MXN 2,856,657	MXN 21,381	MXN 202,711	MXN 3,080,749	$ 277,749	$ (41,057)	$ 236,692
Income tax (expense) benefit	(807,916)	(55,830)	(9,762)(d)	(873,508)	(78,753)	3,414(h)	(75,339)
Net income (loss) for the period	MXN 2,048,741	MXN (34,449)	MXN 192,949	MXN 2,207,241	$ 198,996	$ (37,643)	$ 161,353
Attributable to:							
Equity holders of the Company	MXN 1,996,578	MXN (34,449)	MXN 192,949	MXN 2,155,078	$ 194,293	$ (9,063)	$ 185,230
Minority interest	52,163			52,163	4,703	(28,580)	(23,877)
	MXN 2,048,741	MXN (34,449)	MXN 192,949	MXN 2,207,241	$ 198,996	$ (37,643)	$ 161,353

(A) The amounts were translated into U.S. dollars using an average exchange rate for the period.

The following is a summary of significant differences between Mexican Generally Accepted Accounting Principles (Mexican GAAP) and International Financial Reporting Standards (IFRS):

(a)

Corresponds to the following adjustments: 1) the elimination of preoperating expenses and other expenses that under Mexican GAAP are allowed to be capitalized and amortized over a period of time estimated to generate the income necessary to recover such expenses. Under IFRS, such expenses cannot be capitalized and are expensed as incurred and 2) a gain related to the pension plans.

(b) This adjustment reflects the elimination of debt issuance costs and bank commissions that under Mexican GAAP are capitalized and amortized on a straight line basis over the life of the bonds and the contracts. Under IFRS, these costs are not related to the acquisition.

(c) Corresponds to the adjustment to reflect the equity investee in Amazonia under IFRS.

(d) Under IFRS, the Company calculated the effect of the above-mentioned adjustments on deferred income taxes and on the deferred employees statutory profit sharing expense.

(e) Corresponds to a consolidation adjustment to eliminate Hylsamex s revenues with Sidor.

(f) This adjustment reflects the elimination of revenues cost described in paragraph above, the additional intangible amortization related to Hylsamex s mines and the elimination of the depreciation expense related to the restatement of fixed assets, which contemplates inflation adjustment.

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(g) This represents the elimination of equity in income of Amazonia for consolidation purposes.

(h) This adjustment represents the effect of the above-mentioned adjustments on deferred income taxes and deferred employees statutory profit sharing.

(8) This adjustment reflects the impact of the U.S. GAAP adjustments in the minority interest in Amazonia.

Column V

Column V gives effect to the acquisition of Usiminas s interests in Siderar, Amazonia and Ylopa and the contribution of ISL s interest in Amazonia in exchange for 33,800,735 shares of the Company in accordance with the terms of the Corporate Reorganization Agreement.

(9) Corresponds to the impact of the U.S. GAAP adjustments in the minority interest in Amazonia.

Column VI

Column VI shows the cumulative pro forma effect of the transactions in columns II, III, IV and V.

Column VII

Column VII gives effect to this offering, the partial payment of indebtedness under the Ternium Credit Facility, the conversion of the indebtedness under the Subordinated Convertible Loans into shares of the Company and the consummation of the remaining transactions contemplated in the Corporate Reorganization Agreement.

(10) This adjustment reflects the decrease in interest expense as a result of the partial payment of indebtedness under the Ternium Credit Facility.

(11) This adjustment reflects the decrease in interest expense as a result of the conversion of the indebtedness under the Subordinated Convertible Loans into shares of the Company.

Column VIII

Column VIII shows the cumulative pro-forma effect of the transactions in columns VI and VII.

(12) The total depreciation and amortization expense amounts to USD209.9 million.

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Ternium

Thousands of U.S. dollars (except for per share data)	For the year ended December 31, 2004							
			Pro forma adjustments					
	I Historical combined consolidated	II Amazonia	III Acquisition of Hylsamex related debt	IV Hylsamex consolidation	V Usiminas and Sivensa acquisitions	VI Pro forma as adjusted	VII Offering and conversion	VIII Pro forma as further adjusted
Summary unaudited pro forma combined consolidated income statement data								
IFRS								
Net sales	$ 1,598,925	$ 1,637,962		$ 2,266,123		$ 5,503,010		$ 5,503,010
Cost of sales	(965,004)	(610,792)[1]		(1,559,173)[5]		(3,134,969)		(3,134,969)[10]
Gross profit	$ 633,921	$ 1,027,170		$ 706,950		$ 2,368,041		$ 2,368,041
Selling, general and administrative expenses	(118,952)	(270,967)		(122,703)		(512,622)		(512,622)
Other operating expenses, net	(798)	(18,383)		6,645		(12,536)		(12,536)
Operating income	$ 514,171	$ 737,820		$ 590,892		$ 1,842,883		$ 1,842,883
Financial income (expenses), net	202,289	(500,433)	$ (2,724)	(91,608)		(392,476)		(392,476)
Interest related to credit facilities			(95,694)[2]			(95,694)	$ 35,253[8]	(60,441)
Subordinated convertible loans interest			(22,597)[3]			(22,597)	22,597[9]	
Equity in earnings (losses) of associated companies	209,201	(210,145)				(944)		(944)
Income (loss) before income tax (expense) benefit	$ 925,661	$ 27,242	$ (121,015)	$ 499,284		$ 1,331,172	$ 57,850	$ 1,389,022
Income tax (expense) benefit	(177,486)	11,227	10,592[4]	(160,243)		(315,910)		(315,910)
Net income (loss)	$ 748,175	$ 38,469	$ (110,423)	$ 339,041		$ 1,015,262	$ 57,850	$ 1,073,112
Attributable to:								
Equity holders of the Company	$ 457,339	$ (78,540)	$ (100,735)	$ 333,089	$ 92,484	$ 703,637	$ 57,850	$ 761,487
Minority interest	290,836	117,009	(9,688)	5,952	(92,484)	311,625		311,625
	$ 748,175	$ 38,469	$ (110,423)	$ 339,041		$ 1,015,262	$ 57,850	$ 1,073,112
Number of shares (thousands)	1,168,944				261,409	1,430,353	625,155	2,055,508
Combined earnings (loss) per share	$ 0.39					$ 0.49	$ 0.09	$ 0.37
U.S. GAAP								
Net income attributable to equity holders of the	$ 457,339	$ (78,540)	$ (100,735)	$ 333,089	$ 92,484	$ 703,637	$ 57,850	$ 761,487

Company (under IFRS)				
Capitalization of interest cost PP&E	152[a]	272[a]	424	424
Changes in fair value of financial assets through profit and loss	(1,361)[b]		(1,361)	(1,361)
Capitalization of interest cost Intangible assets	313[a]	429[a]	742	742
Inventory valuation	(1,628)[c]	1,498	(130)	(130)
Accounting for pension plans	(164)[d]	(556)[d]	(720)	(720)

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	For the year ended December 31, 2004							
		Pro forma adjustments						
	I	II	III	IV	V	VI	VII	VIII
Thousands of U.S. dollars (except for per share data)	**Historical combined consolidated**	**Amazonia**	**Acquisition of Hylsamex related debt**	**Hylsamex consolidation**	**Usiminas and Sivensa acquisitions**	**Pro forma as adjusted**	**Offering and conversion**	**Pro forma as further adjusted**
Valuation of fixed assets PP&E	$ 79,493[e]	$ 76,192[e]				$ 155,685		$ 155,685
Equity in investments in associated companies Amazonia	(76,926)[f]	76,926[f]						
Deferred income tax	(27,101)[g]	244,165[g]				217,064		217,064
Accounting for convertible debt		(16,657)[i]				(16,657)		(16,657)
Troubled debt restructuring		8,569[j]				8,569		8,569
Other assets valuation		45				45		45
Minority interest	(5,462)[h]	(233,545)[h]		$ 32,979[6]	$ 41,720[7]	(164,308)		(164,308)
Net income under U.S. GAAP	$ 424,655	$ 78,798	$ (100,735)	$ 366,068	$ 134,204	$ 902,990	$ 57,850	$ 960,840
Combined earnings per share	$ 0.36					$ 0.63	$ 0.09	$ 0.47

Notes:

Column I

Column I shows the historical combined consolidated data of Ternium derived from our audited combined consolidated financial statements for the year ended December 31, 2004, included in this prospectus.

The following is a summary of significant differences between International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles in the United States (U.S. GAAP):

(a) Capitalization of interest cost

Under IFRS, the Company follows the guidance set forth by International Accounting Standard No. 23 Borrowing Costs (IAS No. 23), which states that interest cost should be recognized as an expense in the period in which it is incurred. IAS No. 23 provides for an allowed alternative treatment under which interest cost that is directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. In case the allowed alternative treatment is applied, the amount of interest cost eligible for capitalization should be determined in accordance with IAS No. 23. However, for IFRS purposes, the Company elected to follow the general guidance contained in IAS No. 23 and interest cost has been expensed as incurred.

Under U.S. GAAP, the Company applies the provisions of Statement of Financial Accounting Standards No. 34, Capitalization of Interest Cost (SFAS No. 34), which requires interest capitalization on assets which require a period of time to be prepared for their intended use. In accordance with these requirements interest was capitalized during the years ended December 31, 2004 and 2003. The net U.S. GAAP adjustment also includes amortization of the interest capitalized.

(b) Changes in fair value of financial assets through profit and loss

The Company has certain investments in trust funds. Under IFRS, the Company is carrying these investments at fair value through profit or loss with unrealized gains and losses, if any, included in the statement of income.

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Under U.S. GAAP, the Company is carrying these investments at market value with material unrealized gains and losses, if any, included in other comprehensive income in accordance with Statement of Financial Accounting Standards No. 115 Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115). SFAS No. 115 also states that for such investments an enterprise shall determine whether a decline in fair value below the amortized cost basis is other than temporary. In such event, accumulated unrealized losses included in other comprehensive income shall be reclassified into the statement of income.

(c) Inventory valuation

Under both IFRS and U.S. GAAP, the Company values inventory at the lower of cost or net realizable value. Nevertheless, under IFRS, Venezuela was considered a hyperinflationary country through December 31, 2002, while, under U.S. GAAP, Venezuela ceased being hyperinflationary as of January 1, 2002. Accordingly, for IFRS purposes, the historical cost of inventories has been adjusted to reflect the effects of inflation up to December 31, 2002, whereas under U.S. GAAP, no inflation adjustment has been recorded.

In addition, the outstanding balance of inventories at year-end contains a portion of the depreciation of property, plant and equipment for the year. The value of property, plant and equipment for IFRS purposes has been determined based on a technical revaluation while historical cost has been used under U.S. GAAP. Accordingly, the carrying amount and the annual depreciation charge under IFRS are higher than those determined under U.S. GAAP. Therefore, this U.S. GAAP adjustment reflects the reversal of the excess depreciation of property, plant and equipment capitalized within inventory under IFRS.

(d) Accounting for pension plans

Under IFRS, the Company accounts for benefits granted to its employees in accordance with the provisions contained in International Accounting Standard No. 19 Employee Benefits (IAS No. 19), which requires an enterprise to recognize (i) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and (ii) an expense when the enterprise consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Under U.S. GAAP, the Company follows the guidance set forth by Statement of Financial Accounting Standard No. 87 Employers Accounting for Pensions (SFAS No. 87), which contains provisions substantially consistent with those provided by IAS No. 19. Nevertheless, differences arise as a consequence of the following:

1. Under IFRS, Venezuela was considered a hyperinflationary country through December 31, 2002 while under U.S. GAAP Venezuela ceased being hyperinflationary as of January 1, 2002. The effect of such a divergence gave rise to differences in the accounting for employee benefits.

2. Under IFRS, past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period. Under U.S. GAAP, past service costs are recognized over the remaining service lives of active employees.

(e) Valuation of fixed assets property, plant and equipment

Under IFRS, the Company applied the provisions contained in IFRS 1, for the revaluation of property, plant and equipment. Accordingly, a technical revaluation was adopted by the Company as the deemed cost for its property, plant and equipment.

Under U.S. GAAP, no accommodations are given to first-time adopters with respect to estimates of the original value of property, plant and equipment. Accordingly, no revaluations have been made for U.S. GAAP purposes and historical cost has been used by the Company as its basis of accounting for this caption.

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(f) Equity in investments in associated companies

Under IFRS, investments in companies in which the Company exercises significant influence, but not control, are accounted for by the equity method. For purposes of the U.S. GAAP reconciliation of net income and shareholders equity for the year ended December 31, 2004, the Company included under this line item the effect of the above mentioned differences related to its investment in Amazonia and Sidor, as well as the following:

Ternium recorded an impairment provision on its investment in Amazonia in previous years. During 2004, and due to better conditions in the economic environment of Sidor and based on projections of future cash flows estimated by the Company s management, the impairment provision was reversed under IFRS. Under U.S. GAAP, there is no impairment provision.

(g) Deferred income tax

Under U.S. GAAP, the Company calculated the effect of the above-mentioned adjustments on deferred income taxes.

(h) Minority interest

This adjustment represents the effect on minority interest of all the foregoing differences between IFRS and U.S. GAAP.

(i) Accounting for convertible debt

Under IFRS, the investment in the convertible debt instrument issued by Amazonia is carried at cost. Under U.S. GAAP, this security is valued at its fair value at each balance sheet date with changes in value recorded directly in Other comprehensive income (OCI) as the Company considers this security to be an available-for-sale security as defined by SFAS No. 115. Upon conversion, any amount previously recorded in OCI would be reversed as an adjustment to the cost value of the convertible debt and the net carrying amount would be deemed purchase price paid for the common shares received.

(j) Troubled debt restructuring

In June 2003, Amazonia and Sidor concluded the restructuring of their financial indebtedness. Under IFRS, each company accounted for its debt restructuring process in accordance with the guidelines set forth by IAS No. 39, which states that a substantial modification of the terms of an existing debt instrument (whether or not due to the financial difficulty of the debtor) should be accounted for as an extinguishment of the old debt. For purposes of IAS No. 39, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, is at least 10 percent different from the discounted present value of the remaining cash flows of the original debt instrument. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred are an adjustment to the carrying amount of the liability and are amortized over the remaining term of the modified loan. As the terms of Sidor s new debt were deemed to be substantially different (as this term is defined by IAS No. 39), Sidor recorded a USD59.5 million gain on restructuring in fiscal 2003.

Under U.S. GAAP, Sidor followed the provisions contained in Statement of Financial Accounting Standards No. 15 Accounting by Debtors and Creditors for Troubled Debt Restructurings (SFAS 15), which states that in the case of a troubled debt restructuring (as this term is defined by SFAS 15) involving a cash payment and a modification of terms, a debtor shall reduce the carrying amount of the payable by the total fair value of the assets transferred and no gain on restructuring of payables shall be recognized unless the remaining carrying amount of the payable exceeds the total future cash payments (including amounts contingently payable) specified by the terms of the debt remaining unsettled after the restructuring. Future interest expense, if any, shall be determined by applying the interest rate that equates the present value of the future cash payments specified by the new terms (excluding amounts contingently payable) with the carrying amount of the payable. Based on the above, no gain on restructuring has been recorded by Amazonia under U.S. GAAP.

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Column II

Column II shows the consolidation of Amazonia s results of operation for the year ended December 31, 2004. On February 15, 2005, Amazonia came under the control of San Faustín upon the capitalization of certain debt instruments convertible into shares of Amazonia.

(1) The depreciation and amortization expense totals USD167.2 million, which includes USD49.2 million of additional depreciation for fixed assets. The remaining average useful life of the fixed assets is approximately 14 years.

The following table shows the reconciliation of Amazonia s historical consolidated income statement to the information shown in column II of the unaudited pro forma income statement for the year ended December 31, 2004.

In thousands of U.S. dollars	Amazonia Consolidated Income Statement	Elimination of financial results associated with the convertible debt securities	Elimination of intercompany sales and commissions	Additional depreciation expense and cost of sales	Elimination of Amazonia s equity in earnings recognized in Ternium s consolidated combined financial statements	Column II Amazonia
IFRS						
Net sales	$ 1,914,308		$ (276,346)			$ 1,637,962
Cost of sales	(816,831)		263,595	$ (57,556)		(610,792)
Gross Profit	$ 1,097,477		$ (12,751)	$ (57,556)		$ 1,027,170
Selling, general and administrative expenses	(283,718)		12,751			(270,967)
Other operating expenses, net	(18,383)					(18,383)
Operating income	$ 795,376			$ (57,556)		$ 737,820
Financial (expenses) income, net	$ (522,473)	$ 22,040				$ (500,433)
Equity in losses of associated companies	(1,238)				$ (208,907)	(210,145)
Income (loss) before income tax (expense) benefit	271,665	22,040		(57,556)	(208,907)	27,242
Income tax (expense) benefit	(8,342)			19,569		11,227
Net Income (loss)	$ 263,323	$ 22,040		$ (37,987)	$ (208,907)	$ 38,469
Attributable to:						
Equity holders of the Company	146,324	22,040		(12,130)	(234,774)	(78,540)
Minority interest	116,999			(25,857)	25,867	117,009
	$ 263,323	$ 22,040		$ (37,987)	$ (208,907)	$ 38,469
U.S. GAAP						
	$ 146,324	$ 22,040		$ (12,130)	$ (234,774)	$ (78,540)

Net income attributable to equity holders of the Company (under IFRS)						
Capitalization of interest cost PP&E	272					272
Capitalization of interest cost Intangible assets	429					429
Inventory valuation	1,498					1,498
Accounting for pension plans	(556)					(556)
Valuation of fixed assets PP&E	54,400			21,792		76,192
Equity in investments in associated companies Amazonia					76,926	76,926
Deferred income tax	251,574			(7,409)		244,165
Accounting for convertible debt	(16,657)					(16,657)
Troubled debt restructuring	8,569					8,569
Other assets valuation	45					45
Minority interest	(127,358)				(106,187)	(233,545)
Net income under U.S. GAAP	$ 318,540	$ 22,040		$ 2,253	$ (264,035)	$ 78,798

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Column III

Column III reflects the effect of interest expense under the Credit Facilities and Subordinated Convertible Loans entered into in connection with the Hylsamex acquisition in Ternium s financial results for the year ended December 31, 2004, and the acquisition of Amazonia s and Ylopa s shares held by Alfa.

(2) This adjustment reflects the accrual of interest expense at the effective interest rate under the Credit Facilities.

(3) This adjustment reflects the accrual of interest expense at the effective interest rate under the Subordinated Convertible Loans.

(4) This adjustment reflects the effect on income tax of Siderar s interest expense under the Siderar Credit Facility.

The following table sets forth the additional interest expense in pro forma adjustments (2) and (3) for the year ended December 31, 2004 and the effect of a 1/8 percent variance in the interest rate.

For the year ended December 31, 2004

	Amount of Debt	Interest Rate(1)	Period	Interest Expense	Effect Variance plus 1/8	Effect Variance less 1/8
Siderar loan	$ 380,000	7.148%(2)	01/01/2004 - 12/31/2004	$ (27,540)	$ (554)	$ 554
Siderar Investments	238,053	1.323%	01/01/2004 - 12/31/2004	(2,724)	(257)	257
Ternium / Tranche A	500,000	6.954%	01/01/2004 - 12/31/2004	(35,253)	(634)	634
Ternium / Tranche B	500,000	6.490%	01/01/2004 - 12/31/2004	(32,901)	(634)	634
Convertible loans	594,022	3.752%	01/01/2004 - 12/31/2004	(22,597)	(753)	753
Total				(121,015)	(2,832)	2,832

(1) The effective rate was calculated using, for the entire period, the variable interest rate plus the applicable margin and including all financial fees. In the case of loans accruing interest at variable rates, the rate in effect for the current period has been used.
(2) Includes withholding tax.

The following table sets forth the decrease in interest expense in pro forma adjustments (2) and (3) for the year ended December 30, 2004 and the amount of debt repaid/capitalized.

For the year ended December 31, 2004

	Amount of Debt	Interest Rate(1)	Period	Interest Expense	Debt Repaid / Capitalized	Reversed Interest Expense
Siderar loan	$ 380,000	7.148%(2)	01/01/2004 - 12/31/2004	$ (27,540)		
Siderar Investments	238,053	1.323%	01/01/2004 - 12/31/2004	(2,724)		

Ternium / Tranche A	500,000	6.954%	01/01/2004 - 12/31/2004	(35,253)	$ (500,000)	$ 35,253
Ternium / Tranche B	500,000	6.490%	01/01/2004 - 12/31/2004	(32,901)		
Convertible loans	594,022	3.752%	01/01/2004 - 12/31/2004	(22,597)	(594,022)	22,597
Total				(121,015)	(1,094,022)	57,850

(1) The effective rate was calculated using, for the entire period, the variable interest rate plus the applicable margin and including all financial fees. In the case of loans accruing interest at variable rates, the rate in effect for the current period has been used.

(2) Includes withholding tax.

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Column IV

Column IV shows the consolidation of Hylsamex s results of operations under IFRS for the year ended December 31, 2004. For these purposes, Hylsamex s results have been reconciled from Mexican GAAP into IFRS. On August 22, 2005, the Company, together with Siderar, acquired a 99.3% direct and indirect interest in Hylsamex. The Company has subsequently been purchasing shares in the open market, subject to applicable law, and its and Siderar s indirect interest in Hylsamex has increased to 99.8%. Also on August 22, 2005, the Company acquired an additional 7.5% interest in Amazonia and 11.1% interest in Ylopa owned by Alfa. These acquisitions were accounted for using the purchase method of accounting.

(5) The depreciation and amortization expense totals USD136.4 million, which includes USD32.5 million of additional depreciation and amortization for fixed and intangible assets. The remaining average useful life of the fixed assets is approximately 16 years.

The following table shows Hylsamex s reconciliation from Mexican GAAP into IFRS and the pro forma adjustments:

	For the year ended December 31, 2004						
In thousands	**Mex GAAP in MXN**	**Elimination of inflation adjustment**	**Other IFRS adjustments**	**IFRS in MXN**	**IFRS in U.S. dollars(1)**	**Purchase price allocation adjustments**	**Hylsamex consolidation**
Net sales	MXN 26,759,929	MXN(655,404)		MXN 26,104,525	$ 2,307,276	$ (41,153)(f)	$ 2,266,123
Cost of sales	(17,942,103)	667,843	MXN (212,349)(a)	(17,486,609)	(1,545,573)	(13,600)(g)	(1,559,173)
Gross profit	MXN 8,817,826	MXN 12,439	MXN (212,349)	MXN 8,617,916	$ 761,703	$ (54,753)	$ 706,950
Selling, general and administrative expenses	(1,423,205)	34,950		(1,388,255)	(122,703)		(122,703)
Other operating income (expenses), net	(49,342)	1,988	122,534(b)	75,180	6,645		6,645
Operating income	MXN 7,345,279	MXN 49,377	MXN (89,815)	MXN 7,304,841	$ 645,645	$ (54,753)	$ 590,892
Financial expenses, net	(640,642)	(388,888)	(6,918)(c)	(1,036,448)	(91,608)		(91,608)
Equity in losses of associated companies	780,978	(12,454)	(540,471)(d)	228,053	20,157	(20,157)(h)	
Income (loss) before income tax (expense) benefit	MXN 7,485,615	MXN(351,965)	MXN (637,204)	MXN 6,496,446	$ 574,194	$ (74,910)	$ 499,284
Income tax (expense) benefit	(1,251,024)	(238,116)	(468,419)(e)	(1,957,559)	(173,021)	12,778(i)	(160,243)
Net income (loss) for the year	MXN 6,234,591	MXN(590,081)	MXN(1,105,623)	MXN 4,538,887	$ 401,173	$ (62,132)	$ 339,041
Attributable to:							
Equity holders of the Company	MXN 6,183,737	MXN(590,081)	MXN(1,105,623)	MXN 4,488,033	$ 396,678	$ (63,589)	$ 333,089
Minority interest	50,854			50,854	4,495	1,457	5,952
	MXN 6,234,591	MXN(590,081)	MXN(1,105,623)	MXN 4,538,887	$ 401,173	$ (62,132)	$ 339,041

(1) The amounts were translated into U.S. dollars using an average exchange rate for the year.

The following is a summary of significant differences between Mexican Generally Accepted Accounting Principles (Mexican GAAP) and International Financial Reporting Standards (IFRS):

(a) Corresponds to the following adjustments: 1) the elimination of preoperating expenses and other expenses that under Mexican GAAP are allowed to be capitalized and amortized over a period of time estimated to generate the income necessary to recover such expenses. Under IFRS, such expenses cannot be capitalized and are expensed as incurred, 2) a loss related to the pension plans, 3) the elimination of the depreciation expense related to the restatement of fixed assets of foreign origin, which under Mexican GAAP contemplates currency exchange movements and 4) certain reclassifications.

(b) Corresponds to certain reclassifications.

(c) This adjustment reflects the elimination of debt issuance costs and bank commissions that under Mexican GAAP are capitalized and amortized on a straight line basis over the life of the bonds and the contracts. Under IFRS these costs are not related to the acquisition.

(d) Corresponds to the adjustment to reflect the equity investee in Amazonia under IFRS.

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(e) Under IFRS the Company calculated the effect of the above-mentioned adjustments on deferred income taxes and on the deferred employees statutory profit sharing expense.

(f) Corresponds to a consolidation adjustment to eliminate Hylsamex s revenues with Sidor.

(g) This adjustment reflects the elimination of revenues cost described in paragraph above, the additional intangible amortization related to Hylsamex s mines, the elimination of the depreciation expense related to the restatement of fixed assets, which contemplates inflation and currency exchange movements and a consolidation adjustment to eliminate results.

(h) This represents the elimination of equity in income of Amazonia for consolidation purposes.

(i) This adjustment represents the effect of the above-mentioned adjustments on deferred income taxes and deferred employees statutory profit sharing.

(6) This adjustment represents the decrease in the Amazonia U.S. GAAP minority interest adjustment derived from the indirect acquisition of the 17.68% equity interest in Amazonia through the acquisition of Hylsamex.

Column V

Column V gives effect to the acquisition of Usiminas s interests in Siderar, Amazonia and Ylopa and the contribution of ISL s interest in Amazonia in exchange for 33,800,735 shares of the Company in accordance with the terms of the Corporate Reorganization Agreement.

(7) Represents (i) the decrease in the Amazonia U.S. GAAP minority interest adjustment derived from the acquisition of the additional 16.58% and 3.42% equity interest in Amazonia through the Usiminas and Sivensa acquisition, respectively, and (ii) the decrease in the Siderar U.S. GAAP minority interest adjustment derived from the acquisition of the additional 5.32% equity interest in Siderar through the Usiminas acquisition.

Column VI

Column VI shows the cumulative pro forma effect of the transactions in columns II, III, IV and V.

Column VII

Column VII gives effect to this offering, the partial payment of indebtedness under the Ternium Credit Facility, the conversion of the indebtedness under the Subordinated Convertible Loans into shares of the Company and the consummation of the remaining transactions contemplated in the Corporate Reorganization Agreement.

(8) This adjustment reflects the decrease in interest expense as a result of the partial payment of indebtedness under the Ternium Credit Facility.

(9) This adjustment reflects the decrease in interest expense as a result of the conversion of the indebtedness under the Subordinated Convertible Loans into shares of the Company.

Column VIII

Column VIII shows the cumulative pro forma effect of the transactions in columns VI and VII.

(10) The total depreciation and amortization amounts to USD402.8 million.

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Ternium

(Thousands of U.S. dollars)	I Historical combined consolidated	II Acquisition of Hylsamex related debt	III Hylsamex consolidation	IV Usiminas and Sivensa acquisitions	V Pro forma as adjusted	VI Offering and conversion(*)	VII Pro forma as further adjusted
	At June 30, 2005						
		Pro forma adjustments					
Summary unaudited pro forma combined consolidated balance sheet data							
IFRS							
Non-current assets:							
Property, plant and equipment, net	$ 3,508,133		$ 2,041,277		$ 5,549,410		$ 5,549,410
Goodwill			451,087		451,087		451,087
Intangible assets, net	15,607		226,975		242,582		242,582
Other investments	13,095				13,095		13,095
Investments in associated companies	7,002		427		7,429		7,429
Receivables, net	51,837	$ 25,129(A)			76,966		76,966
Deferred tax assets			5,679		5,679		5,679
Total non-current assets	$ 3,595,674	$ 25,129	$ 2,725,445		$ 6,346,248		$ 6,346,248
Current assets:							
Other assets			$ 1,048		$ 1,048		$ 1,048
Other receivables	$ 216,500		130,578		347,078		347,078
Inventories	590,057		348,610		938,667		938,667
Trade receivables	329,949		308,418		638,367		638,367
Other investments	760		2,323		3,083		3,083
Cash and cash equivalents	586,012	$ 1,948,893	(2,050,512)		484,393	$ (20,000)(1)	464,393
Total current assets	$ 1,723,278	$ 1,948,893	$ (1,259,535)		$ 2,412,636	$ (20,000)	$ 2,392,636
Total assets	$ 5,318,952	$ 1,974,022	$ 1,465,910		$ 8,758,884	$ (20,000)	$ 8,738,884
Shareholder s equity	$ 1,443,473		$ (87,727)	$ 365,680	$ 1,721,426	$ 1,074,022(2)	$ 2,795,448
Minority interest	2,114,883		(60,691)	(365,680)(1)	1,688,512		1,688,512
Non-current liabilities:							
Provisions	46,221				46,221		46,221
Deferred income tax	603,972		272,834		876,806		876,806
Other liabilities	91,615		249,761		341,376		341,376
Borrowings	239,123	1,974,022	543,035		2,756,180	(1,094,022)(3)	1,662,158
Total non-current liabilities	$ 980,931	$ 1,974,022	$ 1,065,630		$ 4,020,583	$ (1,094,022)	$ 2,926,561
Current liabilities:							
Provisions	$ 1,044				$ 1,044		$ 1,044
Current tax liabilities	98,712		$ 36,395		135,107		135,107
Other liabilities	127,883		254,084		381,967		381,967
Trade payables	347,810		183,436		531,246		531,246
Borrowings	204,216		74,783		278,999		278,999

Total current liabilities	$ 779,665		$ 548,698		$ 1,328,363		$ 1,328,363
Total liabilities	$ 1,760,596	$ 1,974,022	$ 1,614,328		$ 5,348,946	$ (1,094,022)	$ 4,254,924
Total equity and liabilities	$ 5,318,952	$ 1,974,022	$ 1,465,910		$ 8,758,884	$ (20,000)	$ 8,738,884
U.S. GAAP							
Shareholders equity under IFRS	$ 1,443,473		$ (87,727)	$ 365,680	$ 1,721,426	$ 1,074,022	$ 2,795,448
Capitalization of interest cost PP&E	8,200(a)				8,200		8,200
Inventory valuation	(11,696)(b)				(11,696)		(11,696)
Capitalization of interest cost intangible assets	513(a)				513		513

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(Thousands of U.S. dollars)	At June 30, 2005 I Historical combined consolidated	Pro forma adjustments II Acquisition of Hylsamex related debt	III Hylsamex consolidation	IV Usiminas and Sivensa acquisitions	V Pro forma as adjusted	VI Offering and conversion(*)	VII Pro forma as further adjusted
Accounting for pension plans	$ 5,436(c)				$ 5,436		$ 5,436
Valuation of fixed assets PP&E	(1,514,897)(d)				(1,514,897)		(1,514,897)
Troubled debt restructuring	(21,659)(e)				(21,659)		(21,659)
Revaluation reserve	(91,696)(f)				(91,696)		(91,696)
Excess of fair value of net assets acquired over cost	(285,388)(g)				(285,388)		(285,388)
Excess of fair value of net assets acquired over cost accumulated depreciation	10,105				10,105		10,105
Intangible assets and other assets	(1,042)(h)				(1,042)		(1,042)
Deferred income tax	629,981(i)				629,981		629,981
Purchase accounting differences			$ 146,054(k)	$ 226,164(m)	372,218		372,218
Minority interest	562,442(j)				562,442		562,442
Total shareholders equity under U.S. GAAP	$ 733,772		$ 58,327	$ 591,844	$ 1,383,943	$ 1,074,022	$ 2,457,965

(*) For purposes of this adjustment, we estimate that the gross proceeds from this offering will be USD500 million if the underwriters exercise their over-allotment option in full, at an assumed initial public offering price of USD17.50 (the midpoint of the range of the initial public offering price set forth on the cover page of this prospectus).

(A) Corresponds to debt issuance costs.

Notes:

Column I

Column I shows the audited combined consolidated condensed interim balance sheet of Ternium at June 30, 2005, which already reflects the consolidation of Amazonia.

The following is a summary of significant differences between International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles in the United States (U.S. GAAP):

(a) Capitalization of interest cost

Under IFRS, the Company follows the guidance set forth by International Accounting Standard No. 23 Borrowing Costs (IAS No. 23), which states that interest cost should be recognized as an expense in the period in which it is incurred. IAS No. 23 provides for an allowed alternative treatment under which interest cost that is directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. In case the allowed alternative treatment is applied, the amount of interest cost eligible for capitalization should be determined in accordance with IAS No. 23. However, for IFRS purposes, the Company elected to follow the general guidance contained in IAS No. 23 and interest cost has been expensed as incurred.

Under U.S. GAAP, the Company applies the provisions of Statement of Financial Accounting Standards No. 34, Capitalization of Interest Cost (SFAS No. 34), which requires interest capitalization on assets which

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require a period of time to be prepared for their intended use. In accordance with these requirements interest was capitalized during the years ended December 31, 2004 and 2003. The net U.S. GAAP adjustment also includes amortization of the interest capitalized.

(b) Inventory valuation

Under both IFRS and U.S. GAAP, the Company values inventory at the lower of cost or net realizable value. Nevertheless, under IFRS, Venezuela was considered a hyperinflationary country through December 31, 2002, while, under U.S. GAAP, Venezuela ceased being hyperinflationary as of January 1, 2002. Accordingly, for IFRS purposes, the historical cost of inventories has been adjusted to reflect the effects of inflation up to December 31, 2002, whereas under U.S. GAAP, no inflation adjustment has been recorded.

In addition, the outstanding balance of inventories at year-end contains a portion of the depreciation of property, plant and equipment for the year. The value of property, plant and equipment for IFRS purposes has been determined based on a technical revaluation, while historical cost has been used under U.S. GAAP. Accordingly, the carrying amount and the annual depreciation charge under IFRS are higher than those determined under U.S. GAAP. Therefore, this U.S. GAAP adjustment reflects the reversal of the excess depreciation of property, plant and equipment capitalized within inventory under IFRS.

(c) Accounting for pension plans

Under IFRS, the Company accounts for benefits granted to its employees in accordance with the provisions contained in International Accounting Standard No. 19 Employee Benefits (IAS No. 19), which requires an enterprise to recognize (i) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and (ii) an expense when the enterprise consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Under US GAAP, the Company follows the guidance set forth by Statement of Financial Accounting Standard No. 87 Employers Accounting for Pensions (SFAS No. 87), which contains provisions substantially consistent with those provided by IAS No. 19. Nevertheless, differences arise as a consequence of the following:

1. Under IFRS, Venezuela was considered a hyperinflationary country through December 31, 2002 while under U.S. GAAP Venezuela ceased being hyperinflationary as of January 1, 2002. The effect of such a divergence gave rise to differences in the accounting for employee benefits.

2. Under IFRS, past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period. Under U.S. GAAP, past service costs are recognized over the remaining service lives of active employees.

(d) Valuation of fixed assets property, plant and equipment

Under IFRS, the Company applied the provisions contained in IFRS 1, for the revaluation of property, plant and equipment. Accordingly, a technical revaluation was adopted by the Company as the deemed cost for its property, plant and equipment.

Under U.S. GAAP, no accommodations are given to first-time adopters with respect to estimates of the original value of property, plant and equipment. Accordingly, no revaluations have been made for U.S. GAAP purposes and historical cost has been used by the Company as its basis of accounting for this caption.

(e) Troubled debt restructuring

In June 2003, Amazonia and Sidor concluded the restructuring of their financial indebtedness. Under IFRS, each company accounted for their debt restructuring process in accordance with the guidelines set forth by IAS

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No. 39, which states that a substantial modification of the terms of an existing debt instrument (whether or not due to the financial difficulty of the debtor) should be accounted for as an extinguishment of the old debt. For purposes of IAS No. 39, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, is at least 10 percent different from the discounted present value of the remaining cash flows of the original debt instrument. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred are an adjustment to the carrying amount of the liability and are amortized over the remaining term of the modified loan. As the terms of Sidor s new debt were deemed to be substantially different (as this term is defined by IAS No. 39), Sidor recorded a USD59.5 million gain on restructuring in fiscal 2003.

Under U.S. GAAP, Sidor followed the provisions contained in Statement of Financial Accounting Standards No. 15 Accounting by Debtors and Creditors for Troubled Debt Restructurings (SFAS 15), which states that in the case of a troubled debt restructuring (as this term is defined by SFAS 15) involving a cash payment and a modification of terms, a debtor shall reduce the carrying amount of the payable by the total fair value of the assets transferred and no gain on restructuring of payables shall be recognized unless the remaining carrying amount of the payable exceeds the total future cash payments (including amounts contingently payable) specified by the terms of the debt remaining unsettled after the restructuring. Future interest expense, if any, shall be determined by applying the interest rate that equates the present value of the future cash payments specified by the new terms (excluding amounts contingently payable) with the carrying amount of the payable. Based on the above, no gain on restructuring has been recorded by Sidor under U.S. GAAP.

(f) Revaluation reserve

On February 15, 2005, the Company increased its equity interest in Amazonia from 31.03% to 53.47%. Under IFRS, this acquisition has been accounted for following the provisions contained in IFRS 3 and, accordingly, the Company recorded in equity (under Revaluation reserve line item) the excess of the fair value of its pre-acquisition interest in Amazonia s net assets over their corresponding carrying amounts.

For U.S. GAAP purposes, the Company applied the provisions contained in SFAS No. 141. Under SFAS No. 141, when a company increases its shareholding interest in an equity investee, no fair value revaluation shall be made on the pre-acquisition equity interest held.

(g) Excess of fair value of net assets acquired over cost

On February 3, 2005, Ylopa exercised its option to convert the outstanding balance of the Amazonia convertible debt instrument into newly issued shares of Amazonia. On February 15, 2005, new shares of Amazonia were issued in exchange for the convertible instrument. As a result, Ternium s indirect participation in Amazonia increased from 31.03% to 53.47%. Under IFRS, this acquisition has been accounted for following the provisions contained in IFRS 3 Business Combinations (IFRS 3) and, accordingly, assets acquired and liabilities assumed have been valued at fair value. The excess of Ternium s interest in the net fair value of Amazonia s identifiable assets, liabilities and contingent liabilities over the purchase price (amounting to USD188.4 million) has been recognized in income for the period.

Under US GAAP, the Company applied the provisions contained in Statement of Financial Accounting Standard No. 141 Business Combinations (SFAS No. 141), which states that the excess of fair value of acquired net assets over cost shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired assets except (a) financial assets other than investments accounted for by the equity method, (b) assets to be disposed of by sale, (c) deferred tax assets, (d) prepaid assets relating to pension or other postretirement benefit plans, and (e) any other current assets. Accordingly, under US GAAP, the Company reversed the gain recognized for IFRS purposes.

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(h) Valuation of intangible assets and other assets

Under both IFRS and US GAAP, the Company values intangible assets and other assets at historical cost. Nevertheless, under IFRS, Venezuela was considered a hyperinflationary country through December 31, 2002 while, under U.S. GAAP, Venezuela ceased being hyperinflationary as of January 1, 2002. Accordingly, for IFRS purposes, the historical cost of intangible assets and other assets has been adjusted to reflect the effects of inflation up to December 31, 2002, whereas under U.S. GAAP, no inflation adjustment has been recorded.

(i) Deferred income tax

Under U.S. GAAP, the Company calculated the effect of the above-mentioned adjustments on deferred income taxes.

(j) Minority interest

This adjustment represents the effect on minority interest of all the foregoing differences between IFRS and U.S. GAAP.

Column II

Column II reflects the effect of the disbursements under the Credit Facilities (USD1,380 million) and the Subordinated Convertible Loan Agreements (USD594 million) entered into in connection with the Hylsamex acquisition, and the acquisition of Amazonia s and Ylopa s shares held by Alfa.

Column III

Column III shows the consolidation of Hylsamex s balance sheet at June 30, 2005. On August 22, 2005, the Company, together with Siderar, acquired a 99.3% direct and indirect interest in Hylsamex. The Company has subsequently been purchasing shares in the open market, subject to applicable law, and its and Siderar s indirect interest in Hylsamex has increased to 99.8%. Also on August 22, 2005, the Company acquired an additional 7.5% interest in Amazonia and 11.1% interest in Ylopa owned by Alfa. For these purposes, Hylsamex s balance sheet has been reconciled from Mexican GAAP into IFRS. These acquisitions were accounted for using the purchase method of accounting. This column includes the effects of acquisition adjustments and the allocation of the purchase price to the respective tangible and intangible assets and liabilities, reflecting their estimated fair values.

(k) This adjustment reflects the increase in Amazonia s equity interest. Under IFRS, this acquisition has been accounted for following the economic entity model, which accounts for changes in the ownership interest in a subsidiary after obtaining control as a transaction with shareholders and consequently changes in minority interest are accounted for at book value. For U.S. GAAP purposes, the Company applied the provisions contained in SFAS No. 141. Under SFAS No. 141, when a company increases its shareholding interest in a subsidiary, net assets acquired are accounted for at fair value.

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The following table shows Hylsamex s reconciliation from Mexican GAAP into IFRS and the pro forma adjustments:

	At June 30, 2005						
In Thousands	**Mex GAAP in MXN**	**Elimination of inflation adjustment**	**Other IFRS adjustments**	**IFRS in MXN**	**IFRS in U.S. dollars[1]**	**Purchase price allocation adjustments**	**Hylsamex consolidation**
Non-current assets:							
Other assets	MXN 339,011		MXN (339,011)[a]				
Property, plant and equipment, net	20,420,846	MXN(2,164,634)	(1,846,232)[b]	MXN16,409,980	$ 1,513,445	$ 527,832[i]	$ 2,041,277
Goodwill						451,087[2]	451,087
Intangible assets, net	1,469,470		(379,759)[c]	1,089,711	100,501	126,474[j]	226,975
Other investments	4,623			4,623	427		427
Investments in associated companies	1,260,351		(440,490)[d]	819,861	75,613	(75,613)[k]	
Receivables, net							
Deferred tax assets	61,581			61,581	5,679		5,679
Total non-current assets	MXN23,555,882	MXN(2,164,634)	MXN(3,005,492)	MXN18,385,756	$ 1,695,665	$ 1,029,780	$ 2,725,445
Current assets:							
Other assets	13,360	(1,977)		11,383	1,048		1,048
Other receivables	1,243,439		172,396[e]	1,415,835	130,578		130,578
Inventories	3,920,137		(140,224)[f]	3,779,913	348,610		348,610
Trade receivables	3,370,487			3,370,487	310,850	(2,432)[l]	308,418
Other investments	25,186			25,186	2,323		2,323
Cash and cash equivalents	1,584,562			1,584,562	146,139	(2,196,651)	(2,050,512)
Total current assets	MXN10,157,171	MXN (1,977)	MXN 32,172	MXN10,187,366	$ 939,548	$ (2,199,083)	$ (1,259,535)
Total assets	MXN33,713,053	MXN(2,166,611)	MXN(2,973,320)	MXN28,573,122	$ 2,635,213	$ (1,169,303)	$ 1,465,910
Shareholders equity	MXN17,472,514	MXN(2,708,101)	MXN(2,005,309)	MXN12,759,104	$ 1,176,735	$ (1,264,459)	$ (87,727)
Minority interest	2,107,173			2,107,173	194,338	(255,029)[m]	(60,691)
Non-current liabilities:							
Provisions							
Deferred income tax	2,522,622	822,561	(2,725,731)[g]	619,452	57,130	215,704[n]	272,834
Other liabilities	1,231,457	(281,071)	1,757,720[h]	2,708,106	249,761		249,761
Borrowings	5,888,015			5,888,015	543,035		543,035
Total non-current liabilities	MXN 9,642,094	MXN 541,490	MXN (968,011)	MXN 9,215,573	$ 849,926	$ 215,704	$ 1,065,630
Current liabilities:							
Provisions							
Current tax liabilities	MXN 394,622	MXN	MXN	MXN 394,622	$ 36,395		$ 36,395
Other liabilities	1,270,467			1,270,467	117,171	$ 136,913[o]	254,084
Trade payables	2,015,331			2,015,331	185,868	(2,432)[l]	183,436
Borrowings	810,852			810,852	74,783		74,783
Total current liabilities	MXN 4,491,272			MXN 4,491,272	$ 414,217	$ 134,481	$ 548,698
Total liabilities	14,133,366	541,490	(968,011)	13,706,846	1,264,143	350,186	1,614,328

Total equity and liabilities	MXN33,713,053	MXN(2,166,611)	MXN(2,973,320)	MXN28,573,122	$ 2,635,213	$ (1,169,303)	$ 1,465,910

(1) The amounts were translated into U.S. dollars using the exchange rate at the end of the period.

(2) Represents the difference between the purchase price paid and the fair value of the net tangible and intangible assets acquired. Intangible assets acquired are included in the line Intangible assets, net. The acquisition of Hylsamex (which followed a competitive bidding process in which the other bidders were not able to match the Company s offer) resulted in significant goodwill as it took place at a moment when steel prices continued to recover after experiencing a downturn in 2003. The acquisition provided the Company with an opportunity to enter the Mexican, U.S. and Canadian steel markets. In addition, Hylsamex is a company with a high level of integration and has access to iron ore used in its Mexican facilities from two proprietary mines. Similarly, the acquisition of additional interests in Sidor and Siderar (from Hylsamex, Hylsamex s former controlling shareholder and Usiminas, as the case may be) also resulted in significant goodwill.

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The following is a summary of significant differences between Mexican Generally Accepted Accounting Principles (Mexican GAAP) and International Financial Reporting Standards (IFRS):

(a) Corresponds to certain adjustments related to the pension plans.

(b) This adjustment reflects the elimination of the exchange difference related to the restatement of fixed assets of foreign origin.

(c) Corresponds to the elimination of preoperating expenses and other expenses that under Mexican GAAP are allowed to be capitalized and amortized over a period of time estimated to generate the income necessary to recover such expenses. Under IFRS, such expenses cannot be capitalized and are expensed as incurred. It also comprises the elimination of debt issuance costs and bank commissions that under Mexican GAAP are capitalized and amortized on a straight-line basis over the life of the bonds and the contracts. Under IFRS, these costs are not related to the acquisition.

(d) Corresponds to the adjustment to reflect the equity investee in Amazonia under IFRS.

(e) This adjustment shows the elimination of certain deferred prepaid expenses that under Mexican GAAP are capitalized and amortized over a period of time and certain reclassifications.

(f) This adjustment shows the valuation inventories at historical cost and certain reclassifications.

(g) This adjustment represents the effect of the above-mentioned adjustments on deferred income taxes.

(h) This adjustment represents the effect of the above-mentioned adjustments on deferred employees statutory profit sharing.

(i) Corresponds to the appraisal revaluation of fixed assets to recognize them at fair market value under IFRS.

(j) Reflects the additional intangible asset that the Company recognized related to the concession rights to exploit the mines. This adjustment was calculated at its fair market value.

(k) This represents the elimination of equity investment in Amazonia for consolidation purposes.

(l) Corresponds to a consolidation adjustment to eliminate Hylsamex s trade receivables and payables with Sidor.

(m) This adjustment shows the impact in the minority interest as a consequence of the acquisition of the additional 7.5% interest in Amazonia, the minority interest in Hylsamex not acquired in the open market and the 11.1% interest in Ylopa owned by Alfa.

(n) This adjustment represents the effect of the above-mentioned adjustments on deferred income taxes.

(o) This adjustment represents the effect of the above-mentioned adjustments on deferred employees statutory profit sharing.

Column IV

Column IV gives effect to the acquisition of Usiminas s interests in Siderar, Amazonia and Ylopa and the contribution of ISL s interest in Amazonia in exchange for 33,800,735 shares of the Company in accordance with the terms of the Corporate Reorganization Agreement.

(l) This adjustment shows the impact of the IFRS adjustments in the minority interest as a consequence of the acquisition of Usiminas s 16.58% and Sivensa s 3.42% interests in Amazonia and of Usiminas s 5.32% interest in Siderar.

(m) Under IFRS the Company accounts for the acquisition of minority interests in subsidiaries at book value, while under U.S. GAAP, the acquisition of a minority interest in a subsidiary is accounted for at fair value. Accordingly, this adjustment represents the difference between the book value and fair value as a consequence of the acquisition of Usiminas s 16.58% and Sivensa s 3.42% interests in Amazonia and of Usiminas s 5.32% interest in Siderar.

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Column V

Column V shows the cumulative pro forma effect of the transactions in columns II, III and IV.

Column VI

Column VI gives effect to this offering, the partial payment of indebtedness under the Ternium Credit Facility, the conversion of the indebtedness under the Subordinated Convertible Loans into shares of the Company and the consummation of the remaining transactions contemplated in the Corporate Reorganization Agreement.

(1) This adjustment gives effect to the payment in cash of the estimated expenses payable by us in connection with this offering.

(2) This adjustment gives effect to the conversion of the indebtedness under the Subordinated Convertible Loans (USD594 million) into shares of the Company and the sale of shares of the Company for USD500 million in cash, net of the estimated expenses payable by us in connection with this offering.

(3) This adjustment gives effect to the partial repayment of indebtedness under the Ternium Credit Facility and the conversion of the indebtedness under the Subordinated Convertible Loans into shares of the Company.

Column VII

Column VII shows the cumulative pro forma effect of the transactions in columns V and VI.

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Ternium

The following selected combined consolidated financial and other data for Ternium should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations Ternium and Business and Ternium s combined consolidated financial statements and the notes thereto included elsewhere in this prospectus, and are qualified in their entirety by reference to the information therein.

The selected combined consolidated financial data of Ternium have been derived from its combined consolidated financial statements, which are prepared in accordance with IFRS for each of the periods and at the dates indicated. The audited combined consolidated financial statements as of December 31, 2003 and 2004 and for the years then ended and the audited combined consolidated condensed interim financial statements of Ternium as of June 30, 2005 and for the six-month period then ended have been audited by Price Waterhouse & Co. SRL, Argentina, an independent registered public accounting firm. The audited combined consolidated financial statements of Ternium as of December 31, 2003 and 2004 and for the years then ended included in this prospectus combine and consolidate the results and other financial data of each of Siderar, Ylopa and Techintrade, and recognize the investment in Amazonia under the equity method, as of each such date and for each of the periods then ended, on the basis that such companies were under the common control of San Faustín as of each such date and for each such period. The effect of this presentation is to show the combined historical results, financial condition and other data of the various companies under the common control of San Faustín as though these companies had been our subsidiaries at the dates and during the periods presented. The audited combined consolidated condensed interim financial statements of Ternium as of June 30, 2005 and for the six-month period then ended included in this prospectus combine and consolidate, in addition to the consolidated results and other financial data of each of Siderar, Ylopa and Techintrade, the results and other financial data of Amazonia, which company came under the control of San Faustín on February 15, 2005. As a result of the consolidation of Amazonia s results and other financial data, Ternium s results and other financial data for the six months ended June 30, 2005 are likely to vary significantly from the results and other financial data for the six months ended June 30, 2004 and for the years ended December 31, 2003 and 2004. Moreover, the results presented for interim periods are not necessarily indicative of results to be expected for the full fiscal years.

IFRS differs in certain significant respects from U.S. GAAP. See notes AP T and 32 and 33 to Ternium s audited combined consolidated financial statements as of December 31, 2003 and 2004 and for the years then ended and note 17 to Ternium s combined consolidated condensed interim financial statements as of June 30, 2004 and 2005 and for the six months then ended included in this prospectus, which provide a description of the principal differences between IFRS and U.S. GAAP as they relate to Ternium s combined consolidated financial statements and a reconciliation to U.S. GAAP of net income and shareholders equity for the periods and at the dates indicated therein. For a discussion of the currencies used in this prospectus, exchange rates and accounting principles affecting the financial information contained in this prospectus, see Exchange Rates and Presentation of Financial and Other Information.

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Ternium

In thousands of U.S. dollars (except for per share data)	For the year ended December 31, 2003	For the year ended December 31, 2004	For the six-month period ended June 30, 2004	For the six-month period ended June 30, 2005
Selected combined consolidated income statement data				
IFRS				
Net sales	$ 1,056,566	$ 1,598,925	$ 670,503	$ 1,827,845
Cost of sales	(671,720)	(965,004)	(381,990)	(905,920)
Gross profit	$ 384,846	$ 633,921	$ 288,513	$ 921,925
General and administrative expenses	(51,557)	(58,428)	(28,666)	(88,553)
Selling expenses	(62,786)	(60,524)	(30,299)	(96,674)
Other operating (expenses) income, net	(5,721)	(798)	65	(7,797)
Operating income	$ 264,782	$ 514,171	$ 229,613	$ 728,901
Other financial (expenses) income, net[(1)]	$ 1,693	$ (1,140)	$ (2,762)	$ (36,609)
(Loss) income from participation account	73,913	203,429	91,469	(66,114)
Financial (expenses) income, net	$ 75,606	$ 202,289	$ 88,707	$ (102,723)
Excess of fair value of net assets acquired over cost				188,356
Equity in (losses) earnings of associated companies	110,250	209,201	104,522	19,123
Income before income tax	450,638	925,661	422,842	833,657
Income tax	(94,087)	(177,486)	(79,081)	(105,717)
Net income for the period/year[(2)]	$ 356,551	$ 748,175	$ 343,761	$ 727,940
Attributable to:				
Equity holders of the Company	218,215	457,339	211,855	477,609
Minority interest	138,336	290,836	131,906	250,331
	$ 356,551	$ 748,175	$ 343,761	$ 727,940
Weighted average number of shares outstanding[(3)]	1,168,943,632	1,168,943,632	1,168,943,632	1,168,943,632
Basic and diluted earning per share for profit attributable to the equity holders of the Company during the period[(3)]	$ 0.19	$ 0.39	$ 0.18	$ 0.41
U.S. GAAP				
Net sales	$ 1,056,566	$ 1,598,925	$ 670,503	$ 2,088,778
Net income[(4)]	264,173	424,655	192,244	305,851

(1) Other financial (expenses) income, net includes the following: interest expense, interest income, net foreign exchange transaction (losses) gains and changes in fair value of derivative instruments, bank commissions and other bank charges and others.

(2) For IFRS purposes, net income for the period is shown gross of the interest of minority shareholders in controlled subsidiaries. The portion of net income attributable to the equity holders of the Company and to minority shareholders is disclosed separately. Under U.S. GAAP, net income for the period is shown net of minority interest.

(3) Ternium s combined earnings per share for each of the periods presented have been calculated based on the assumption that 1,168,943,632 shares were issued and outstanding in each of the periods presented. See Formation of Ternium and Related Party Transactions Corporate reorganization transactions.

(4) We are not presenting net income from continuing operations since it is identical to net income for all periods presented.

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Ternium

In thousands of U.S. dollars	At December 31, 2003	At December 31, 2004	At June 30, 2005
Selected combined consolidated balance sheet data			
IFRS			
Non-current assets	$ 1,610,810	$ 1,728,410	$ 3,595,674
Property, plant and equipment, net	1,275,699	1,244,691	3,508,133
Other non-current assets	335,111	483,719	87,541
Current assets	576,078	918,220	1,723,278
Cash and cash equivalents	129,020	194,875	586,012
Other current assets	447,058	723,345	1,137,266
Total assets	2,186,888	2,646,630	5,318,952
Capital and reserve attributable to equity holders	701,821	1,026,725	1,443,473
Minority interest	550,264	745,126	2,114,883
Non-current liabilities	677,649	359,510	980,931
Borrowings	283,914	1,008	239,123
Deferred income tax	374,907	337,473	603,972
Other non-current liabilities	18,828	21,029	137,836
Current liabilities	257,154	515,269	779,665
Borrowings	80,238	121,998	204,216
Other current liabilities	176,916	393,271	575,449
Total liabilities	934,803	874,779	1,760,596
Total equity and liabilities	2,186,888	2,646,630	5,318,952
U.S. GAAP			
Total assets	1,201,734	2,115,271	3,459,060
Non current liabilities	311,054	44,647	393,182
Total shareholders equity	382,703	954,255	733,772

In thousands of U.S. dollars (except total production and employee data)	For the year ended December 31, 2003	For the year ended December 31, 2004	For the six-month period ended June 30, 2005
Other information (IFRS)			
Depreciation and amortization	$ 85,479	$ 99,192	$ 117,628
Net cash provided by operating activities	346,318	517,565	601,136
Net cash provided by (used in) investment activities	(157,796)	(91,701)	8,793
Net cash used in financing activities	(171,961)	(359,887)	(490,193)
Operating data (unaudited)			
Total production of flat and long steel products (in thousands of tons)	2,471	2,268	2,367
Employees (at period end)	4,795	4,791	10,436

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Amazonia

The following selected consolidated financial and other data for Amazonia should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations Amazonia and Business and Amazonia s consolidated financial statements and the notes thereto included elsewhere in this prospectus, and are qualified in their entirety by reference to the information therein.

The selected consolidated financial data of Amazonia have been derived from its consolidated financial statements, which have been specially prepared for use in this prospectus in accordance with IFRS for each of the periods and at the dates indicated. The audited consolidated financial statements as of December 31, 2003 and 2004 and for the two years in the period ended December 31, 2004 included in this prospectus have been audited by Price Waterhouse & Co. SRL, Argentina, an independent registered public accounting firm. The combined consolidated financial statements of Ternium as of December 31, 2003 and 2004, and for the periods then ended, do not combine or consolidate such financial statements. According to Rule 3-09 of Regulation S-X, we are required to file separate financial statements of significant equity investees, such as Amazonia.

IFRS differs in certain significant respects from U.S. GAAP. See note 37 to Amazonia s consolidated financial statements included in this prospectus, which provides a description of the principal differences between IFRS and U.S. GAAP as they relate to Amazonia s consolidated financial statements and a reconciliation to U.S. GAAP of net income and shareholders equity for the periods and at the dates indicated therein. For a discussion of the currencies used in this prospectus, exchange rates and accounting principles affecting the financial information contained in this prospectus, see Exchange Rates and Presentation of Financial and Other Information.

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Amazonia

In thousands of U.S. dollars	For the year ended December 31, 2003	2004
Selected consolidated income statement data		
IFRS		
Net sales	$ 1,203,638	$ 1,914,308
Cost of sales	(731,254)	(816,831)
Gross profit	$ 472,384	$ 1,097,477
General and administrative expenses	(127,134)	(138,006)
Selling expenses	(116,141)	(145,712)
Other operating (expenses) income, net	(13,827)	(18,383)
Operating income	$ 215,282	$ 795,376
Other financial (expenses) income, net	(292,017)	(178,917)
Loss from participation account	(124,785)	(343,556)
Financial (expenses) income, net	$ (416,802)	$ (522,473)
Gain on restructuring of debt	508,005	
Equity in loss of associated companies		(1,238)
Income before income tax and asset tax (expense) benefit	306,485	271,665
Income tax and asset tax (expense) benefit	73,051	(8,342)
Net income for the year(1)	$ 379,536	$ 263,323
Attributable to:		
Equity holders of the Company	367,080	146,324
Minority interest	12,456	116,999
	$ 379,536	$ 263,323
U.S. GAAP		
Net sales	$ 1,203,638	$ 1,914,308
Net income(1)(2)	320,064	318,540

(1) For IFRS purposes, net income for the period is shown gross of the interest of minority shareholders in controlled subsidiaries. The portion of net income attributable to the equity holders of the Company and to minority shareholders is disclosed separately. Under U.S. GAAP, net income for the period is shown net of minority interest.

(2) We are not presenting net income from continuing operations since it is identical to net income for all periods presented.

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Amazonia

In thousands of U.S. dollars	At December 31, 2003	At December 31, 2004
Selected consolidated balance sheet data		
IFRS		
Non-current assets	$ 2,119,597	$ 1,775,801
Property, plant and equipment, net	2,111,055	1,716,925
Other non-current assets	8,542	58,876
Current assets	519,663	881,875
Cash and cash equivalents	103,912	211,481
Other current assets	415,751	670,394
Total assets	2,639,260	2,657,676
Shareholders equity	723,545	746,157
Minority interest	577,194	595,912
Non-current liabilities	959,664	693,640
Borrowings	799,067	529,312
Deferred income tax	43,951	39,653
Other non-current liabilities	116,646	124,675
Current liabilities	378,857	621,967
Borrowings	84,328	216,713
Other current liabilities	294,529	405,254
Total liabilities	1,338,521	1,315,607
Total equity and liabilities	2,639,260	2,657,676
U.S. GAAP		
Total assets	$ 1,520,597	$ 2,034,245
Non-current liabilities	972,010	714,954
Total shareholders equity	45,206	351,537

In thousands of U.S. dollars (except total production and employee data)	For the year ended December 31, 2003	For the year ended December 31, 2004
Other information (IFRS)		
Depreciation and amortization	$ 143,996	$ 118,101
Net cash flows provided by operating activities	246,290	415,443
Net cash flows used in investment activities	(59,386)	(140,582)
Net cash flows used in financing activities	(148,363)	(149,974)
Operating Data (unaudited)		
Total production of flat and long steel products (in thousands of tons)	2,818	3,057
Employees (at period end)	5,693	5,678

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Hylsamex

The following selected consolidated financial and other data for Hylsamex should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations Hylsamex and Hylsamex s consolidated financial statements and the notes thereto included elsewhere in this prospectus, and are qualified in their entirety by reference to the information therein. The Company acquired Hylsamex subsequently to the periods presented in Hylsamex s consolidated financial statements included herein, and neither San Faustín nor any of its affiliates controlled or managed Hylsamex during the periods presented in such financial statements. Accordingly, except for the restatement into constant Mexican pesos as of June 30, 2005, such financial statements were not prepared by or at the direction of the Company.

The selected consolidated financial data of Hylsamex have been derived from its consolidated financial statements, which are prepared in accordance with Mexican GAAP for each of the periods and at the dates indicated, in each case restated in constant Mexican pesos as of June 30, 2005. The audited consolidated financial statements as of December 31, 2003 and 2004 and for the years ended December 31, 2002, 2003 and 2004 have been audited by PricewaterhouseCoopers SC, Mexico, an independent registered public accounting firm. The results presented for interim periods are not necessarily indicative of the results to be expected for the full fiscal years.

Mexican GAAP differs in certain significant respects from U.S. GAAP. See note 16 to Hylsamex s consolidated financial statements included in this prospectus, which provides a description of the principal differences between Mexican GAAP and U.S. GAAP as they relate to Hylsamex s consolidated financial statements and a reconciliation of net income and shareholders equity to U.S. GAAP for the periods and at the dates indicated therein. For a discussion of currencies used in this prospectus, exchange rates and accounting principles affecting the financial information contained in the prospectus, see Exchange Rates and Presentation of Financial and Other Information.

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Hylsamex

In millions of constant Mexican pesos as of June 30, 2005	For the year ended December 31, 2003	For the year ended December 31, 2004	For the six-month period ended June 30, 2004	For the six-month period ended June 30, 2005
Consolidated Income Statement Data				
Mexican GAAP				
Net sales	MXN 16,948	MXN 26,986	MXN 12,355	MXN 13,207
Cost of sales	(14,940)	(18,093)	(8,468)	(9,601)
Gross margin	MXN 2,008	MXN 8,893	MXN 3,887	MXN 3,606
Operating expenses	(1,270)	(1,435)	(697)	(879)
Operating income	MXN 738	MXN 7,458	MXN 3,190	MXN 2,727
Other income (expense), net	(38)	(50)	(41)	16
Comprehensive financing expenses, net	(1,642)	(646)	(516)	(140)
Equity in net income (losses) of associated company	318	788	302	253
Income (loss) before the following provisions	MXN (624)	MXN 7,550	MXN 2,935	MXN 2,856
Income tax and asset tax	(224)	(902)	(712)	(691)
Employees profit sharing	(18)	(359)	(19)	(117)
Consolidated net income (loss)	MXN (866)	MXN 6,289	MXN 2,204	MXN 2,048
Net income (loss) corresponding to minority interest	18	51	(47)	(52)
Net income (loss) corresponding to majority interest	MXN (884)	MXN 6,238	MXN 2,157	MXN 1,996
U.S. GAAP				
Net sales	MXN 16,948	MXN 26,986	MXN 12,355	MXN 13,207
Net income[(1)]	(1,382)	6,586	2,455	2,255

(1) We are not presenting net income from continuing operations since it is identical to net income for all periods presented.

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Hylsamex

In millions of constant Mexican pesos as of June 30, 2005	At December 31, 2003	At December 31, 2004	At June 30, 2005
Consolidated Balance Sheet Data			
Mexican GAAP			
Current assets	MXN 7,004	MXN 10,243	MXN 10,157
Cash and cash equivalents	1,018	1,425	1,585
Other current assets	5,986	8,818	8,572
Non-current assets	24,684	24,143	23,556
Property, plant and equipment	21,753	20,897	20,421
Other non-current assets	2,931	3,246	3,135
Total assets	31,688	34,386	33,713
Current liabilities	3,819	4,575	4,491
Current portion of long-term debt	776	334	782
Other current liabilities	3,043	4,241	3,709
Non-current liabilities	16,728	11,100	9,642
Long-term debt	12,322	7,220	5,888
Notes payable to Alfa	487		
Deferred income tax	2,530	2,720	2,523
Estimated liabilities for seniority premiums and pension plans	1,389	1,160	1,231
Total liabilities	20,547	15,675	14,133
Total majority interest	9,159	16,650	17,472
Minority interest in subsidiaries	1,982	2,061	2,108
Total liabilities, minority interest and shareholders equity	MXN 31,688	MXN 34,386	MXN 33,713
U.S. GAAP			
Total assets	MXN 30,787	MXN 34,320	MXN 33,464
Non-current liabilities	18,268	12,868	11,335
Shareholders equity	6,718	14,816	15,530

In millions of constant Mexican pesos as of June 30, 2005 *(except for total production and employee data)*	For the year ended December 31, 2003	For the year ended December 31, 2004	For the six-month period ended June 30, 2005
Other information (Mexican GAAP)			
Depreciation and amortization	MXN 1,449	MXN 1,439	MXN 741
Resources provided by operations	421	5,304	2,520
Resources (used in) provided by financing activities	664	(4,390)	(2,004)
Resources used in investing activities	(709)	(505)	(356)
Operating data (unaudited)			
Total production of flat and long steel products (in thousands of tons)	2,511	3,303	1,460
Employees (at period end)	7,219	7,386	7,409

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Ternium

The following discussion and analysis should be read in conjunction with Ternium s combined consolidated financial statements and the related notes thereto included elsewhere in this prospectus. The following discussion is not based on the unaudited pro forma combined consolidated financial information included elsewhere herein. Ternium prepares its combined consolidated financial statements in conformity with IFRS, which differs in certain significant respects from U.S. GAAP. See notes AP T and 32 and 33 to Ternium s audited combined consolidated financial statements as of December 31, 2003 and 2004 and for the years then ended and note 17 to Ternium s combined consolidated condensed interim financial statements as of June 30, 2004 and 2005 and for the six months then ended included in this prospectus, which include a description of the principal differences between IFRS and U.S. GAAP as they relate to Ternium s combined consolidated financial statements and a reconciliation of net income and shareholders equity for the periods and at the dates indicated.

The combined consolidated financial statements of Ternium discussed in this section combine and consolidate the results and other financial data of each of Siderar, Ylopa and Techintrade, and recognize the investment in Amazonia under the equity method, as of each such date and for each of the periods then ended, on the basis that such companies were under the common control of San Faustín as of each such date and for each such period. The effect of this presentation is to show the combined historical results, financial condition and other data of the various companies under the common control of San Faustín as though these companies had been our subsidiaries at the dates and during the periods presented. The combined consolidated condensed interim financial statements of Ternium discussed in this section combine and consolidate, in addition to the consolidated results and other financial data of each of Siderar, Ylopa and Techintrade, the results and other financial data of Amazonia, which company came under the control of San Faustín on February 15, 2005. As a result of the consolidation of Amazonia s results and other financial data, Ternium s results and other financial data for the six months ended June 30, 2005 are likely to vary significantly from the results and other financial data for the six months ended June 30, 2004 and for the years ended December 31, 2003 and 2004.

Accordingly, the following discussion should also be read in conjunction with the consolidated financial statements and discussion and analysis of the financial condition and results of operations of Amazonia included elsewhere in this prospectus, which provide further detail regarding the trends that affected Amazonia s financial condition and results of operation during the periods prior to its consolidation. Moreover, Ternium s combined consolidated financial statements have been prepared as if the Company had been in existence at all dates and during all periods presented and include the accounts of its direct and indirect subsidiaries and its interests and investments in associated companies contributed by the Techint Group in connection with the corporate reorganization. See Formation of Ternium and Related Party Transactions Corporate reorganization transactions. Ternium s combined consolidated financial statements may not reflect what the historical results of operations and financial condition would have been if the corporate reorganization had been in place as of such dates and if we had operated on that basis during such periods, nor are they necessarily indicative of future results.

Overview

Ternium is one of the leading flat and long steel producers in Latin America and a strong competitor in the Americas, with strategic presence in several major steel markets through a broad network of distribution, sales and marketing offices.

Ternium primarily sells its steel products in the regional markets of North, Central and South America, where it can leverage its strategically-located manufacturing facilities to provide specialized products and delivery services to its clients. We believe that Ternium is the leading supplier of flat steel products in Argentina,

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through its subsidiary Siderar, and of flat and long steel products in Venezuela, through Amazonia s subsidiary Sidor. Amazonia became a subsidiary of Ternium on February 15, 2005, after the capitalization of certain debt instruments convertible into shares of Amazonia. Ternium also maintains a strategic presence in several other major steel markets, such as Europe, Asia (mainly China) and Africa, through its broad network of commercial offices, which allows it to reach clients outside its regional markets with a comprehensive range of products and services and place products in case of slower demand in domestic economies, achieve improved effectiveness in the supply of its products and maintain a fluid commercial relationship with its clients by providing continuous services and assistance. In addition, Ternium is a competitive player in the international trade market for flat and long steel products. With the acquisition of Hylsamex, the Mexican steel company acquired in August 2005, we believe that Ternium has become a significant competitor in the Mexican market for flat and long steel products and has enhanced its position as an international steel producer.

Ternium s revenues are affected by general global trends in the steel industry and more specifically by the economic conditions in the countries in which it has manufacturing operations and where its clients are located. Ternium s revenues are also strongly impacted by events that affect the price and availability of raw materials and energy inputs needed for its operations. Furthermore, due to the highly cyclical nature of the steel industry, recent results may not be indicative of future performance, and historical results may not be comparable to future results. Investors should not rely on the results of a single period, particularly a period of peak prices, as an indication of Ternium s annual results or future performance. The variables and trends mentioned below could also affect the results of its investments in steel related companies. See Business Ternium s business strategy.

Ternium s primary source of revenue is the sale of flat and long steel products. Management expects sales of flat and long steel products to continue to be Ternium s primary source of revenue. The global market for such steel products is highly competitive, with the primary competitive factors being price, cost, product quality and customer service. Ternium sells its products in several countries worldwide; however, the majority of such sales are concentrated in the Americas. Specifically, Ternium s largest markets are concentrated in Argentina and Venezuela, where its manufacturing subsidiaries are located. After the acquisition of Hylsamex, Mexico will also become one of its primary markets.

Ternium s results are sensitive to economic activity, steel consumption, prices in the international steel markets and trends in the steel industry. Ternium s results of operations primarily depend on economic conditions in Argentina and Venezuela (where Ternium is a leading manufacturer and supplier), and, to a lesser extent, on economic conditions in international and regional markets such as Mercosur, the Andean Community and NAFTA. Historically, annual steel consumption in the countries where Ternium operates has varied at a rate that is linked to the annual change in each country s gross domestic product and per capita disposable income. Recently, worldwide economic growth and favorable economic developments throughout the Americas resulted in increases in investments and in per capita disposable income, which in turn contributed to increased overall demand for Ternium s products. For example, apparent consumption of finished steel products in Argentina increased by 24.1% during 2004 due to the sustained recovery in the Argentine economy, mainly in the industrial activity, agriculture, construction and automotive sectors.

In addition, steel prices worldwide are determined by global trends of supply and demand. A decline in global steel prices generally leads to a decrease in the prices of Ternium s products and, consequently, to a decline in revenues and profitability. As a result of the general excess capacity in the industry, the world steel industry was subject to substantial downward pricing pressure, which negatively impacted the results of steel companies in the second half of 2000 and the entire year of 2001. International steel prices generally improved beginning in 2003, driven by a strong increase in global demand fostered by economic growth in Asia and an indication of economic recovery in the United States. However, this new period of high prices for steel have encouraged reactivation of and investment in production capacity, and, consequently, oversupply has led to a decline in steel prices beginning in the last quarter of 2004.

Furthermore, there has been a trend in recent years toward steel industry consolidation among Ternium s competitors. For example, Aceralia, Arbed and Usinor merged in February 2002 to create Arcelor, and LNM

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Holdings and Ispat International merged in October 2004 to create Mittal Steel, which subsequently acquired International Steel Group. Consolidation has enabled steel companies to lower their production costs and allowed for more stringent supply-side discipline, including through selective capacity closures. Competition from global steel manufacturers with expanded production capacity such as Mittal Steel and Arcelor, and new market entrants, especially from China, could result in significant price competition, declining margins and reductions in revenue.

Ternium s production costs are generally sensitive to the international prices of raw materials and energy, which reflect supply and demand factors in the global steel industry. Ternium purchases substantial quantities of raw materials, including iron ore, coal, ferroalloys and scrap, for use in the production of its steel products. The availability and price of these inputs vary according to general market and economic conditions and thus are influenced by industry cycles. Since 2003, the recovery of the U.S. economy, an unprecedented demand for steel in China and shortage of shipping capacity resulted in a tight market for raw materials globally. These factors contributed to a strong boost in the prices of raw materials globally. In addition to raw materials, natural gas and electricity are both important components of Ternium s cost structure. In 2003 and 2004, international energy prices rose substantially from the levels that had prevailed in the previous four years, reflecting higher demand for energy inputs. Moreover, an energy crisis, like that affecting Argentina since 2003, or any other disruption in the supply of natural gas or electricity, could force Ternium to acquire energy from alternative sources and could negatively impact Ternium s costs.

Ternium s revenues could be affected by competition from imports and dumping conditions. Ternium s ability to profitably access the export markets varies with the value of the local currencies where it operates, the strength of the economies of the countries to which it exports and overall steel prices. Ternium s ability to sell its products is influenced to varying degrees by trends in global trade for steel products, particularly trends in imports of steel products into its principal markets. During 2001, a period of strong over-supply, several anti-dumping measures were imposed in several countries in which Ternium operates (including Argentina, Venezuela and, since the acquisition of Hylsamex, Mexico) to prevent foreign steel producers from dumping certain steel products in local markets. The recovery in global economic conditions since 2003 and strong Chinese demand reduced the previously strong competition in the international exports markets. As a consequence, several countries reduced or eliminated the protective measures established in prior years. However, a number of other trade restrictions, both in Ternium s local and export markets, remain in place.

Prevailing exchange rates have had an impact on Ternium s results in the past and could impact results again in the future. Ternium s operating subsidiaries have primarily U.S. dollar-denominated revenues (other than revenues from domestic sales in Mexico), while a significant portion of their costs are denominated in local currency in the markets where they operate. As a result, Ternium s income is affected by the fluctuation of each local currency against the U.S. dollar. If the local currency appreciates, Ternium receives less local currency for each U.S. dollar of export revenue and imports become cheaper in local currency terms; these factors tend to place a ceiling on domestic prices. However, if the local currency depreciates, as occurred in Argentina in 2002, local costs become cheaper, while imported raw materials become more expensive. Ternium manages this risk through specific hedges to the extent management considers appropriate. The Argentine peso/U.S. dollar exchange rate was relatively stable throughout 2004, with frequent interventions by the Argentine Central Bank to maintain the exchange rate at a level close to ARP2.90/USD. The Venezuelan bolívar/U.S. dollar exchange rate was set by the Venezuelan government at a rate of VEB1,917/USD in February 2004 and remained unchanged until March 2005, when it was set at VEB2,147/USD. The Mexican peso fluctuated during 2004, averaging MXN11.29/USD. See Exchange Rates.

Ternium s net income in 2004 benefited from a strong gain, including non-recurring items, arising from the improved results of Amazonia s operating subsidiary, Sidor. As discussed elsewhere, we have an indirect investment in Sidor through Amazonia, including through convertible debt held by Ylopa that was subsequently converted into equity of Amazonia in February 2005. Given the adverse trends in steel markets during 2001 and 2002, Sidor experienced significant financial constraints, which led to a default on its debt obligations and a

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subsequent financial restructuring of Sidor s and Amazonia s debt. Ternium s results in 2004 showed the positive impact of this financial restructuring, as well as more favorable market conditions for Sidor s products starting in 2003. In 2004 Ternium recorded a non-recurring gain of USD148.3 million following the reversal of an impairment provision which we recorded on our investment in Amazonia in 2003.

The consolidation of Amazonia s results beginning on February 15, 2005 changes the treatment of compensation payable to participants in Sidor s and Amazonia s 2003 debt restructuring. As discussed elsewhere in this prospectus, in connection with their participation in Sidor s and Amazonia s 2003 debt restructuring, the Venezuelan government and certain partners of Amazonia (through Ylopa) are entitled to receive compensation in the form of cash payments made by Sidor on a quarterly basis pursuant to a participation agreement. Prior to December 31, 2004, the cash payments received by Ternium were part of its financial income. Following the consolidation of Amazonia s results beginning on February 15, 2005, such financial income is eliminated in consolidation; however, the cash amounts paid or payable in the future to the Venezuelan government are part of Ternium s financial expense. See Business Subsidiaries Amazonia, Ylopa and Sidor Amazonia.

Basis of preparation of financial statements

Ternium s operating and financial review and prospects are based on Ternium s combined consolidated financial statements, which have been prepared in accordance with IFRS, including IFRS 1, First-time Adoption of IFRS. The use of IFRS has an impact on Ternium s critical accounting policies and estimates. The application of U.S. GAAP would have affected the determination of combined consolidated net income (loss) for the periods ended December 31, 2003 and 2004 and June 30, 2004 and 2005, and the determination of combined consolidated shareholders equity and combined consolidated financial position as of December 31, 2003 and 2004 and June 30, 2004 and 2005. See notes AP T and 32 and 33 to Ternium s combined consolidated financial statements and note 17 to Ternium s combined consolidated condensed interim financial statements included in this prospectus, which provide a reconciliation to U.S. GAAP of Ternium s net income and shareholders equity.

Associated companies are accounted for under the equity method, which means that their profits net of losses are incorporated into Ternium s combined consolidated profit and loss accounts in proportion to the aggregate voting interest owned by Ternium in the relevant company or entity from time to time. See note 8 to Ternium s combined consolidated financial statements. Ternium s combined consolidated financial statements account for Amazonia, Sidor and Matesi under the equity method of accounting. Certain eliminations of all material intercompany transactions and balances between the Company and the other combined companies and their respective subsidiaries have been made.

Critical accounting estimates

The preparation of Ternium s financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. Management bases its estimates on the historical experience of the Ternium companies and on other assumptions that it believes to be reasonable under the circumstances and evaluates these estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies and estimates reflect the significant judgments and estimates used in the preparation of Ternium s combined consolidated financial statements. We believe that changes in these assumptions and estimates are not likely to have a material impact on our combined consolidated financial statements.

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Useful lives and impairment of property, plant and equipment

As permitted under IFRS 1 First Time Adoption of IFRS, management has elected to use the fair value of its property, plant and equipment as at January 1, 2003 as its deemed cost. In determining useful lives and impairment estimates, management considered, among others, the following factors: age, operating condition and level of usage and maintenance. Management conducted visual inspections for the purpose of (i) determining whether the current conditions of such assets are consistent with normal conditions of assets of similar age; (ii) confirming that the operating conditions and levels of usage of such assets are adequate and consistent with their design; (iii) establishing obsolescence levels and (iv) estimating expectancy, all of which were used in determining useful lives and impairment estimates. Management believes, however, that it is possible that the periods of economic utilization of property, plant and equipment may be longer than the useful lives so determined. In addition, management must periodically test its property, plant and equipment for impairment and, as a result, an impairment in value can be established. Impairments may result from, among other factors, changes in usage level and maintenance capital expenditure policies, obsolescence and external factors (including increases in input prices that would affect the profitability of the selected fixed assets). Any such impairment charges could have a material adverse effect on Ternium s results of operation, financial condition and net worth. Management believes that this accounting policy involves a critical accounting estimate because it is subject to change from period to period as a result of variations in economic conditions and business performance.

Allowances for doubtful accounts

Management makes estimates of the uncollectibility of our accounts receivable. Management analyzes our trade accounts receivable on a regular basis and, when aware of a third party s inability to meet its financial commitments to us, management impairs the amounts due by means of a charge to the allowance for doubtful accounts. Management specifically analyzes accounts receivable and historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts.

In addition, a charge to the allowance for doubtful accounts is recognized when a customer makes a claim in connection with an order that has been invoiced and management estimates that, despite its efforts, we are unlikely to collect the full amount of the invoice.

Allowances for doubtful accounts are adjusted periodically in accordance with the aging of overdue accounts. For this purpose, trade accounts receivable overdue by more than 90 days, and which are not covered by a credit collateral, guarantee or similar surety, are fully provisioned.

Historically, losses due to credit failures, aging of overdue accounts and customer claims have been within expectations and in line with the provisions established. If, however, circumstances were to materially change (*e.g.*, higher than expected defaults), management s estimates of the recoverability of amounts due to us could be materially reduced and our results of operations, financial condition and net worth could be materially and adversely affected.

Loss contingencies

We are subject to various claims, lawsuits and other legal proceedings that arise in the ordinary course of our business, including customer claims in which a third party is seeking reimbursement or indemnity. Our liability with respect to such claims, lawsuits and other legal proceedings cannot be estimated with certainty. Periodically, management reviews the status of each significant matter and assesses potential financial exposure. If the potential loss from the claim or proceeding is considered probable and the amount can be reasonably estimated, liability is recorded. Management estimates the amount of such liability based on the information available and the assumptions and methods it has concluded are appropriate, in accordance with the provisions of IFRS. Accruals for such contingencies reflect a reasonable estimate of the losses to be incurred based on information available, including the relevant litigation or settlement strategy, as of the date of preparation of the

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applicable financial statement. As additional information becomes available, management will reassess its evaluation of the pending claims, lawsuits and other proceedings and revise its estimates.

With respect to the loss contingencies described in our financial statements, we do not expect to incur any losses exceeding the amounts accrued as of December 31, 2004 or June 30, 2005 that would be material relative to our consolidated financial position, results of operation or liquidity as of such dates. However, if reserves prove to be inadequate and we incur a charge to earnings, such charges could have a material adverse effect on our results of operation, financial condition and net worth.

Impairment of long-term investments

Management records an investment impairment charge when it believes an investment has experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of these investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment s current carrying value, thereby possibly requiring an impairment charge in the future.

As a consequence of certain adverse economic and financial factors experienced by Amazonia in connection with its investment in Sidor, as of December 31, 2003, Ternium recorded an allowance of USD148.3 million to account for potential losses in the value of this investment. In 2004, due to improved performance, Ternium (based on estimates prepared by its management) reversed the impairment provision recorded in previous years on its investment in Sidor. For the purpose of conducting impairment tests, the fair value of the subsidiary was determined using the discounted cash flow method, based on financial projections and on a discount rate using market parameters. Therefore, the impairment on our investment in Amazonia was reversed. See note 12 to Ternium s combined consolidated financial statements for further reference regarding our investment in Amazonia.

Allowance for obsolescence of supplies and spare parts and slow-moving inventory

Management makes estimates of the recoverability of our inventories of supplies and spare parts based on the following criteria:

- analysis of the aging of the supplies and spare parts; and
- analysis of the capacity of materials to be used according to their level of preservation and of their potential obsolescence due to technological changes in the mills.

In addition, in our manufacturing facilities an allowance for slow-moving inventory is made in relation to finished goods based on management s analysis of their aging and market conditions. For this purpose, stocks of finished goods held in inventory for more than six months before the applicable reporting date are valued at their estimated recoverable value.

Historically, losses due to obsolescence and scrapping of inventory have been within expectations and the provisions established. If, however, circumstances were to materially change (*e.g.*, significant changes in market conditions or in the technology used in the mills), management s estimates of the recoverability of these inventories could be materially reduced and our results of operations, financial condition and net worth could be materially and adversely affected.

Income taxes

Management calculates present and deferred income taxes according to the tax laws applicable to our subsidiaries in the countries in which such subsidiaries operate. However, certain adjustments necessary to determine the income tax provision are finalized only after the balance sheet is issued. In cases in which the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income

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tax and deferred tax provisions in the period in which such determination is made. When assessing the recoverability of deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. Based on those estimates, management recorded a valuation allowance for a total of USD271.0 million at June 30, 2005. The following table sets forth the composition of deferred tax asset impairment for the periods indicated.

Impairment of deferred tax assets

	For the period ended June 30, 2005
Tax loss carryforwards	$ 223.4
Income tax incentive regime	32.1
Asset tax credits	15.5
Total	$ 271.0

Results of operations

The following table sets forth certain operating information of Ternium as a percentage of net sales for the periods indicated.

	For the year ended December 31,		For the six-month period ended June 30,	
	2003	2004	2004	2005
Percentage of net sales				
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	(63.6)%	(60.4)%	(57.0)%	(49.6)%
Gross profit	36.4%	39.6%	43.0%	50.4%
General and administrative expenses	(4.9)%	(3.7)%	(4.3)%	(4.8)%
Selling expenses	(5.9)%	(3.8)%	(4.5)%	(5.3)%
Other operating (expenses) income, net	(0.5)%	0.0%	0.0%	(0.4)%
Operating income	25.1%	32.2%	34.2%	39.9%
Financial (expense) income, net	7.2%	12.7%	13.2%	(5.6)%
Excess of fair value of net assets acquired over cost				10.3%
Equity in earnings of associated companies	10.4%	13.1%	15.6%	1.0%
Income before income tax	42.7%	57.9%	63.1%	45.6%
Income tax	(8.9)%	(11.1)%	(11.8)%	(5.8)%
Net income for the period/year	33.7%	46.8%	51.3%	39.8%
Attributable to:				
Equity holders of the Company	20.7%	28.6%	31.6%	26.1%
Minority interest	13.1%	18.2%	19.7%	13.7%

Six-month period ended June 30, 2005 compared to six-month period ended June 30, 2004

Due to the consolidation of Amazonia, which we began consolidating on February 15, 2005, the financial data for the six-month period ended June 30, 2005 are likely to vary significantly from the financial data for the six-month period ended June 30, 2004. In that sense, the consolidation of Amazonia resulted, among other things, in the elimination of intercompany sales between Sidor and Ternium s subsidiaries, following which trading activities are no longer material.

Overview

Ternium s net income attributable to equity holders increased from the USD211.9 million reported for the six-month period ended June 30, 2004 to USD477.6 million for the six-month period ended June 30, 2005. This

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125.4% increase was the result of a significant improvement of Sidor s and Siderar s operating results and a non-recurring gain in an amount of USD188.4 million recorded upon the conversion, in February 2005, of a convertible loan granted by Ylopa into Amazonia shares, which were partially offset by an increase of USD191.4 million in financial expense mainly arising from the payment of compensation to certain participants in Sidor s 2003 financial restructuring and higher results attributable to minority interest.

Cash and cash equivalents as of June 30, 2005 were USD586.0 million, compared to USD194.9 million as of December 31, 2004. The increase of USD391.1 million was mainly due to the generation of cash from operating activities in an amount of USD601.1 million and the increase due to the acquisition of Amazonia of USD305.3 million, of which USD81.4 million was applied to investments in fixed and intangible assets, USD264.8 million (net) was used in the repayment of financial debt and USD280.1 million was used in dividends and other distributions to equity holders of the Company, its subsidiaries and other associated companies.

Net sales

Net sales in the first six months of 2005 totaled USD1,827.8 million, a 172.6% increase from the USD670.5 million in the first six months of 2004. This significant increase was primarily due to the consolidation of Amazonia s net sales for the first six months of 2005 of USD851 million (net of intercompany transactions), together with a 45.7% increase in Ternium s sales of USD306 million, due to higher average selling prices for steel products and higher sales volumes.

The table below shows Ternium s sales by product and market for the periods indicated.

	For the six-month period ended June 30,	
Thousands of U.S. dollars	**2004**	**2005**
Flat Steel Product Sales		
South and Central America	$ 480,218	$ 1,089,532
North America	17,125	284,487
Europe	53,239	170,283
Other	16,097	40,084
Total Flat Steel Products Sales	$ 566,678	$ 1,584,386
Long Steel Product Sales		
South and Central America		132,815
North America		36,891
Europe		
Other		
Total Long Steel Products Sales		$ 169,706
Trading and Other Sales(1)		

South and Central America	$ 40,093	$ 73,361
North America	46,101	392
Europe	8,419	
Other	9,211	
Total Trading and Other Sales	$ 103,825	$ 73,753
Total Sales	$ 670,503	$ 1,827,845

(1) The item Trading and Other Sales includes mainly trading activities for the six-month period ended June 30, 2004 and includes pig iron and pellets for the six-month period ended June 30, 2005, reflecting the consolidation of Amazonia s results.

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In the six months ended June 30, 2005, Ternium derived the majority of its revenues (approximately 87%) from sales of flat steel products. Total sales of flat steel products increased significantly from USD566.7 million in the first six months of 2004 to USD1,584.4 million in the first six months of 2005. USD636.4 (net of intercompany transactions) resulted from the consolidation of Amazonia s results, while USD381.3 million resulted from higher sales prices and volumes.

After the consolidation of Amazonia s results in Ternium s results for the first six months of 2005, sales of long steel products for this period totaled USD169.7 million (no such sales were recorded in the first six months of 2004).

Trading and other products sales decreased from USD103.8 million in the first six months of 2004 to USD73.8 million in the first six months of 2005 also as a result of the consolidation of Amazonia s results, which was partially offset by sales of pellets and pig iron.

Sales volume

Total sales volume during the first six months of 2005 increased by 111.5% to 2,709 thousand tons in the first six months of 2005 from 1,281 thousand tons in the first six months of 2004. This increase mainly reflects the consolidation of Sidor s sales volume of 1,286 thousand tons (net of intercompany transactions) for the period. Total sales volume, without the effect of the consolidation of Amazonia, increased by 11.1% when compared to the first six months of 2004.

The table below shows Ternium s total sales volume by product and market for the periods indicated.

Thousands of tons **(unaudited)**	**For the six-month period ended June 30, 2004**	**2005**
Flat Steel Products Sales Volume		
South and Central America	890	1,521
North America	32	506
Europe	109	249
Other	31	68
Total Flat Steel Products Sales Volume	1,062	2,344
Long Steel Products Sales Volume		
South and Central America		257
North America		68
Europe		
Other		
Total Long Steel Products Sales Volume		325

Volume of Trading and Other Sales[1]		
South and Central America	66	40
North America	103	
Europe	18	
Other	32	
Total Volume of Trading and Other Sales	219	40
Total Sales Volume	1,281	2,709

(1) The item Trading and Other Sales includes mainly trading activities for the six-month period ended June 30, 2004 and includes pig iron and pellets for the six-month period ended June 30, 2005, reflecting the consolidation of Amazonia s results.

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Flat steel products sales rose by 120.7%, from 1,062 thousand tons in the first six months of 2004 to 2,344 thousand tons in the same period of 2005, due mainly to the effect of the consolidation of 965 thousand tons (net of intercompany transactions) sold by Sidor. Ternium s flat steel sales volume, without the effect of the consolidation of Amazonia, increased by 29.8% to 1,379 thousand tons. Long steel products sales reached a total of 325 thousand tons in the first half of 2005.

The following table shows the percentage of market distribution of Ternium s total sales by region for the periods indicated.

Percentage of total sales **(unaudited)**	**For the six-month period ended June 30, 2004**	**2005**
South and Central America	77.6%	70.9%
North America	9.4%	17.6%
Europe	9.2%	9.3%
Other	3.8%	2.2%
	100.0%	100.0%

Sales prices

The average price per ton for flat steel products increased by 26.7%, from USD534 per ton during the first six months of 2004 to USD676 per ton during the first six months of 2005. However, prices decreased during the first six months of 2005. The price per ton for long steel products was USD522 per ton during the first six months of 2005.

Cost of sales

Total cost of sales increased by 137.2%, from USD382.0 million in the first six months of 2004 to USD905.9 million in the first six months of 2005, due to the consolidation of Amazonia s cost of sales for the six-month period ended June 30, 2005 of USD339.2 million (net of intercompany transactions), together with an increase in sales volume and in the raw material prices such as iron ore and coal. Beginning in the second quarter of 2005, prices of iron ore and coal increased significantly for Siderar. Raw material costs increased from USD273.8 million in the first six months of 2004 to USD591.0 million in the first six months of 2005. In the same period, freight and transportation costs increased from USD8.8 million to USD11.2 million, and labor costs increased from USD43.6 million to USD97.8 million.

Cost of sales, expressed as a percentage of net sales, decreased to 49.6% during the first half of 2005, compared to 57.0% for the same period of 2004. This increase in margin is explained by the consolidation of Amazonia (which has a lower cost of sales than Siderar, representing 39.9% of its net sales) and the significant increases recorded in selling prices (a 28.9% average increase), which more than offset the increases in costs of raw materials and labor.

The average cost of sales per ton of flat steel products increased by 22.8%, from USD267 per ton in the first six months of 2004 to USD328 per ton in the first six months of 2005. Average cost of sales per ton of long steel products was USD286 per ton in the first six months of 2005.

General and administrative expenses

General and administrative expenses recorded during the first half of 2005 were USD88.6 million, or 4.8% of net sales, compared to USD28.7 million, or 4.3% of net sales for the first half of 2004. The increase was mainly due to the consolidation of Amazonia s expenses in an amount of USD50.3 million, largely due to labor costs, office expenses, taxes and depreciation related to general and administrative expenses. Ternium s expenses increased by 33.4% to USD38.3 million mainly due to the increase in the labor costs, taxes and services included in those expenses.

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Selling expenses

Selling expenses during the first six months of 2005 were USD96.7 million, or 5.3% of net sales, compared to USD30.3 million, or 4.5% of net sales, for the first six months of 2004. This increase in selling expenses as a percentage of net sales is mainly due to the increase in freight and transportation costs as a result of a strong economic growth, mainly in Asia, which significantly increased demand for transportation services. Freight and transportation cost increased from USD21.6 million in the first six months of 2004 to USD82.1 million in the first six months of 2005.

Other operating income and expenses, net

Other operating income and expenses showed a net loss of USD7.8 million for the six-month period ended June 30, 2005, compared to a net gain of USD0.06 million in the six-month period ended June 30, 2004. This increase in expenses was mainly attributable to higher reserves in connection with legal claims and charges related to the retirement of certain fixed assets in Sidor.

Operating income, net

Operating income totaled USD728.9 million, or 39.9% of net sales, for the first half of 2005, compared to USD229.6 million, or 34.2% of net sales, for the same period of 2004.

Financial income (expenses), net

Financial results for the first half of 2005 showed a net financial loss of USD102.7 million, compared to a net gain of USD88.7 million in the first half of 2004. This variation is primarily due to the consolidation of Amazonia, as a result of which Ternium recorded in the first half of 2005 a loss of USD66.1 million arising from the payment of compensation to certain participants in Sidor s 2003 financial restructuring, compared to a gain of USD91.5 million for the first half of 2004. In addition, results related to foreign exchange transactions and fair value from derivative instruments for the first six months of 2005 were a net loss of USD29.6 million, compared to a gain of USD6.1 million in the same period of 2004. The main reason for this variation was the devaluation of the Venezuelan Bolívar in March 2005.

As discussed elsewhere in this prospectus, in connection with their participation in Sidor s and Amazonia s 2003 debt restructuring, the Venezuelan government and certain partners of Amazonia (through Ylopa) are entitled to receive compensation in the form of cash payments made by Sidor on a quarterly basis pursuant to a participation agreement. Prior to December 31, 2004, the cash payments received by Ternium were part of its financial income. Following the consolidation of Amazonia s results beginning on February 15, 2005, such financial income is eliminated in consolidation; however, the cash amounts paid or payable in the future to the Venezuelan government are part of Ternium s financial expense. See Business Subsidiaries Amazonia, Ylopa and Sidor Amazonia.

Equity in earnings of associated companies and excess of fair value of net assets acquired over cost

Ternium s share in the results of associated companies during the first six months of 2005 was a gain of USD19.1 million compared to a gain of USD104.5 million for the first six months of 2004 due to the consolidation of Amazonia. We recorded a non-recurring gain in an amount of USD188.4 million upon the conversion in February 2005 of a convertible loan granted by Ylopa into Amazonia shares as an excess of fair value of net assets acquired over cost.

Income tax

During the first half of 2005, Ternium recorded an income tax provision of USD105.7 million, compared to an income tax provision of USD79.1 million for the first half of 2004. This 33.7% increase was mainly due to improved operating results.

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Ternium s effective tax rate is calculated as income tax on income (before equity in earnings of associated companies, income tax and minority interest). For the first six months of 2005, Ternium s effective tax rate was 16.9%, compared to 24.8% for the first six months of 2004. This effective tax rate reduction is attributable to the following reasons:

- in the first half of 2005, Sidor absorbed taxable income by using tax loss carryforwards in an amount of USD59.8 million, and

- while Sidor s payments to Ylopa as compensation for its participation in Sidor and Amazonia s 2003 debt restructuring are tax deductible, Ylopa s income is tax-free as a result of the application of the Venezuela-Portugal tax treaty and Ylopa s status as a company organized in the Madeira tax-free zone. Sidor s tax deduction for this concept amounted to USD154 million in the first half of 2004, compared to USD302 million in the first half of 2005.

Net income attributable to minority interest

Net income attributable to minority interest for the six-month period ended June 30, 2005 increased to USD250.3 million from USD131.9 million in the six-month period ended June 30, 2004. This increase is primarily due to the consolidation of Amazonia s results for the first half of 2005 and better operating results.

Fiscal year ended December 31, 2004 compared to fiscal year ended December 31, 2003

Overview

Ternium s net income attributable to equity holders increased to USD457.3 million for the year ended December 31, 2004 from the USD218.2 million for the year ended December 31, 2003. This 109.6% improvement was mainly driven by an increase in the international price of flat steel products, which was partially offset by an increase in raw material and shipping costs. Revenue per ton increased by 36.5% from USD426.0 in 2003 to USD582 in 2004, while average cost per ton increased 29.5% from USD271 in 2003 to USD351 in 2004.

The improved results of 2004 were also the result of:

- the performance of Ternium s investments in Amazonia and the considerable upturn experienced by Sidor, Amazonia s Venezuelan operating subsidiary;

- the non-recurring gain arising from the reversal in 2003 of the impairment provision for USD148.3 million in connection with Ternium s investment in Amazonia; and

- an increase in the amounts received from Sidor as compensation payable to participants in Sidor s 2003 financial restructuring, which totaled USD203.4 million in 2004, compared to USD73.9 million in 2003.

Cash and cash equivalents as of December 31, 2004 were USD194.9 million, compared to USD129.0 million in the previous year. This 51.1% increase was mainly due to the generation of cash from operating activities in an amount of USD517.6 million (of which USD203.4 million are a result of compensation in connection with Ternium s participation in Sidor s and Amazonia s 2003 debt restructuring). Of these amounts, USD92.6 million was applied to investments in fixed and intangible assets, USD208.7 million (net) was applied to repay financial debt and USD151.2 million was applied to dividends paid in cash and other distributions to shareholders of the Company and of our subsidiaries and associated companies.

Net sales

Net sales in 2004 totaled USD1,598.9 million, compared to the USD1,056.6 million posted in 2003. This 51.3% increase was due to both higher average selling prices for flat steel products in all the markets Ternium serves and higher sales volumes.

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The table below shows Ternium s sales by product and market for the periods indicated.

	For the year ended December 31,	
Thousands of U.S. dollars	**2003**	**2004**
Flat Steel Product Sales		
South and Central America	$ 673,453	$ 999,567
North America	40,998	94,299
Europe	171,027	149,671
Other	70,113	22,660
Total Flat Steel Products Sales	$ 955,591	$ 1,266,197
Trading		
South and Central America	$ 37,098	$ 116,624
North America	45,620	136,530
Europe	13,006	62,702
Other	2,537	9,371
Total Trading	$ 98,261	$ 325,227
Other Sales[(1)]		
South and Central America	$ 2,714	$ 7,501
Total Other Sales	$ 2,714	$ 7,501
Total Sales	$ 1,056,566	$ 1,598,925

(1) The item Other Sales includes mainly sales of pig iron.

In 2004, Ternium derived the majority of its revenues (approximately 79.2%) from sales of flat steel products. Total sales of flat steel products increased by 32.5% from USD955.6 million in 2003 to USD1.26 billion in 2004. Trading sales in 2004 generated revenues more than three times larger than those of 2003, totaling USD325.2 million in 2004 compared to USD98.3 million for the previous year. The increase in trading sales for 2004 was mainly driven by the increase in steel prices and the recovery in demand for the period under analysis. Total sales of other steel products also grew significantly from USD2.7 million in 2003 to USD7.5 million in 2004.

Sales volume

Total sales volume during 2004 increased by 10.8% from 2,480 thousand tons in 2003 to 2,748 thousand tons in 2004. This increase primarily reflects the continued recovery of the Argentine economy and an increase in trading activity.

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The table below shows Ternium s total sales volume by product and market for the periods indicated.

Thousands of tons (unaudited)	For the year ended December 31, 2003	2004
Flat Steel Products Sales Volume		
South and Central America	1,440	1,718
North America	119	147
Europe	456	270
Other	226	41
Total Flat Steel Products Sales Volume	2,241	2,176
Trading Volume		
South and Central America	53	159
North America	130	246
Europe	37	110
Other	6	32
Total Trading Volume	226	546
Volume of Other Sales(1)		
South America	13	26
Total Volume of Other Sales	13	26
Total Flat Steel Products Sales Volume	2,241	2,176
Total Trading Volume	226	546
Total Volume of Other Sales	13	26
Total Sales Volume	2,480	2,748

(1) The item Other Sales includes mainly sales of pig iron.

Flat steel products sales declined by 2.9%, from 2,241 thousand tons in 2003 to 2,176 thousand tons in 2004. This decline was mainly attributable to a temporary reduction in production of Ternium s Argentine subsidiary s blast furnace No. 2, in preparation for its planned relining in 2006, which was not entirely offset by the start-up of blast furnace No. 1. Given the economic recovery experienced in the Americas, geographical distribution of flat steel product sales favored these regional markets in 2004. Sales in the South and Central American region increased by 19.3% from 1,440 thousand tons in 2003 to 1,718 thousand tons in 2004, while sales to the North American region increased by 23.5% in the same period. Consequently, sales of flat steel products to Europe and Asia decreased by 40.8% and 81.9%, respectively.

Trading sales, primarily of Sidor s products, reached a total of 546 thousand tons in 2004, compared to 226 thousand tons in 2003. This increase of 141.5% was primarily due to an increase in hot and cold rolled product shipments to South and Central America, North America and Europe. Trading volumes to South and Central America increased by more than three times during the same period. The increase in demand from the

South American markets was mainly due to the recovery of the machinery, agricultural, construction and automotive industries in Argentina, which caused Ternium to redirect sales in accordance with its strategy of serving its traditional markets in lieu of expanding sales efforts in less traditional markets such as Asia and Africa.

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The following table shows the percentage of market distribution of Ternium s total sales by region for the periods indicated.

	For the year ended December 31,	
Percentage of total sales	**2003**	**2004**
South and Central America	77.6%	70.3%
North America	9.4%	14.4%
Europe	9.2%	13.3%
Other	3.8%	2.0%
	100.0%	100.0%

Sales destined to the Americas accounted for 84% of sales in 2004. Tons destined to the South and Central American region increased by 26.4% and tons to North America increased by 57.8% from 2003 to 2004, driven by the general economic recovery in the traditional markets in which Ternium operates. During the same period, sales destined to Europe decreased by approximately 22.9%, while those destined to other markets decreased by almost 68.5%, also due to the shift in sales destination and to the focus of Ternium in its traditional markets.

Sales prices

Average prices for flat steel products increased by 36.5% from USD426 per ton in 2003 to USD582 per ton in 2004. Average prices for trading products increased by 36.7% from USD435 per ton in 2003 to USD595 per ton in 2004. Average prices of other sales increased 38.2% from USD209 per ton in 2003 to USD289 per ton in 2004.

Cost of sales

Total cost of sales between 2003 and 2004 rose by 43.7%, from USD671.7 million to USD965.0 million due to the 10.8% increase in sales volume and the increase in the prices of raw materials. In addition, local cost of services and labor for Ternium s operating subsidiary in Argentina increased due to the adjustment of the Argentine peso against the U.S. dollar and to market conditions. Raw material costs increased from USD453.6 million in 2003 to USD781.3 million in 2004. Labor costs increased from USD68.1 million in 2003 to USD89.4 million in 2004, and freight and transportation costs increased from USD14.6 million to USD18.7 million for the same period.

Average total cost of sales per ton increased by 29.6% from USD271 in 2003 to USD351 in 2004. Average cost of sales per ton of flat steel products increased by 15.8% from USD257 per ton in 2003 to USD298 per ton in 2004, while the average cost of sales associated with trading increased by 38.4%, from USD413 per ton in 2003 to USD571 per ton in 2004. The strong increase in costs associated with trading sales relates to the higher selling prices of steel products.

Cost of sales, expressed as a percentage of net sales, decreased to 60.4% during 2004, compared to 63.6% for the previous fiscal year due to a 36.5% increase in the average prices of our products which more than compensated for the increases in costs of supplies, raw materials and labor.

General and administrative expenses

General and administrative expenses during 2004 were USD58.4 million, or 3.7% of net sales, compared to USD51.6 million, or 4.9% of net sales for 2003, an increase of 13.3%. The increase of USD6.9 million is mainly due to increases of 38.9% in services and fees and 31.5% in taxes associated with general and administrative expenses, which were partially offset by a decrease of 12.0% in labor costs. The improvement in general and administrative expenses as a percentage of net sales is mainly due to a higher absorption of such expenses by increased sales revenue resulting from higher average prices during 2004 and larger sales volumes.

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Selling expenses

Selling expenses for 2004 decreased by USD2.3 million to USD60.5 million, or 3.8% of net sales, compared to USD62.8 million, or 5.9% of net sales for 2003. This reduction in selling expenses as a percentage of net sales is mainly due to higher sales in 2004.

Other operating income (expenses), net

Other operating income and expenses showed a net loss of USD0.8 million for the fiscal year ended December 31, 2004, compared to a net loss of USD5.7 million in the previous fiscal year. A significantly lower allowance for doubtful accounts and loss contingencies of USD4.9 million, due to the recovery of economic conditions and credit records in Argentina, contributed to the improvement.

Operating income (expenses), net

Operating income totaled USD514.2 million in 2004, or approximately two times the operating income of USD264.8 million for 2003. The operating income per ton of flat steel products sold (excluding trading sales) increased to an average of USD232 during the year 2004, as compared with an average of USD117 per ton sold during the year 2003.

Financial income (expenses), net

Financial results for 2004 showed a net financial gain of USD202.3 million, compared to USD75.6 million in the previous fiscal year reflecting general improvements in the results of Ternium s subsidiaries, as well as certain gains from non-recurring items recorded in 2004.

This variation is primarily due to:

- a 175.2% increase in the amounts received from Sidor as compensation payable to participants in Sidor s 2003 financial restructuring, which totaled USD203.4 million in 2004 and USD73.9 million in 2003. For more information on Ternium s income from the participation agreement, please refer to note 25(i) to Ternium s combined consolidated financial statements;

- a decrease in the gains associated with foreign exchange transactions and fair value of derivative instruments, which went from USD37.8 million in 2003 to USD9.8 million in 2004; and

- a decrease of USD21.7 million in interest expenses, which went from USD40.0 million in 2003 to USD18.3 million in 2004, attributable to the repayment of financial debt.

Equity in earnings (losses) of associated companies

Ternium s share in the results of associated companies during 2004 was USD209.2 million compared to USD110.3 million for 2003. This improvement was primarily due to:

- the reversal of the impairment provision for USD148.3 million in connection with the Amazonia investment recorded in 2003; and

- the performance of Ternium s investments in Amazonia and the considerable upturn experienced by Sidor, its operating subsidiary.

Income tax

During 2004, Ternium recorded an income tax provision of USD177.5 million, compared to an income tax provision of USD94.1 million for the fiscal year ended December 31, 2003. This 88.6% increase was mainly due to improved operating results.

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The effective tax rate of Ternium is calculated as income tax on income (before provisions for equity in earnings of associated companies, income tax and minority interest). For the year 2004, Ternium s effective tax rate was 24.8%, as compared to 27.6% in 2003.

Net income attributable to minority interest

Net income attributable to minority interest for the fiscal year ended December 31, 2004 was USD290.8 million compared to USD138.3 million in 2003. This increase was primarily due to the improvement in the results of Siderar and Ylopa (in the latter case as a result of compensation in connection with its participation in Sidor s 2003 financial restructuring) and to the consequent increases in the amounts attributable to minority interests in those companies.

Liquidity and capital resources

We obtain funds from our operations and borrowings from banking institutions. These funds are primarily used to finance our working capital and capital expenditure requirements, acquisitions and dividend payments to our shareholders. We hold money market investments and variable-rate or fixed-rate securities from investment grade issuers. In the third quarter of 2005, we significantly changed the mix of financial resources as a result of the Credit Facilities obtained in connection with the acquisition of Hylsamex.

Management believes that funds from operations and our access to external borrowing will be sufficient to satisfy our working capital needs and to service our debt in the foreseeable future. Management also believes that our liquidity and capital resources give us adequate flexibility to manage our planned capital spending programs and to address short-term changes in business conditions.

The following table shows the changes in our cash and cash equivalents for each of the periods indicated below:

	For the year ended December 31,		For the six-month period ended June 30,	
Thousand of U.S. dollars	**2003[1]**	**2004[1]**	**2004[1]**	**2005**
Net cash provided by operating activities	$ 346,318	$ 517,565	$ 285,044	$ 601,136
Net cash provided by (used in) investing activities	(157,796)	(91,701)	(39,849)	8,793
Net cash provided by (used in) financing activities	(171,961)	(359,887)	(250,711)	(490,193)
Increase (decrease) in cash and cash equivalents	$ 16,561	$ 65,977	$ (5,516)	$ 119,736
Cash and cash equivalents at the beginning of the period	111,198	129,020	129,020	194,875
Effect of exchange rate change in cash and cash equivalent	1,261	(122)	(165)	(33,941)
Cash and cash equivalents at the end of the period	$ 129,020	$ 194,875	$ 123,339	$ 586,012

(1) Cash and cash equivalents do not include certain funds that Ternium placed in a trust established to ensure that the financial needs for the normal development of Siderar s operations were met. As of December 31, 2004, the amounts placed in the trust totaled USD88.8 million and were presented as Other Current Investments as described in notes AP(G) and 18 to Ternium s combined consolidated financial statements. In January 2005, the trust was liquidated and the Company received cash.

Six-month period ended June 30, 2005 compared to six-month period ended June 30, 2004

Overview

During the six-month period ended June 30, 2005, Ternium s primary source of funding was cash flows from its operating activities.

Cash and cash equivalents for the first half of 2005 increased by USD462.7 million, and reached USD586.0 million, as compared to USD123.3 million recorded as of June 2004. This amount includes a modification in the initial cash and cash equivalents of USD305.3 million attributable to the consolidation of Amazonia.

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In addition, the trust established to ensure that the financial needs for the normal development of Siderar s operations were met was liquidated and the Company received cash in an amount of USD88 million in January 2005.

Operating activities

Net cash provided by operations during the first six months of 2005 was USD601.1 million compared to USD285.0 million for the same period in 2004, primarily reflecting the consolidation of Amazonia since February 15, 2005.

Investing activities

During the first six months of 2004, Ternium used USD39.8 million of net cash in investing activities, compared to USD8.8 million net cash provided by investing activities in the first six months of 2005. Capital expenditures increased from USD41.2 million in the first six months of 2004 to USD81.4 million in the first six months of 2005, primarily due to the consolidation of Amazonia. The liquidation of the trust fund described above provided cash in the amount of USD88.8 million as of June 30, 2005.

Capital expenditure is expected to increase significantly in the second half of 2005 in line with capital expenditure plans already underway as of June 30, 2005. We are currently in the process of conducting or analyzing a number of acquisitions, as well as financing certain investment programs conducted by our operating subsidiaries. For further information, see Business Capital expenditure program.

Financing activities

Net cash used in financing activities was USD490.2 million in the first half of 2005, compared to net cash used in financing activities in the first half of 2004 of USD250.7 million. The increase reflects the dividends paid and other distributions made in the first six months of 2005 in an amount of USD280.1 million, compared to USD82.8 million in the first six months of 2004, and a decrease in net borrowings of USD264.8 million, compared to a decrease of USD172.0 million in the same period of 2004.

Fiscal year ended December 31, 2004 compared to fiscal year ended December 31, 2003

Overview

During 2004, Ternium s primary source of funding was cash flows from its operating activities. Cash and cash equivalents increased by 51.0%, or USD65.9 million, from USD129.0 million as of December 31, 2003 to USD194.9 million as of December 31, 2004.

In addition to cash and cash equivalents, we held other current investments totaling USD88.8 million, which were primarily financial resources placed in trust. The trust was established in 2001 with three-year terms solely to ensure that the financial needs for the normal development of the operations of certain Argentine subsidiaries were met.

Operating activities

Net cash provided by operations during 2004 was USD517.6 million compared to USD346.3 million in 2003. The main reasons for the variation in operating cash flow are:

- the strong increase in business activity, with higher prices and sales volumes;
- a total of USD203.4 million received as income generated by participation in Sidor s 2003 financial restructuring, as compared to USD73.9 million for the same period of the previous year; and

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a substantial increase in working capital of USD204.7 million, that mainly reflects an increase in net inventories of USD114.7 million, and an aggregate increase in receivables of USD193.5 million and an increase in trade payables of USD93.3 million, due to the increase in business activity.

Investing activities

Net cash used in investing activities in 2004 was USD91.7 million, compared to USD157.8 million in 2003. The main investment activities in these periods were:

capital expenditures of USD92.6 million in 2004 compared to USD34.3 million in 2003; and

further investments in Amazonia, made through Ylopa in 2003, of USD127.6 million in the form of a convertible loan.

Financing activities

Net cash used in financing activities was USD359.9 million in 2004, compared to USD172.0 million of net cash used in financing activities in 2003. The variation reflects the dividends paid and other distributions made in 2004 of USD151.2 million compared to USD18.8 million in 2003, and a net decrease in borrowings of USD208.7 million in 2004 compared to USD229.5 million in 2003.

Principal sources of funding

Funding policies

Management s policy is to maintain a high degree of flexibility in operating and investment activities by maintaining adequate liquidity levels and ensuring access to readily available sources of financing. We obtain financing primarily in U.S. dollars. Whenever feasible, management bases its financing decisions, including the election of term and type of the facility, on the intended use of proceeds for the proposed financing.

Financial liabilities

Our financial liabilities currently consist of loans with related parties, bank loans and overdrafts. These facilities are mainly denominated in U.S. dollars and Euros. As of December 31, 2004, U.S. dollar-denominated financial liabilities represented 98.1% of total financial liabilities. Total financial debt decreased from USD364.2 million as of December 31, 2003 to USD123.0 million as of December 31, 2004. During 2004, Ternium s bank borrowings decreased by USD258.0 million, due to the repayment of Siderar s debt. As of December 2004, current borrowings were 99.2% of total borrowings, of which 61.7% corresponded to borrowings with related parties. See Formation of Ternium and Related Party Transactions Agreements with related parties Loans and other financings.

The following table shows Ternium s financial liabilities as of December 31 of each of the last two years:

	2003	2004
Borrowings with related parties	$ 59,416	$ 75,927
Bank borrowings	304,612	46,636
Other	124	443
Total borrowings	$ 364,152	$ 123,006

The weighted average interest rates at December 31, 2004 and 2003 shown below were calculated using the rates set for each instrument in its corresponding currency and weighted using the dollar-equivalent outstanding principal amount of those instruments at December 31, 2004 and 2003, respectively.

	2003	2004
Bank borrowings	4.90%	2.25%

Our credit agreements and other debt instruments contain covenants, financial tests and cross-default provisions. As of December 31, 2004, we were in compliance with all of our financial covenants. Management believes that current covenants allow us a high degree of operational and financial flexibility and do not impair our ability to obtain additional financing at competitive rates. For further information on our financial liabilities, borrowings and commitments please see notes 19 and 25 to Ternium s combined consolidated financial statements.

In particular, the Ternium Credit Facilities contain a number of customary covenants, including limitations on our and certain of our subsidiaries ability to, among other things:

grant liens and other encumbrances,

incur additional indebtedness,

make loans and other investments,

pay dividends or make other distributions as described under Dividend Policy,

enter into contracts that limit intercompany transfers of money or property,

merge, acquire or consolidate with another company, make additional investments or dispose of their assets,

sell our subsidiaries or otherwise permit our interest in our subsidiaries to fall below specified percentages, and

make changes to the business activities Ternium conducts or amend certain significant agreements.

In addition, the Ternium Credit Facility provides for certain financial covenants that (1) limit our capital expenditures, (2) require us to maintain specified levels of leverage ratio, operating cash flow to debt service ratio and ratio of unconsolidated debt to loans and (3) subject us and certain of our subsidiaries to a maximum debt limit.

Capital expenditures. Until the Tranche A loans are repaid in full, Ternium must limit the total permitted capital expenditures and capital investments for each of Hylsamex, Siderar and Sidor to specified levels that decrease over a period of three years, from USD75 million, USD220 million and USD100 million respectively, to USD65 million, USD170 million and USD80 million, respectively. Following the repayment of the Tranche A loans, capital expenditures and investments will be limited only with respect to Sidor, at a level of USD70 million per year.

Leverage ratio. Ternium must maintain a leverage ratio of no greater than 3.0 at all times. Until the repayment of the Tranche A loans, Hylsamex must maintain a leverage ratio of no greater than 2.0, while Sidor, Siderar and Techintrade must maintain a leverage ratio of no greater than 1.25 and, during the period between the repayment of the Tranche A loans and the Tranche B maturity date, each of Hylsamex, Sidor, Siderar and Techintrade must maintain a leverage ratio of no greater than 2.0. In each case, leverage ratio is defined as the ratio of consolidated total debt of the relevant entity and its subsidiaries (excluding certain debt created for purposes of upstreaming dividends or for certain investments) at the end of the most recently completed quarter to EBITDA of the relevant entity and its subsidiaries for the four consecutive fiscal quarters ending at the end of the most recently completed quarter.

Operating cash flow to debt service ratio. Ternium must maintain a ratio of operating cash flow to debt service of no less than 1.0 during the first year after the effective date of the Ternium Credit Facility and, after the second year and thereafter until the loans are repaid, this limit will increase periodically up to 2.0. For the purpose of determining the ratio, operating cash flow is defined as all distributions received from subsidiaries during the previous 12 months, less income taxes and certain permitted capital expenditures and capital investments and variations in working capital made in the ordinary course of business. Debt service is defined as

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the amount of all scheduled payments of principal and interest on all of Ternium s debt becoming due and payable in the 12 months preceding the determination date.

Debt to loans ratio. Ternium must maintain a ratio of no more than 1.0 of unconsolidated debt (as defined in the Ternium Credit Facility) to the outstanding amount of loans under the Ternium Credit Facility.

Maximum debt. Ternium must ensure that the consolidated debt of each of Hylsamex, Sidor, Siderar and Techintrade does not exceed specified levels. In particular, Hylsamex debt must not exceed the lesser of (a) USD750 million or (b) the greater of USD700 million and its outstanding debt on August 22, 2005. Sidor, Siderar and Techintrade debt must not exceed USD570 million, USD440 million and USD30 million respectively.

The restrictions remaining pursuant to Sidor s 2003 financial restructuring agreements are described under Management s Discussion and Analysis of Financial Condition and Results of Operation Amazonia Principal Sources of Funding.

Contractual obligations

In addition to the financial liabilities discussed above, Ternium has various purchase commitments for materials, supplies and items of permanent investment incidental to the ordinary course of business. Management believes that these commitments are not in excess of current market prices and reflect normal business operations. Ternium had outstanding as of December 31, 2004 several long-term obligations that will become due in 2005 and beyond. These various purchase commitments and long-term obligations will have an effect on Ternium s future liquidity and capital resources.

The following table shows, by major category of commitment and long-term obligation, the maturity of Ternium s long-term contractual obligations outstanding as of December 31, 2004:

Millions of U.S. dollars	Total Amounts Committed	Less than 1 year	1-3 years	4-5 years	After 5 years
Borrowings[(1)]	$ 123.0	$ 122.0	$ 1.0		
Guarantees[(2)]	219.4	219.4			
Purchase Obligations[(3)]	141.0	7.8	39.4	$ 26.3	$ 67.6
Total commitments	$ 443.2	$ 308.0	$ 40.4	$ 26.3	$ 67.5

(1) Borrowings are primarily with related parties. See Formation of Ternium and Related Party Transactions Agreements with related parties Loans and other financings. The total estimated interest to be paid under these borrowings is USD1.7 million. The variable interest portion was calculated using the forward LIBOR curve as of December 31, 2004.

(2)

The guarantees reflected in this table are the Amazonia shares that were pledged in connection with Sidor s 2003 financial restructuring. These pledges expired in accordance with their terms in July 2005.

(3) Includes contracts with T.G.N. (gas transportation), ALASA (industrial gases) and Siderca (steam).

Off-balance sheet arrangements

Ternium does not use off-balance sheet arrangements as such term is defined by applicable SEC rules. However, as described above, Ternium has various off-balance sheet commitments for the provision of raw materials (iron ore, entered into by Sidor, Amazonia s operating subsidiary) and energy (gas, gas transportation and steam for the production of electricity, entered into by Siderar). Off-balance sheet commitments are discussed in note 25(iv) to Ternium s combined consolidated financial statements included in this prospectus.

Net income (loss) and shareholders equity information on a U.S. GAAP basis

Ternium s combined consolidated financial statements have been prepared in accordance with IFRS, which, as applied to Ternium, differs in significant respects from U.S. GAAP.

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Under U.S. GAAP, Ternium recorded net income of USD424.7 million for the fiscal year ended December 31, 2004 (compared to net income attributable to equity holders of USD457.3 million under IFRS), and net income of USD264.2 million for the fiscal year ended December 31, 2003 (compared to net income attributable to equity holders of USD218.2 million under IFRS). Shareholders equity determined in accordance with U.S. GAAP was USD954.3 million as of December 31, 2004, compared to USD1,026.7 million under IFRS, and USD382.7 million as of December 31, 2003, compared to USD701.8 million under IFRS.

Under U.S. GAAP, Ternium recorded net income of USD305.9 million for the six-month period ended June 30, 2005 (compared to net income attributable to equity holders of USD477.6 million under IFRS) and net income of USD192.2 million for the six-month period ended June 30, 2004 (compared to net income attributable to equity holders of USD211.9 million under IFRS). Shareholders equity determined in accordance with U.S. GAAP was USD733.8 million as of June 30, 2005 compared to USD1,443.5 million under IFRS, and USD576.2 million as of June 30, 2004 compared to USD822.8 million under IFRS.

The principal differences between IFRS and U.S. GAAP that affected Ternium s net income and shareholders equity on a U.S. GAAP basis were:

- differences in the valuation (at fair value) of property, plant and equipment and in the capitalization of interest on property, plant and equipment under construction;
- differences in equity in investments in associated companies (Amazonia);
- differences in the recognition of prior service costs related to pension benefits;
- differences in recognition of changes in the fair value of trust funds; and
- the effects on deferred taxes and minority interest of the reconciling items listed above.

Of these, the differences in the valuation (at fair value) of property, plant and equipment were the most significant, as they resulted in an adjustment to shareholders equity as of December 31, 2004 of USD962.5 million and an adjustment to shareholders equity as of June 30, 2005 of USD1,514.9 million. Under IFRS, Ternium revalued its property, plant and equipment on the basis of an appraisal performed by a professional appraiser, while under U.S. GAAP no revaluation was made for U.S. GAAP purposes.

For a discussion of the principal differences between IFRS and U.S. GAAP as they relate to Ternium s consolidated net income (loss) and shareholders equity, see note T to Ternium s combined consolidated financial statements included in this prospectus. For a quantitative reconciliation of these differences, see notes 32 and 33 to Ternium s combined consolidated financial statements and note 17 to Ternium s combined consolidated condensed interim financial statements included in this prospectus.

Recent events

In order to finance its USD2.1 billion acquisition of Hylsamex, I.I.I.-Industrial Investments Inc., a wholly-owned subsidiary of the Company organized under the laws of the British Virgin Islands (I.I.I. BVI) entered into the Ternium Credit Facility, dated as of August 16, 2005 and assigned to Ternium on September 22, 2005, for an aggregate principal amount of USD1.0 billion among I.I.I. BVI and the lenders named therein and Siderar entered into the Siderar Credit Facility, dated as of August 16, 2005, for an aggregate principal amount of USD380 million among Siderar and the lenders named therein. Citibank, N.A. acted as administrative agent under each of the credit facilities. All of the proceeds from the offering (after the payment of fees and expenses) will be used to pay down indebtedness incurred under the Ternium Credit Facility. See Use of Proceeds and Formation of Ternium and Related Party Transactions Corporate reorganization transactions.

Under the Credit Facilities, Ternium is subject to various financial and operating covenants. Among other things, these covenants restrict Ternium s ability to raise new debt, to pledge its assets, to effect a merger or sale of all or substantially all of its assets and to pay dividends under certain circumstances. In addition, they contain

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financial covenants, cross-default and indemnification provisions. For further information on the potential impact of such covenants, please see Risk factors Risks relating to Ternium s business Credit agreements and other instruments of indebtedness of Ternium and its subsidiaries contain covenants and financial tests which could restrict their activities and cross-payment-default provisions which could result in the acceleration of Ternium s indebtedness.

The credit facilities of Ternium and Siderar accrue interest at variable rate. In order to reduce the exposure to interest rate volatility in September 2005, Ternium entered into a swap contract for USD250 million at a fixed rate of 4.24%. In addition, Siderar entered into two swap contracts over an aggregate of USD200 million at an average fixed interest rate of 4.19%.

On August 22, 2005, we, together with Siderar, completed the acquisitions of Hylsamex and Alfa s minority interest in Amazonia and Ylopa. As a result, I.I.I. BVI acquired 425,251,758 shares of Hylsamex and Siderar acquired 153,475,824 shares of Hylsamex directly and 24,473,069 shares through its wholly-owned subsidiary Inversiones Basilea S.A. (Basilea). With the acquisition of Hylsamex, I.I.I. BVI acquired the 11.9% interest in Amazonia that Hylsamex held directly and through its subsidiary Hylsa Latin LLC (Hylsa Latin), the 7.5% that Alfa held in Amazonia, and an additional 11.1% of Ylopa. See Formation of Ternium and Related Party Transactions Corporate reorganization transactions.

For information on Ternium s recent results of operation and consolidated financial condition, see Ternium s unaudited summary financial information for the nine-month period ended September 30, 2005, attached as Annex A to this prospectus.

On November 18, 2005, Siderar agreed to acquire, for an estimated USD55.2 million, assets and facilities of Acindar Industria Argentina de Aceros S.A. (Acindar) related to the production of welded steel pipes in the provinces of Santa Fe and San Luis in Argentina. These two plants have an annual production capacity of 140,000 tpy of structural pipes to be used in the construction, agricultural and manufacturing industries. The acquisition has been approved by the Argentine competition authorities and is expected to be completed in the first quarter of 2006, subject to Acindar being released from its general restriction on asset dispositions under its ongoing out-of-court debt restructuring and the satisfaction of applicable publicity requirements relating to bulk transfers of assets.

Quantitative and qualitative disclosure about market risk

Ternium is exposed to the risk of changes in interest rates, foreign currency exchange rates and, to a limited extent, commodity prices. We selectively manage these exposures through the use of derivative instruments to mitigate market risk. Otherwise, we do not use derivative financial instruments for trading, other speculative purposes or other exposures. In addition, in the ordinary course of business Ternium also faces risks with respect to financial instruments that are either non-financial or non-quantifiable. Such risks principally include country risk and credit risk and are not presented in the following analysis.

The following tables provide a breakdown of Ternium s debt instruments at December 31, 2004 and 2003, which included fixed and variable interest rate obligations detailed by currency and maturity date:

At December 31, 2004	**Expected maturity, as of December 31,**						
Thousands of U.S. dollars	**2005**	**2006**	**2007**	**2008**	**2009**	**Thereafter**	**Total[(2)]**

Non-Current Debt							
Fixed Rate							
Floating Rate		$ 783	$ 225				$ 1,008
Current Debt							
Fixed Rate	$ 102,583						102,583
Floating Rate	19,415						19,415
Total[(1)]	$ 121,998	$ 783	$ 225				$ 123,006

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At December 31, 2003	Expected maturity, as of December 31,						
Thousands of U.S. dollars	2004	2005	2006	2007	2008	Thereafter	Total[(2)]
Non-Current Debt							
Fixed Rate		$ 51,555					$ 51,555
Floating Rate		56,404	$ 65,241	$ 78,103		$ 32,611	232,359
Current Debt							
Fixed Rate	$ 42,414						42,414
Floating Rate	37,824						37,824
Total[(1)]	$ 80,238	$ 107,959	$ 65,241	$ 78,103		$ 32,611	$ 364,152

(1) Borrowings mainly with related parties. See Formation of Ternium and Related Party Transactions Agreements with related Parties Loans and Other Financings.

(2) As most borrowings are subject to floating rates that approximate market rates, with contractual repricing that occurs every three to six months, the fair value of each borrowing approximates its carrying amount and is not disclosed separately.

Ternium s nominal weighted average interest rate for its debt instruments was 2.25% and 4.90% for 2004 and 2003 respectively. These rates were calculated using the rates set for each instrument in its corresponding currency and weighted using the dollar-equivalent outstanding principal amount of each instrument as of December 31, 2004 and 2003, respectively.

The following table presents total debt by currency.

In thousands	2003	2004
USD	$ 360,278	$ 120,674
EUR	3,874	2,332

Interest rate risk

Interest rate movements create a degree of risk by affecting the amount of Ternium s interest payments and the value of Ternium s fixed rate debt. Most of Ternium s long-term borrowings are at variable rates, while its debt with related parties is at fixed rates. Ternium s total variable interest rate debt amounted to USD20.4 million (16.6% of total borrowings) for the period ended December 31, 2004 and USD270.2 million (74.2% of total borrowings) for the period ended December 31, 2003.

Variable rate debts expose Ternium to the risk of increased interest expense in the event of increases in interest rates. From time to time, Ternium enters into interest rate swap agreements to manage its exposure to interest rate changes. As of December 31, 2004 and 2003, Ternium did not have any variable interest rate swap arrangements.

Foreign exchange exposure risk

A portion of Ternium s business is carried out in currencies other than the U.S. dollar, Ternium s reporting currency. As a result of this foreign currency exposure, exchange rate fluctuations impact Ternium s results as reported in its income statement in the form of both translation risk and transaction risk. Translation risk is the risk that Ternium s consolidated financial statements for a particular period or as of a certain date may be affected by changes in the prevailing rates of the various functional currencies of the reporting subsidiaries against the U.S. dollar. Transaction risk is the risk that the value of transactions executed in currencies other than the subsidiary s functional currency may vary according to currency fluctuations.

Ternium aims to manage the economic effect of currency appreciation or depreciation. However, the fact that a number of its subsidiaries have functional currencies other than the U.S. dollar can sometimes distort the result of these efforts as reported under IFRS.

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Foreign currency derivative contracts

From time to time, certain of Ternium s subsidiaries use forward contracts in order to hedge their exposure to fluctuations in the prices of other hard currencies (including the euro and the pound sterling) against the U.S. dollar.

As of December 31, 2004 and 2003, Ternium s subsidiaries were party to foreign currency forward agreements as detailed in the table below:

At December 31, 2004	**2005**	**Thereafter**	**Total**	**Fair Value**
		(thousands)		
Forwards				
USD/Euro (Euro forward sales)				
Notional amount	EUR65,000		EUR65,000	USD5,622
Average contractual exchange rate	1.2700 USD/EUR		1.2700USD/EUR	
USD/GBP (Pound Sterling forward sales)				
Notional amount	GBP2,500		GBP2,500	USD334
Average contractual exchange rate	1.7750 USD/GBP		1.7750 USD/GBP	

At December 31, 2003	**2004**	**Thereafter**	**Total**	**Fair Value**
		(thousands)		
Forwards				
USD/Euro (Euro forward sales)				
Notional amount	EUR50,500		EUR50,500	USD4,162
Average contractual exchange rate	1.1744 USD/EUR		1.1744 USD/EUR	
USD/GBP (Pound Sterling forward sales)				
Notional amount	GBP1,000		GBP1,000	USD120
Average contractual exchange rate	1.6529 USD/GBP		1.6529 USD/GBP	

Commodity price sensitivity

Ternium is exposed to risk resulting from fluctuations in the prices of commodities and raw materials. In general, management does not hedge this risk; however, from time to time, commodity derivative instruments have been used to hedge certain fluctuations in the market prices of certain raw material such as zinc and tin.

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Amazonia

The following discussion should be read in conjunction with Amazonia s consolidated financial statements and the related notes thereto included elsewhere in this prospectus. Amazonia s sole subsidiary and primary source of revenue is Sidor, through which Amazonia carries out all its operations. Amazonia s consolidated financial statements are the first published financial statements of Amazonia prepared in accordance with IFRS, which differs in certain significant respects from U.S. GAAP. See note 37 to Amazonia s consolidated financial statements included in this prospectus, which includes a description of the principal differences between IFRS and U.S. GAAP and a reconciliation of net income and shareholders equity for the periods and at the dates indicated.

Overview

Amazonia was organized in the Cayman Islands on November 13, 1997, its principal activity being to hold long-term investments in Venezuelan steel companies.

In January 1998, Amazonia acquired a 70% equity interest in Siderúrgica del Orinoco C.A. (now Sidor), a company privatized by the government of Venezuela, which retained the remaining 30%. Sidor is an integrated steel manufacturing company that performs production processes that begin with the manufacture of pellets and concludes with the shipment of long and flat-end products, such as slabs, hot and cold rolled sheets and wire rods. Sidor is currently Amazonia s sole subsidiary.

As part of a debt restructuring process carried out by Sidor and Amazonia in 2003, certain credits held by Amazonia and the government of Venezuela against Sidor were capitalized, thus changing their participation to 59.73% and 40.27%, respectively. See note 5 to Amazonia s financial statements included elsewhere in this prospectus and Formation of Ternium and Related Party Transactions Corporate reorganization transactions.

In order to secure part of its iron ore requirements, Sidor, together with a subsidiary of Tenaris, formed Matesi. Matesi, organized in Venezuela on April 23, 2004, commenced operations in October 2004 after acquiring, at a purchase price totaling USD120 million, a plant for the manufacturing and marketing of briquettes. As of December 31, 2004, Amazonia, through Sidor, is the holder of a 49.8% equity interest in Matesi.

Sidor is the main flat steel producer in Venezuela, the largest steel company in the Andean Community and the main private exporter in Venezuela. Sidor s revenues are affected by general global trends in the steel industry and more specifically by the economic conditions in Venezuela. Sidor s revenues are also strongly related to the events that affect the price and availability of raw materials and energy inputs needed for its operations. The variables and trends mentioned below could also affect the results of Amazonia s investments in steel related companies.

Sidor s primary source of revenue is the sale of flat and long steel products. Sales of flat and long steel products represent a significant percentage of Sidor s total sales, and management expects sales of such products to continue to be its primary source of revenue. The global market for such steel products is highly competitive, with the primary competitive factors being price, cost, quality and service. Sidor sells its products in several countries worldwide but its largest markets are concentrated in Venezuela.

Sidor s results are sensitive to economic activity, steel consumption and prices in the international steel markets. Sidor s results of operations primarily depend on economic conditions in its domestic market and, to a lesser extent, in the international markets. Historically, annual steel consumption in Venezuela has varied at a rate that is linked to the annual change in Venezuela s gross domestic product. Lately, worldwide economic growth and favorable economic developments throughout the Americas contributed to increased overall demand for Sidor s products. In addition, steel prices worldwide are determined by global trends of supply and demand.

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A decline in global steel prices generally leads to a decrease in the prices of Sidor s products and, consequently, to a decline in Sidor s revenues and profitability. In 2001, the downturn in the global economy caused a drastic reduction in sales prices and a shift in sales destinations. After a period of worldwide economic slowdown, increased competition and global overcapacity, prices began to recover in 2003 and were boosted by a strong increase in global demand fostered by economic growth in Asia, together with an indication of economic recovery in the United States. Recent high prices for steel have encouraged reactivation and investment in production capacity, and, consequently, oversupply has led to a decline in steel prices since the last quarter of 2004.

Sidor s production costs are sensitive to the prices of raw materials and energy. Sidor purchases substantial quantities of raw materials, including iron ore, coal, ferroalloys and scrap, for use in the production of steel products. The price and availability of these raw materials vary according to general market and economic conditions and thus are influenced by industry cycles; however, a portion of Sidor s purchases of raw materials and energy are governed by long-term contracts with price adjustment mechanisms that are, from time to time, unrelated to international market prices.

Expenditures for iron ore constitute one of Sidor s largest individual raw material costs. Currently, Sidor purchases all of its iron ore from FMO, a Venezuelan state-owned company, under a long-term supply agreement entered into in 1997. Sidor benefits from this long-term relationship and from the proximity of raw materials sources. If Sidor is not able to continue this long-term relationship on favorable terms, it could be unable to obtain sufficient quantities of iron ore from alternative suppliers at prices comparable to those offered by its current supplier. Following a public announcement by the Venezuelan government that sought to pressure Sidor to renegotiate the terms of the agreement for the supply of iron ore, as permitted under the contract s hardship provision, on November 11, 2005, Sidor and FMO amended the pricing terms of the contract. The amended formula is expected to increase Sidor s cost of iron ore from approximately USD19 to approximately USD30 per ton in fiscal 2006. Furthermore, under the revised contract, the pricing formula may be adjusted every two years, on the basis of public policy, Sidor s competitiveness and the evolution of international steel prices. In conjunction with the changes in price conditions for the supply of iron ore to Sidor by FMO, the Venezuelan government is offering a price reduction on raw materials acquired from state-owned enterprises, such as FMO, that may reach 10% over the agreed market reference price. These preferential supply terms, as established in a presidential decree and related regulations, are conditioned on commitments by potential beneficiaries to assist development of the domestic industrial sector and to support certain community needs. In connection with the initial assessment of Sidor s proposed industrial development plan, Sidor was granted a provisional 6% discount on its iron ore price, which discount could increase up to 10% upon completion of the mandatory review process. This discount could increase once a more detailed plan is presented to, and approved by, the Venezuelan government. See Business Raw materials and energy Venezuela Iron ore.

In addition to raw materials, electricity and natural gas are both important components of Sidor s cost structure. Sidor relies heavily upon two Venezuelan state-owned companies: PDVSA Gas and EDELCA for the provision of natural gas and electricity, respectively. A major disruption in the supply of natural gas or electricity, such as strikes, lockouts and other problems, would impact Sidor significantly. However, the risk of such a disruption at the current time appears to be low. See Business Raw materials and energy Venezuela Electricity and Natural gas.

Sidor s revenues could be affected by competition from imports and dumping conditions. Sidor s ability to access profitably the export markets varies with the value of the Venezuelan bolívar (its functional currency), the strength of the economies of the countries to which it exports and overall steel prices. Sidor s ability to sell its products is influenced to varying degrees by trends in global trade for steel products, particularly trends in steel product imports into Venezuela, its principal market, and any antidumping restraints placed upon these imports.

Prevailing exchange rates and inflation have had an impact on Sidor s results, and in turn on Amazonia s results, in the past and could impact results again in the future. Sidor has primarily U.S. dollar-linked revenues, while a significant portion of its costs are denominated in its functional currency, the

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Venezuelan bolívar. As a result, Sidor s income is affected by the fluctuation of the Venezuelan bolívar against the U.S. dollar. If the Venezuelan bolívar appreciates, Sidor receives less local currency for each U.S. dollar of exports and imports become cheaper in local currency terms, factors which tend to place a ceiling on domestic prices. However, if the Venezuelan bolívar depreciates, local costs become cheaper, while imports become more expensive. The Venezuelan bolívar/U.S. dollar exchange rate was set by the Venezuelan government in February of 2004 to VEB1,917 to USD1.00 and kept at that level until March 2005, when the exchange rate was set at VEB2,147 to USD1.00.

Amazonia s net income in 2004 benefited from a strong gain, including non-recurring items, arising from Sidor s improved results. As discussed elsewhere, until 2003 Sidor experienced significant financial constraints, which led to a default on its debt obligations and a subsequent restructuring of Sidor s and Amazonia s debt. Amazonia s results in 2004 showed the positive impact of this restructuring, as well as more favorable market conditions for Sidor s products starting in 2003.

Basis of preparation of financial statements

Amazonia s consolidated financial statements included in and specially prepared for this prospectus are the first published financial statements of Amazonia prepared in accordance with IFRS, including IFRS 1, First-time Adoption of International Financial Reporting Standards.

The use of IFRS has an impact on Amazonia s critical accounting policies and estimates. A description of the significant differences between IFRS and U.S. GAAP as they relate to Amazonia are set forth in note 37 to Amazonia s consolidated financial statements. The application of U.S. GAAP would have affected the determination of consolidated net income (loss) for the periods ended December 31, 2003 and 2004.

See note 37 to Amazonia s consolidated financial statements which provides reconciliation to U.S. GAAP of Amazonia s net income and shareholders equity.

The financial statements of Amazonia discussed in this section consolidate the equity interests in Sidor.

Amazonia s investments in associated companies are accounted for under the equity method, which means that their profits net of losses are incorporated into Amazonia s consolidated profit and loss accounts in proportion to the aggregate interest owned by Amazonia in the relevant company or entity from time to time.

Critical accounting estimates

Amazonia s operating and financial review and prospects are based on Amazonia s consolidated financial statements, which have been prepared in accordance with IFRS, including IFRS 1.

The preparation of the financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on other assumptions that it believes to be reasonable under the circumstances and evaluates these estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies and estimates reflect the significant judgments and estimates used in the preparation of Amazonia s consolidated financial statements. Management believes that changes in these assumptions and estimates are not likely to have a material impact on its consolidated financial statements.

Useful lives and impairment of property, plant and equipment

As permitted under IFRS 1- First Time Adoption of IFRS, management has elected to use the fair value of its property, plant and equipment as at January 1, 2003 as its deemed cost. In determining useful lives and

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impairment estimates, management considered, among others, the following factors: age, operating condition and level of usage and maintenance. Management conducted visual inspections for the purpose of (i) determining whether the current conditions of such assets are consistent with normal conditions of assets of similar age; (ii) confirming that the operating conditions and levels of usage of such assets are adequate and consistent with their design; (iii) establishing obsolescence levels and (iv) estimating expectancy, all of which were used in determining useful lives and impairment estimates. Management believes, however, that it is possible that the periods of economic utilization of property, plant and equipment may be longer than the useful lives so determined. In addition, management must periodically test its property, plant and equipment for impairment and, as a result, an impairment in value can be established. Impairments may result from, among other factors, changes in usage level and maintenance capital expenditure policies, obsolescence and external factors (including increases in input prices that would affect the profitability of the selected fixed assets). Any such impairment charges could have a material adverse effect on Amazonia s results of operation, financial condition and net worth. Management believes that this accounting policy involves a critical accounting estimate because it is subject to change from period to period as a result of variations in economic conditions and business performance.

Allowances for doubtful accounts

Management makes estimates of the uncollectibility of Sidor s accounts receivable. Management analyzes Sidor s trade accounts receivable on a regular basis and, when aware of a third party s inability to meet financial commitments to Sidor, management impairs the amounts due by means of a charge to the allowance for doubtful accounts. Management specifically analyzes accounts receivable and historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts.

In addition, a charge to the allowance for doubtful accounts is recognized when a customer makes a claim in connection with an order that has been invoiced and management estimates that, despite its efforts, Sidor is unlikely to collect the full amount of the invoice.

Allowances for doubtful accounts are adjusted periodically in accordance with the aging of overdue accounts. For this purpose, trade accounts receivable overdue by more than 90 days, and which are not covered by a credit collateral, guarantee or similar surety, are fully provisioned.

Historically, losses due to credit failures, aging of overdue accounts and customer claims have been within expectations and in line with the provisions established. If, however, circumstances were to materially change (*e.g.*, higher than expected defaults), management s estimates of the recoverability of amounts due to Sidor could be materially reduced and Amazonia s results of operations, financial condition and net worth could be materially and adversely affected.

Loss contingencies

Sidor is subject to various claims, lawsuits and other legal proceedings, that arise in the ordinary course of its business. Sidor s liability with respect to such claims, lawsuits and other legal proceedings cannot be estimated with certainty. Periodically, management reviews the status of each significant matter and assesses potential financial exposure. If the potential loss from the claim or proceeding is considered probable and the amount can be reasonably estimated, liability is recorded. Management estimates the amount of such liability based on the information available and the assumptions and methods it has concluded are appropriate, in accordance with the provisions of IFRS. Accruals for such contingencies reflect a reasonable estimate of the losses to be incurred based on information available, including the relevant litigation or settlement strategy, as of the date of preparation of the applicable financial statement. As additional information becomes available, management will reassess its evaluation of the pending claims, lawsuits and other proceedings and revise its estimates.

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With respect to the loss contingencies described in Amazonia s financial statements, management does not expect to incur any losses exceeding the amounts accrued as of December 31, 2004 or June 30, 2005 that would be material relative to Amazonia s consolidated financial position, results of operation or liquidity as of such dates. However, if reserves prove to be inadequate and Amazonia incurs a charge to earnings, such charges could have a material adverse effect on Amazonia s results of operation, financial condition and net worth.

Impairment of long-term investments

Management records an investment impairment charge when it believes an investment has experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of these investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment s current carrying value, thereby possibly requiring an impairment charge in the future.

Allowance for obsolescence of supplies and spare parts and slow-moving inventory

Management makes estimates of the recoverability of inventories of supplies and spare parts based on the following criteria:

- analysis of the aging of the supplies and spare parts; and
- analysis of the capacity of materials to be used according to their level of preservation and of their potential obsolescence due to technological changes in the mills.

In addition, an allowance for slow-moving inventory in Sidor s manufacturing facilities is made in relation to finished goods based on management s analysis of aging and market conditions. For this purpose, stocks of finished goods held in inventory for more than six months before the applicable reporting date are valued at their estimated recoverable value.

Historically, losses due to obsolescence and scrapping of inventory have been within expectations and the provisions established. If, however, circumstances were to materially change (*e.g.*, significant changes in market conditions or in the technology used in the mills), management s estimates of the recoverability of these inventories could be materially reduced and Amazonia s results of operations, financial condition and net worth could be materially and adversely affected.

Income taxes

Under present Cayman Islands law, as long as Amazonia maintains its status as a holding company, no income, withholding (including with respect to dividends) or capital gain tax is payable in the Cayman Islands by Amazonia.

Management calculates present and deferred income taxes according to the tax laws applicable to Sidor in Venezuela. However, certain adjustments necessary to determine the income tax provision are finalized only after the balance sheet is issued. In cases in which the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. When assessing the recoverability of deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. Based on those estimates, management recorded a valuation allowance for a total of USD271.0 million and USD283.2 million at June 30, 2005 and December 31, 2004, respectively. The following table sets forth the composition of deferred tax asset impairment for the periods indicated.

	For the period ended	
Impairment of deferred tax assets	**December 31, 2004**	**June 30, 2005**
Tax loss carryforwards	$ 250.1	$ 223.4
Income tax incentive regime	15.4	32.1
Asset tax credits	17.6	15.5
Total	$ 283.2	$ 271.0

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Results of operations

The following table sets forth Amazonia s operating and other costs and expenses as a percentage of net sales for the periods indicated.

	For the year ended December 31,	
	2003	**2004**
Percentage of net sales		
Net sales	100%	100.0%
Cost of sales	(60.8)%	(42.7)%
Gross profit	39.2%	57.3%
General and administrative expenses	(10.6)%	(7.2)%
Selling expenses	(9.6)%	(7.6)%
Other operating (expenses) income, net	(1.1)%	(1.0)%
Operating income	17.9%	41.5%
Financial (expenses) income, net	(34.6)%	(27.3)%
Gain on restructuring of debt	42.2%	0.0%
Equity in loss of associated companies	0.0%	(0.1)%
Income before income tax and asset tax (expense) benefit	25.5%	14.2%
Income tax and asset tax (expense) benefit	6.1%	(0.4)%
Net income for the year	31.5%	13.8%
Attributable to:		
Equity holders of the Company	30.5%	7.6%
Minority interest	1.0%	6.1%

Fiscal year ended December 31, 2004 compared to fiscal year ended December 31, 2003

Overview

Amazonia s net income attributable to its equity holders decreased by 60.1%, from USD367.1 million for the year ended December 31, 2003 to USD146.3 million for the year ended December 31, 2004. This significant decrease was primarily attributable to the recognition of a non-recurring gain in 2003 in connection with Sidor s and Amazonia s debt restructuring (USD508.0 million). Other drivers of the variation were an increase in operating results (USD795.4 million in 2004 compared to USD215.3 million in 2003), which was partially off-set by a strong increase in the financial expenses related to the compensation to certain participants in Sidor s financial restructuring (USD343.6 million in 2004 compared to USD124.8 million in 2003) and the consequent increase in minority interest results.

The improved operating results of the period were due to an increase in international prices of flat and long steel products and certain favorable supply conditions in the period under analysis, which were partially off-set by an increase in raw materials and shipping costs.

Cash and cash equivalents as of December 2004 were USD211.5 million, compared to USD103.9 million as of December 2003. The increase of USD107.6 million was mainly due to the generation of cash from operating activities in an amount of USD415.4 million, of which USD140.6 million was applied to investments in fixed assets and loans granted to Matesi for its start-up, and USD150.0 million (net) was used in the repayment of financial debt.

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Net sales

Net sales in 2004 totaled USD1,914.3 million, which represents an increase of 59.0% compared to the USD1,203.6 million posted in 2003. This substantial increase was primarily due to higher average selling prices for both flat steel products and long steel products and an increase of 8.1% in sales volumes.

The table below shows sales by product and market for the periods indicated.

	For the year ended December 31,	
Thousands of U.S. dollars	**2003**	**2004**
Flat Steel Products Sales		
South and Central America	$ 624,607	$ 1,111,183
North America	137,949	268,273
Europe	39,219	51,268
Other	107,335	55,422
Total Flat Steel Products Sales	$ 909,110	$ 1,486,146
Long Steel Products Sales		
South and Central America	$ 209,114	$ 319,488
North America	39,436	52,651
Europe	6,519	2,575
Other		355
Total Long Steel Products Sales	$ 255,069	$ 375,069
Sales of Other Steel Products		
South and Central America	$ 39,459	$ 53,093
Total Sales of Other Steel Products	$ 39,459	$ 53,093
Total Sales	$ 1,203,638	$ 1,914,308

Amazonia derives the majority of its revenues (approximately 77.6%) from sales of Sidor s flat steel products. Sales of flat steel products increased by 63.5% from USD909.1 million in 2003 to USD1,486.1 million in 2004. In addition, long steel products increased by 47.0% from USD255.1 million in 2003 to USD375.1 million in 2004. Total sales of other steel products (which include sales of iron ore and pellets) also grew by more than a third from USD39.5 million in 2003 to USD53.1 million in 2004.

Sales volume

Sales volume increased by 8.1% from 3,139 thousand tons in 2003 to 3,391 thousand tons in 2004. This increase reflects the continued recovery of the South American regional economies, especially that of Venezuela, and in particular recovery of the Venezuelan oil and construction industries.

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The table below shows total sales volume by product and market for the periods indicated.

Thousands of tons (unaudited)	For the year ended December 31, 2003	2004
Flat Steel Products Sales Volume		
South and Central America	1,465	1,825
North America	463	556
Europe	121	97
Other	317	155
Total Flat Steel Products Sales Volume	2,366	2,633
Long Steel Products Sales Volume		
South and Central America	626	642
North America	126	108
Europe	21	7
Other		1
Total Long Steel Products Sales Volume	773	759
Total Sales Volume	3,139	3,391

Flat steel products sales increased by 11.3% with respect to 2003, due to a 24.6% increase in sales to South and Central America and a 20.1% increase in sales to North America, which were partially off-set by a decrease of 19.8% and 51.1% in exports to Europe and other countries, respectively. This change in sales destination reflects the recovery in steel consumption in the Americas and Sidor s focus on the regional markets where it can provide specialized products and delivery services to its clients. Long steel products sales reached a total of 759 thousand tons in 2004, compared to 773 thousand tons in 2003, remaining relatively stable in volume in the period and across regions.

The following table shows the percentage market distribution of Sidor s flat steel and long steel products sales by region for the periods indicated.

Percentage of total sales	For the year ended December 31, 2003	2004
South and Central America	72.5%	77.5%
North America	14.7%	16.8%
Europe	3.8%	2.8%
Other	8.9%	2.9%

	100.0%	100.0%

Sales prices

Steel prices increased during 2004, benefiting from the strong market conditions throughout the year. Average price per ton of flat steel products increased by 46.9% from USD384 in 2003 to USD564 in 2004, while average price per ton of long products increased by 49.8% from USD330 in 2003 to USD494 in 2004.

Cost of sales

Total cost of sales increased by 11.7% from USD731.3 million in 2003 to USD816.8 million in 2004, mainly due to the increase in sales volume and an increase in the price of raw materials. The cost of raw materials increased by 33.6% to a total of USD538.1 million in 2004, and, in the same period, labor costs increased by 12.4% to a total of USD94.8 million.

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Cost of sales, expressed as a percentage of net sales, decreased to 42.7% during 2004, compared to 60.8% for the previous fiscal year. This improvement in relative terms is explained by the very significant increases recorded in selling prices (an average increase of 47.2%) which more than compensated for the increased cost of supplies.

Average cost of sales per ton of flat steel products increased by 10.2% from USD226 per ton in 2003 to USD249 per ton in 2004, while cost of sales associated with long steel products remained stable throughout the periods under analysis.

General and administrative expenses

General and administrative expenses recorded for 2004 were USD138.0 million, or 7.2% of net sales, compared to USD127.1 million, or 10.6% of net sales, for 2003. The reduction of general and administrative expenses as a percentage of net sales is mainly due to a higher absorption of these expenses by higher sales prices and volumes. The 8.6% increase is mainly due to increases of 16.7% in labor costs and in services and fees related to general and administrative expenses of 39.6%, which were partially offset by a decrease of 18.8% in depreciation related to these expenses.

Selling expenses

Selling expenses for 2004 were USD145.7 million, or 7.6% of net sales, compared to USD116.1 million, or 9.6% of net sales, for 2003. In general, variations in selling expenses are closely tied to freight costs and other expenses related to the transport of goods. In this instance, the improvement in selling expenses as a percentage of net sales was driven by the increase in selling prices and the recovery of sales to Sidor s traditional markets, while the increase in the amount of selling expenses related to the increase in sales volume and freight prices.

Other operating (expenses) income, net

Other operating income and expenses posted a net loss of USD18.4 million for the fiscal year ended December 31, 2004, compared to a net loss of USD13.8 million in the previous fiscal year.

Financial income (expenses), net and gain on restructuring of debt

Amazonia posted a net financial expense of USD522.5 million in 2004, compared to a net financial expense of USD416.8 million in the previous fiscal year. This variation is mainly related to the increase of USD218.8 million in the amounts paid by Sidor to the participants in Sidor s 2003 financial restructuring. Amazonia recorded a non-recurring gain of USD508.0 million for 2003 in connection with Sidor s and Amazonia s debt restructuring.

Equity in loss of associated companies

Amazonia s share in the results of associated companies during 2004 was a loss of USD1.2 million. This was mainly due to Sidor s investments in Matesi and the subsequent start-up costs of Matesi s operations.

Income tax and asset tax (expense) benefit

Amazonia recorded an income and asset tax expense of USD8.3 million in 2004, compared to an income and asset tax benefit of USD73.1 million in 2003 given the losses Sidor recorded in previous years.

Amazonia s effective tax rate is calculated as income tax over income before equity in earnings of associated companies income tax and minority interest. For the year ended December 31, 2004, Amazonia s effective tax rate was 3.1%.

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Net income attributable to minority interest

Net income attributable to minority interest for the fiscal year 2004 increased to USD117.0 million from USD12.5 million in 2003. This increase was primarily due to the improvement in Sidor s operating results for that period.

Liquidity and capital resources

The following table shows the changes in cash and cash equivalents for each of the last two years:

	For the year ended December 31,	
Thousand of U.S. dollars	**2003**	**2004**
Net cash flow provided by operating activities	$ 246,290	$ 415,443
Net cash flow used in investment activities	(59,386)	(140,582)
Net cash flow used in financing activities	(148,363)	(149,974)
Increase in cash and cash equivalents	$ 38,541	$ 124,887
Cash and cash equivalents at the beginning of the period	74,371	103,912
Net effect of exchange rate changes in cash and cash equivalents	(9,000)	(17,318)
Cash and cash equivalents at the end of the period	$ 103,912	$ 211,481

Fiscal year ended December 31, 2004 compared to fiscal year ended December 31, 2003

Operating activities

Net cash provided by Sidor s operations during 2004 was USD415.4 million compared to USD246.3 million in 2003. This increase was due to Sidor s higher operating results, which was partially off-set by:

- a total of USD343.6 million in compensation to participants in Sidor s 2003 financial restructuring;
- an increase in inventories of USD98.3 million, mainly due to an increase in business activity; and

a net increase in receivables and trade receivables, less trade payables of USD27.4 million, principally reflecting the increase in net sales.

Investing activities

Net cash used in investing activities in 2004 was USD140.6 million, compared to USD59.4 million in 2003. The significant increase from the previous year was due to:

loans granted by Sidor in 2004 totaling USD49.6 million to an associated company (Matesi);

a USD18.5 million increase in capital expenditures, which increased from USD59.5 million in 2003 to USD78.0 million; and

a USD13.1 million increase in the equity investment in Matesi.

Financing activities

Net cash used in financing activities was USD150.0 million in 2004, compared to USD148.4 million in 2003 mainly reflecting a net payment of the borrowings during these periods.

Principal sources of funding

Funding policies

Management s policy is to maintain a high degree of flexibility in operating and investment activities by maintaining adequate liquidity levels and ensuring access to readily available sources of financing. Amazonia obtains financing primarily in U.S. dollars. Whenever feasible, management bases its financing decisions, including the term and type of facility, on the intended use of proceeds for the proposed financing.

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Financial liabilities

Total financial debt decreased by 15.6% from USD883.4 million as of December 31, 2003 to USD746.0 million as of December 31, 2004.

The following table shows Amazonia s financial liabilities as of the end of each of the last two years.

	As of December 31,	
In millions of U.S. dollars	**2003**	**2004**
Amazonia Convertible Debt Instruments (ACL)	$ 127.6	$ 127.6
Banco de Desarrollo Económico y Social de Venezuela (BANDES)	334.9	244.8
Other bank loans	338.7	267.7
Other borrowings	82.2	105.9
Total borrowings	$ 883.4	$ 746.0

After the completion of Sidor s financial restructuring in June 2003, Amazonia s financial liabilities currently consist principally of bank loans and a convertible debt instrument issued by Amazonia to Ylopa. These facilities are denominated in U.S. dollars. For further information about Amazonia s financial liabilities, please see notes 5 and 18 to Amazonia s consolidated financial statements.

The 2003 financial restructuring agreements contemplate certain remaining obligations and restrictions, including:

- Sidor transferred the fiduciary ownership of substantially all of its productive assets to a security trust;
- a pledge on the shares of Sidor and Amazonia in the hands of the financial creditors of Sidor, for a term of two years as of the date of corporate reorganization, as long as no event of default takes place and the terms of Sidor s refinanced loan agreements are fulfilled (this pledge was released as of July 2005);
- a pledge of any future debt of Amazonia, which will be in effect until the pledges on shares of Amazonia and Sidor have been released (as noted above, such pledge was released as of July 2005);
- an agreement not to create or set up any lien other than those permitted on the shares or debt of Amazonia or its shareholders;
- restrictions on the distribution of profits; and

restrictions on the possibility of reorganization, declaration of bankruptcy or liquidation of Amazonia or Sidor.

In addition, the 2003 financial restructuring agreements provide for certain financial covenants that require Sidor to maintain specified ratio levels of EBITDA to total interest expense and aggregate outstanding debt to EBITDA.

On February 1, 2005, Ylopa exercised its option to convert certain debt instruments convertible into shares of Amazonia into a 67.4% equity interest in Amazonia.

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Contractual obligations

The following table shows, by major category of commitment and long-term obligation, the maturity of Amazonia s contractual obligations at December 31, 2004.

Millions of U.S. dollars	Total Amounts Committed	Less than 1 year	1-3 years	4-5 years	After 5 years
Borrowings[(1)]	$ 746.0	$ 216.7	$ 194.3	$ 42.0	$ 293.1
Purchase commitments[(2)]	2,015.9	171.2	513.5	342.3	988.9
Sales commitments[(3)]	1,283.2	128.9	474.0	316.0	904.4
Total Commitments	**$ 4,045.1**	**$ 516.8**	**$ 1,181.8**	**$ 700.3**	**$ 2,186.4**

(1) Includes USD127.6 million corresponding to principal outstanding under the ACL. As discussed in Note 36 to Amazonia s consolidated financial statements and in Formation of Ternium and Related Party Transactions, this debt instrument was converted into common stock of Amazonia in February 2005. The total estimated interest to be paid under these borrowings is USD161.7 million. The variable interest portion was calculated using the forward LIBOR curve as of December 31, 2004.

(2) Includes contracts with Matesi (hot briquetted iron), PDVSA (gas) and EDELCA (electricity).

(3) Includes a contract for the sale of pellets by Sidor to FMO and a contract for the sale of blooms to Tavsa, Tubos de Acero de Venezuela S.A. (Tavsa). For further information see, Business Raw Materials and Energy Venezuela and Formation of Ternium and Related Party Transactions.

The scheduled repayment of Amazonia s financial loans is set forth in note 5 to Amazonia s consolidated financial statements.

In connection with the restructuring of Sidor s debt, a payment mechanism was established that required Sidor to use certain future cash surpluses to prepay the debt with BANDES and certain commercial bank creditors and to compensate CVG (the Venezuelan government) and certain partners of Amazonia (through Ylopa) pursuant to the agreements entered into by Sidor in the debt restructuring process of 2003. The payments under this mechanism would modify the payment schedule of Amazonia s financial loans. For further information on the amounts payable by Sidor please refer to Business Subsidiaries Amazonia, Ylopa and Sidor Amazonia.

Off-balance sheet arrangements

Amazonia does not use off-balance sheet arrangements as defined by SEC rules. As described above, Amazonia has various off-balance sheet commitments for the provision of raw materials and energy. Off-balance sheet commitments are discussed in note 34 to Amazonia s consolidated financial statements included in this prospectus.

Net income (loss) and shareholders equity information on a U.S. GAAP basis

Amazonia s consolidated financial statements have been prepared in accordance with IFRS, which, as applied to Amazonia, differs in significant respects from U.S. GAAP.

Under U.S. GAAP, Amazonia recorded net income of USD318.5 million for the fiscal year ended December 31, 2004 (compared to net income attributable to equity holders of USD146.3 million under IFRS), and net income of USD320.1 million for the fiscal year ended December 31, 2003 (compared to net income attributable to equity holders of USD367.1 million under IFRS). The principal differences between IFRS and U.S. GAAP that affected Amazonia s total assets, net income and shareholders equity on a U.S. GAAP basis were:

- differences in the capitalization of interest on property, plant and equipment under construction;

- differences in the accounting for pension benefits;

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differences in the accounting for the debt restructuring;

differences in the valuation of inventories; and

the effects on deferred taxes and minority interest of the reconciling items listed above.

Shareholders equity determined in accordance with U.S. GAAP was USD351.5 million as of December 31, 2004, compared to USD746.2 million under IFRS, and USD45.2 million as of December 31, 2003, compared to USD723.5 million under IFRS. The principal differences affecting the determination of shareholders equity are those described above.

For a discussion and a quantitative reconciliation of the differences between IFRS and U.S. GAAP as they relate to Amazonia s consolidated net income (loss) and shareholders equity, see note 37 to Amazonia s consolidated financial statements included in this prospectus.

Quantitative and qualitative disclosure about market risk

The discussion set forth below provides information, on a combined and consolidated basis, with respect to Amazonia s sensitivity to changes in interest rates, foreign exchange rates and market prices. Sidor is the main operating company consolidated with Amazonia, and its exposure to market risks affects the results of Amazonia. In addition, in the ordinary course of business Amazonia also faces risks with respect to financial instruments that are either non-financial or non-quantifiable; such risks principally include country risk and credit risk and are not presented in the following analysis.

Amazonia s subsidiary Sidor is exposed to the risk of changes in interest rates, foreign currency exchange rates and, to a limited extent, commodity prices. However, due to contractual and regulatory restrictions on the use of derivatives, Sidor does not hold any derivative financial instruments to mitigate its exposure to market risks.

The following table provides a breakdown of debt instruments at December 31, 2004 and 2003, which included fixed and variable interest rate obligations detailed by currency and maturity date.

At December 31, 2004	**Expected maturity, as of December 31,**						
In millions of U.S. dollars	**2005**	**2006**	**2007**	**2008**	**2009**	**Thereafter**	**Total[(1)]**
Non-Current Debt							
Fixed Rate						$ 151.2	$ 151.2
Floating Rate		$ 57.8	$ 83.2	$ 53.3	$ 12.7	171.1	378.1
Current Debt							
Fixed Rate	$ 44.5						$ 44.5
Floating Rate	172.2						172.2

Total	$ 216.7	$ 57.8	$ 83.2	$ 53.3	$ 12.7	$ 322.3	$ 746.0

(1) As most borrowings incorporate floating rates that approximate market rates and the contractual repricing occurs every 3 to 6 months, the fair value of the borrowings approximates its carrying amount and is not disclosed separately.

Total Debt by Currency

In millions of U.S. dollars	2004
USD	$ 701.5
VEB	44.5
Total	$ 746.0

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Interest Rate Risk

Interest rate movements create a degree of risk by affecting the amount of our interest payments and the value of Amazonia s fixed rate debt. Most of Amazonia s long-term borrowings are at variable rates. As of December 31, 2004, Amazonia had variable interest rate debt amounting to USD550.3 million. These variable rate debts expose Amazonia to the risk of increased interest expense in the event of increases in interest rates.

Given the restrictions discussed above, Amazonia does not have interest rate swap agreements to manage its exposure to interest rate changes. These restrictions and regulations could cause Sidor to be more vulnerable to market fluctuations than it would be if its hedging activities were unlimited.

Foreign Exchange Exposure Risk

Sidor conducts certain commercial and financial operations in currencies other than the U.S. dollar, its functional currency. As a result of its foreign currency exposure, exchange rate fluctuations impact Sidor s results in the form of both translation risk and transaction risk on its income statement. Translation risk is the risk that the consolidated financial statements for a particular period or as of a certain date may be affected by changes in the prevailing rates of the various currencies of the reporting subsidiaries against the U.S. dollar. Transaction risk is the risk that the value of transactions executed in currencies other than the subsidiary s functional currency may vary according to currency fluctuations.

As described above, Sidor s use of derivative contracts is limited by contractual and regulatory restrictions. Therefore, Sidor does not have forward contracts in order to hedge its exposure to exchange rate risk in Venezuela.

Commodity Price Sensitivity

As an operating company, Sidor is exposed to risks resulting from fluctuations in the prices of commodities and raw materials. As discussed above, current contractual obligations and regulations restrict Sidor s ability to hedge these risks.

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Hylsamex

The following discussion should be read in conjunction with Hylsamex s consolidated financial statements and the notes thereto included elsewhere in this prospectus. The Company acquired Hylsamex subsequently to the periods presented in Hylsamex s consolidated financial statements included herein. Neither San Faustín nor any of its affiliates controlled or managed Hylsamex during the periods presented in such financial statements. Accordingly, except for the restatement into constant Mexican pesos as of June 30, 2005, such financial statements were not prepared by or at the direction of the Company. Hylsamex s consolidated financial statements have been prepared in accordance with Mexican GAAP for each of the periods and at the dates indicated, in each case restated in constant Mexican pesos as of June 30, 2005. Mexican GAAP differs in certain significant respects from U.S. GAAP. See note 16 to Hylsamex s consolidated financial statements included in this prospectus, which provides a description of the principal differences between Mexican GAAP and U.S. GAAP as they relate to Hylsamex s consolidated financial statements and a reconciliation of net income and shareholders equity to U.S. GAAP for the periods and at the dates indicated therein. For a discussion of currencies used in this prospectus, exchange rates and accounting principles affecting the financial information contained in this prospectus, see Exchange Rates and Presentation of Financial and Other Information.

Overview

Hylsamex is one of the largest mini-mill steel companies in Mexico and is a strong competitor in each of its principal flat and long steel products, including value-added finished steel products for use mainly in the construction, automotive and appliance industries. Furthermore, Hylsamex owns two mine complexes from which it obtains its iron ore requirements. Hylsamex is a holding company and, as such, does not engage directly in production operations. Instead, operations are conducted by Hylsamex s operating subsidiaries. The two principal subsidiaries of Hylsamex involved in its flat products activity are Hylsa S.A. de C.V. (Hylsa) and Galvak, S.A. de C.V. (Galvak), and those involved in the long products business are Hylsa Puebla S.A. and Hylsa Norte S.A., each of which is wholly owned by Hylsamex. Hylsa operates Hylsamex s principal divisions of steel production, and Galvak is a leader in the production of coated steel. In the context of a corporate restructuring aimed at simplifying operations and eliminating unnecessary overlaps, on December 31, 2005 the other subsidiaries of Hylsamex (including Galvak) were merged into Hylsa, thereby consolidating under one operating company. The mergers are expected to take full effect within three months following the registration of each merger with the Public Registry of Commerce.

On August 22, 2005, Ternium consummated the acquisition of an indirect controlling interest in Hylsamex and its subsidiaries equivalent to a 99.3% equity interest. Through this transaction, Ternium also acquired the equity stake in Amazonia and Ylopa owned by Hylsamex and Hylsamex s former controlling shareholder. Ternium has subsequently been purchasing shares in the open market, subject to applicable law, and its and Siderar s indirect interest in Hylsamex has increased to 99.8%.

Key factors affecting sales and gross profit

Hylsamex s revenues from the manufacture and sale of steel products are generated through the Flat Products Division, the Bar and Rod Division and the Tubular Products Division.

Sales

The following are the key factors that affect Hylsamex s revenues from the sale of steel products prior to its acquisition by the Company:

Trends in world steel prices. Steel prices in Mexico are generally set by reference to world steel prices, which are determined by global trends of supply and demand. Declines in the global price of steel generally lead to decreases in the prices of Hylsamex s products and, consequently, to a decline in revenues and profitability. In 2000 and 2001, global steel prices decreased primarily due to the worldwide economic slowdown, increased competition and global overcapacity. By the end of 2001, world steel prices fell to their lowest levels in 20 years, but in 2001 they began to rise again. In the beginning of 2003, an increase in demand from Asia was followed by a negative period for sales. Nonetheless, there was a strong boost in both global demand and global steel prices during the second half of 2003, and, in the first quarter of 2004, they reached the highest levels in the past three years as a result of economic growth in Asia and the indication of economic recovery in the United States. During 2004, China came forward as a large consumer of steel raw materials such as steel scrap, metallurgical coal, iron ore and coke. Accordingly, the global demand versus supply for steel and its raw materials tightened during 2004, pushing steel prices up.

Demand for steel products. Historically, annual steel consumption in Mexico compared to the previous year changes at a rate that is linked to the annual change in Mexico s gross domestic product. Global economic conditions, such as inflation, exchange rates and changes in gross domestic product in Hylsamex s export markets, also drive steel consumption. Industry cycles in the industries Hylsamex serves also affect demand. Hylsamex targets the domestic sale of its steel products to the indirect export market, the distributors market, the construction industry and the autoparts industry. Domestic steel consumption in Mexico declined in 2001 as the U.S. and Mexican economies slowed. In 2002, the Mexican economy showed slight growth that continued through 2003. Global demand for steel products rose significantly in 2004, as economic growth in key regions of the world increased steel consumption.

Exchange rates. Nearly all of Hylsamex s sales in its domestic market are made in Mexican pesos, while its export sales are denominated in U.S. dollars. On the cost side, a majority of its purchases are denominated and settled in Mexican pesos; imported purchases (mainly scrap and slabs) are denominated and settled in U.S. dollars. The strength of the Mexican peso affects Hylsamex s revenues in several ways. If the Mexican peso appreciates (which occurred in 2004, when it appreciated 0.8% against the U.S. dollar), Hylsamex receives fewer Mexican pesos for each U.S. dollar of exports. At the same time, imports become cheaper in Mexican peso terms, which places a ceiling on domestic prices and limits Hylsamex s ability to raise prices to keep pace with inflation. Conversely, the weak Mexican peso, which depreciated by 13.9% and 7.8% in 2002 and 2003, respectively, has positively impacted Hylsamex s revenues in recent years.

Exports. Hylsamex s ability to profitably access the export markets varies with the level of the Mexican peso, the strength of the economies of the countries to which it exports and overall steel prices. Hylsamex s exports decreased in 2001 as economies slowed and prices for hot rolled steel diminished. Exports increased in 2002, and to a greater extent in 2003, due to demand in Asia and an increase in economic activity in North America towards the year-end. Exports grew significantly in 2004, primarily due to higher shipments of flat products. After the acquisition of Hylsamex by Ternium, sales will be analyzed by market region. See Business Ternium s business strategy.

Competition from imports and dumping conditions. Until 2002, steel imports, as a percentage of total domestic steel consumption, increased, reflecting global overcapacity. Foreign producers seeking new markets and the strong Mexican peso, which makes imports cheaper for Mexican consumers, provided an incentive to foreign producers to sell steel in Mexico. Imports into Mexico that constitute dumping are products that are being sold at a price that is below an average calculated price in the foreign producer s home or other export market. The Mexican government has taken several measures to prevent unfair imports from entering the country, including increasing import tariffs to the highest permissible level for countries with which Mexico does not have free trade agreements. Imports decreased in 2003, reflecting improved international market conditions and the weakening Mexican peso.

Mix between commodity and value-added products. In response to changes in world steel prices, Hylsamex has made significant efforts over the past three years to shift a greater proportion of its production into value-added products, such as cold rolled steel and galvanized and tubular products, and away from commodity products such as hot rolled steel coils and rebar. Hylsamex believes that this change in its mix of operations towards the production of value-added products will allow it to maintain greater margins, even in periods of economic downturn.

Inflation. As described above, inflation has a negative impact on Hylsamex s revenues when they are restated in constant Mexican pesos. Thus, even when its revenues rise in nominal terms, Hylsamex s

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reported revenues decrease unless the rate of increase in nominal revenues is at least as great as the rate of inflation. Conversely, inflation accentuates any declines in nominal prices. The rate of inflation declined from 5.7% in 2002 to 4.0% in 2003 and rose to 5.2% in 2004.

Gross profit

Hylsamex s gross profit is primarily influenced by:

Changes in the mix and nominal cost of variable inputs. Hylsamex s main variable inputs can be categorized as follows:

Metallic inputs. The main metallic inputs used in the production of steel are direct reduction iron, or DRI, (which is produced internally) and scrap, either domestic, imported or internally generated. The cost of DRI is mainly affected by the cost of natural gas. Imported scrap prices generally follow the trend of international steel prices, and thus are influenced by industry cycles. Domestic scrap prices have risen to the extent that the domestic market has recovered. Because the price of finished products has been greater than steel scrap prices and the cost of DRI, the margins have increased and Hylsamex s earnings have improved.

Energy inputs. Natural gas and electricity are two of the most important components of Hylsamex s cost structure. Natural gas is mainly used to produce DRI. Hylsamex acquires natural gas through a fixed price contract and in the spot market. The cost of electricity charged by the Mexican utility company is based on fossil fuel prices and three separate production price indices that are affected by domestic inflation and currency devaluation. Natural gas prices rose substantially in 2003 and have since returned to normal levels. Electricity prices have increased in recent years, reflecting inflation and higher fossil fuel prices. Hylsamex monitors natural gas prices and can hedge against price fluctuations through its natural gas hedging program, described further below. On September 12, 2005, the Mexican government issued a decree that modifies the mechanism that sets the natural gas price in the Mexican market. The Mexican government has announced its intent to terminate this decree effective as of January 31, 2006. The decree is discussed in more detail in Business Raw materials and energy Mexico Natural gas. The Company expects that, while in place, the new pricing mechanism will substantially reduce the cost and price volatility of natural gas in the Mexican market.

Other inputs. This category includes inputs such as electrodes, refractories and alloys used in the production of steel. Hylsamex buys these inputs in the spot market or through contracts with suppliers.

Inflation. Higher inflation reduces the effect of increases in nominal incomes and expenses when reported in constant Mexican pesos.

Basis of preparation of financial statements

Mexico has experienced high inflation during certain periods covered by Hylsamex s consolidated financial statements. During 2002, 2003 and 2004, the rate of inflation in Mexico, as measured by changes in the Mexican National Consumer Price Index (the Mexican NCPI), was 5.70%, 3.98% and 5.19%, respectively. Mexican GAAP requires that financial statements recognize certain effects of inflation, and, consistent with such requirement, line items are either inflated or deflated by the Mexican NCPI. As a result, financial statements prepared under Mexican GAAP are restated in constant amounts (*i.e.*, with adjustments for inflation), rather than in nominal amounts as reported under U.S. GAAP. Except where indicated otherwise, all data set forth below have been restated in constant Mexican pesos as of June 30, 2005.

In compliance with Mexican GAAP, Hylsamex s consolidated financial statements present all financial effects of operating and financing a business under inflationary conditions. These effects are reflected in the comprehensive financial income (expense) in Hylsamex s consolidated financial statements. These include:

- interest expense on borrowed funds, net of interest and dividends earned on cash and temporary investments;

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- appreciation or depreciation of marketable securities and the realized gain or loss from the investment;
- foreign exchange gains or losses associated with monetary assets and liabilities denominated in foreign currencies; and
- losses resulting from holding monetary assets exposed to inflation, net of gains resulting from having monetary liabilities exposed to inflation.

To the extent that a company has, on average, monetary liabilities that exceed its monetary assets in a period of high inflation, the company will generate a monetary gain.

Nearly all of Hylsamex s sales in its domestic market are made in Mexican pesos, while its export sales are denominated in U.S. dollars. To restate its U.S. dollar revenues in constant Mexican pesos in accordance with Mexican GAAP, Hylsamex:

- translates the amount of each U.S. dollar sale into Mexican pesos at the MXN to USD exchange rate as of the day of the sale; and
- restates the amount of each sale on the basis of changes in the Mexican NCPI since the month in which revenue from the sale was recognized.

As a result, comparisons of revenues from period to period are influenced not only by changes in volumes sold and in the price per ton, but also by the rate of inflation in Mexico and, in the case of export sales, by the changes in the value of the Mexican peso against the U.S. dollar. In particular:

- even if revenues increase in nominal Mexican peso terms from period to period, they will decrease when reported in constant Mexican pesos unless the rate of increase in nominal Mexican peso terms is at least as great as the cumulative rate of inflation; and
- devaluation of the Mexican peso against the U.S. dollar has a positive effect on reported net export revenues that helps offset inflation, because each nominal U.S. dollar of sales translates into a greater number of nominal Mexican pesos. Conversely, revaluation of the Mexican peso has a negative effect on reported net revenues.

Critical accounting estimates

Hylsamex has identified the policies below as critical to its business operations and to the understanding of its results of operations. For a detailed discussion on the application of these and other accounting policies, see note 2 in the notes to Hylsamex s consolidated financial statements. Hylsamex s preparation of the consolidated financial statements requires it to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities as of the date of its financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. Hylsamex believes the following critical accounting policies used in the preparation of its consolidated financial statements involve significant judgments and estimates.

Deferred charges

Under Mexican GAAP, Hylsamex capitalizes certain expenses related to deposits of extractable minerals of its mining subsidiaries, costs of development and implementation of integral computer systems, debt placement expenses and pre-operating expenses. The determination of the amortization period for these capitalized expenses requires significant management judgments regarding, among others, the expected future operations period. Hylsamex estimates the expected useful life of its mining operations based on its estimates of proven reserves at its mines and its expectations concerning the rate at which Hylsamex will use those reserves, which requires estimates of future production levels. If these estimates were incorrect, Hylsamex could be required to use a shorter amortization period, which would adversely affect its earnings. Hylsamex estimates the useful life of its

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computer systems based on its experience. Depending on rates of technological change, the useful lives of these assets could be shorter, which could require Hylsamex to adjust the amortization period and to take a corresponding charge to its earnings.

Income taxes

In preparing its consolidated financial statements, Hylsamex is required to estimate its income tax obligations. This process involves estimating Hylsamex s actual current tax exposure and assessing temporary differences resulting from differing treatment of items, such as inventories and fixed assets, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheet. Hylsamex must then assess the likelihood that its deferred tax assets will be recovered from future taxable income. Hylsamex must establish a valuation allowance to the extent it believes that the recovery is not likely. In addition, to the extent Hylsamex establishes a valuation allowance or increases this allowance in a period, it must include an expense within the tax provision in the statement of operations. Estimates of future taxable income are based on Hylsamex s expectations of the future development in its business and in the markets in which it operates; as such, the estimates involve uncertainty.

Significant management judgment is required in determining the provision for income taxes, the deferred tax assets and liabilities, and any valuation allowance recorded against Hylsamex s net deferred tax assets. In 2003, Hylsamex recorded a valuation allowance of MXN286 million due to uncertainties related to its ability to use some of its deferred tax assets before they expire; these deferred tax assets primarily consist of certain net operating losses carried forward and recoverable asset taxes. The valuation allowance was reversed in 2004 due to the strong recovery of operating results. In the event that actual results differ from these estimates or these estimates are adjusted in future periods, Hylsamex may need to establish a valuation allowance which could materially impact its financial position and results of operations.

Seniority premiums and pension plans

Hylsamex engages an independent actuarial firm to perform an actuarial valuation of the fair values of its seniority premiums and pension plans. Hylsamex provides the actuarial firm with certain assumptions that have a significant effect on the reported fair value of its seniority premiums and pension plans. These include assumptions regarding:

- weighted average discount rate used to calculate the net present value of obligations;
- return on assets used to estimate the growth in invested asset value available to satisfy certain obligations;
- salary increases used to estimate the impact of future pay increases on postretirement obligations; and
- medical cost inflation used to calculate the impact of future medical costs on postretirement obligations.

Hylsamex understands that these assumptions directly impact the actuarial valuation of the seniority and pension plan obligations recorded on its balance sheet and the income or expense that flows through its income statements. Hylsamex bases its assumptions on historical or market data which it considers reasonable under the circumstances. Variations in these assumptions could have a significant effect on the amounts reported in its income statements.

Allowance for doubtful accounts

Hylsamex s management makes estimates of the collectibility of its accounts receivable. Specifically, in order to evaluate the provision for doubtful accounts, management analyzes the accounts receivable, historical write-offs, concentration of client accounts, customer credit worthiness, prevailing economic trends and changes

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in payment terms. Hylsamex s policy is to maintain reserves sufficient to cover the accounts receivable that become due in 90 days or more. If circumstances change (*i.e.*, higher-than-expected defaults or an unexpected material adverse change in a major customer s ability to meet its financial obligations to Hylsamex), management s estimates of the recoverable amounts could be materially reduced.

Impairment of fixed and deferred assets

Hylsamex estimates the useful life of its fixed and differed assets in order to calculate the expenses for amortization and depreciation that will be registered in a certain accounting period. The useful life is calculated on the date of the acquisition of the asset and calculation is based on historical experience of Hylsamex with respect to similar assets and on technological and other expected changes. If technological changes occur before expected or are different from expected, the useful life of the assets might have to be shortened, which would result in an increase of expenses for depreciation and amortization in future periods. In addition, technological changes might result in charges for impairment to show the decrease in the value of the asset. Hylsamex reviews these assets annually to assess whether there is an impairment in their value, but also reviews them when facts or circumstances indicate that there may be a chance that their book value may not be recovered throughout their remaining useful life. Hylsamex uses its cash flow to cover the impairment in its assets value, taking into account management s estimates of future transactions.

Derivative financial instruments

In order to comply with management s control measures and procedures for reducing financial risk, Hylsamex systematically analyzes the convenience of entering into derivative transactions, such as interest rate and currency exchange rate futures and options. In implementing these control measures and procedures for reducing financial risks, Hylsamex has contemplated and in some cases completed transactions regarding: (i) hedging of projected acquisitions of fuel and electricity; (ii) hedging of net investments by Hylsamex in foreign affiliated companies; (iii) hedging of future options under Hylsamex s plan for equity investments and (iv) the use of alternative sources of financings to reduce costs. These instruments have been negotiated with financially solid institutions, and, therefore, Hylsamex considers that their risk of default is very low.

On January 1, 2001, Hylsamex adopted Bulletin C-2 Financial Instruments (Bulletin C-2), which requires that all derivative financings be registered on the balance sheet as assets or liabilities at their reasonable estimated value; changes to such estimated value also must be recorded on the income statement of the period when such changes occurred. Pursuant to Bulletin C-2, Hylsamex s balance sheet and income statement can be subject to volatility due to variations in interest rates, exchange rates, price of shares and other conditions set forth in Hylsamex s financial instruments. Reasonable estimated value shows a valuation effect as of the date of the report, and inflow and outflow of cash to or from third parties that will occur will not be known until the expiry of the respective financial instrument.

Estimates for inventories

Hylsamex uses estimates of obsolescence to regularly identify and classify certain obsolete or slow-moving materials. In addition, inventory reserves are established for finished products when their cost exceeds their market value. This analysis is independently conducted by Hylsamex s subsidiaries, considering costs and prices specific to them.

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Results of operations

The following table sets forth certain operating information of Hylsamex as a percentage of net sales for the periods indicated.

	For the year ended December 31,			For the six-month period ended June 30,	
	2002	2003	2004	2004	2005
Percentage of net sales					
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	(86.1)%	(88.2)%	(67.0)%	(68.5)%	(72.7)%
Gross margin	13.9%	11.8%	33.0%	31.5%	27.3%
Operating expenses	(8.5)%	(7.5)%	(5.3)%	(5.6)%	(6.7)%
Operating income	5.4%	4.4%	27.6%	25.8%	20.6%
Comprehensive financing expenses, net	(11.9)%	(9.7)%	(2.4)%	(4.2)%	(1.1)%
Other income (expense), net	(3.2)%	(0.2)%	(0.2)%	(0.3)%	0.1%
Equity in net income (losses) of associated companies	0.7%	1.9%	2.9%	2.4%	1.9%
Income (loss) before income tax and asset tax and employees profit sharing	(10.4)%	(3.7)%	28.0%	23.8%	21.6%
Income tax and asset tax	3.9%	(1.3)%	(3.3)%	(5.8)%	(5.2)%
Employees profit sharing	(0.2)%	(0.1)%	(1.3)%	(0.2)%	(0.9)%
Consolidated net income	(6.7)%	(5.1)%	23.3%	17.8%	15.5%
Net income (loss) corresponding to minority interest	(1.2)%	0.1%	0.2%	0.4%	(0.4)%
Net income (loss) corresponding to majority interest	(5.4)%	(5.2)%	23.1%	17.5%	15.1%

Six-month period ended June 30, 2005 compared to six-month period ended June 30, 2004

Overview

Hylsamex s net income corresponding to majority interest totaled MXN1,996 million for the first half of 2005, compared to MXN2,157 million in the same period of 2004. The decrease of 7.5% was driven by a sharp increase in energy and raw materials costs and by weaker revenues per ton. In an environment of rising costs, Hylsamex continued to capitalize on its vertical integration and its modern facilities in order to maintain relative cost stability. The steel supply and demand trends in key economies such as China and the United States, as well as energy costs, remain relevant variables which can affect Hylsamex s future performance. Operating income per ton decreased from MXN2,026 for the first six months of 2004 to MXN1,737 for the same period of 2005.

Net Sales

In the first six months of 2005, Hylsamex generated MXN13,207 in net sales, an increase of 6.9% compared to the revenues of MXN12,355 million reported for the same period of 2004. This improvement was primarily due to improved steel prices in Hylsamex s domestic market.

Sales volume

In the first six months of 2005, Hylsamex sold 1,570 thousand tons, similar to the shipments of 1,575 thousand tons recorded during the first six months of 2004. Total domestic sales decreased 4.2%, to a level of 1,191 thousand tons, due to the major maintenance program in the Flat Products Division s mini-mill during January 2005 and recent market conditions that have led to decreased output at Mill No. 1. Conversely, export shipments grew 14.2% to 378.7 thousand tons in the first half of 2005. Sound economic activity in key regions of the world has led to strong export volume.

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Sales prices

Net sales per ton reached MXN8,412 per ton, an increase of 7.2% compared to the net sales per ton of MXN7,847 obtained in the same period of 2004.

Cost of sales

Total cost of sales for the first six months of 2005 amounted to MXN9,601 million, increasing 13.4% from the MXN8,468 million recorded in the same period of 2004. This increase was largely due to higher variable costs including higher energy costs, greater prices for scrap metal and the higher cost for externally-sourced steel used in the coating operations. On a per ton basis, cost of sales increased 13.7%, reaching MXN6,115 per ton in the first six months of 2005.

Cost of sales, expressed as a percentage of net sales, increased to 72.7% during the first six months of 2005, compared to 68.5% in the same period of 2004. This increase was mainly due to the increase in raw material prices such as energy, scrap and externally sourced steel.

Operating expenses (selling, general and administrative expenses)

In the first six months of 2005, operating expenses amounted to MXN879 million, which represents an increase of 26.1% compared to the MXN697 million recorded in the first half of 2004. In the first six months of 2005, the ratio of operating expenses to sales increased from 5.6% registered in the same period of 2004 to 6.7%. Operating expenses include management fees paid to Alfa. As a result of the acquisition by Ternium of Hylsamex, the management fees paid to Alfa have been discontinued.

Operating income

Operating income for the first six months of 2005 amounted to MXN2,727 million, 14.5% less than the operating income of MXN3,190 million obtained in the same period of 2004. Operating profitability decreased as a result of a higher cost per ton caused by higher energy costs, greater prices for scrap metal, the higher cost for externally-sourced steel used in the coating operations and the management fees paid to Alfa.

Comprehensive financing expenses, net

For the first six months of 2005, Hylsamex recorded a net financial loss of MXN140 million, 72.9% less than the net financial cost of MXN516 million recorded for the comparable period of 2004. The reduction was mainly a consequence of Hylsamex registering foreign exchange gains of MXN179 million in 2005 compared to the losses of MXN194 million in 2004. In addition, net financial expenses in 2005 declined by 24.6% to MXN417 million. These favorable changes were only partially offset by lower monetary position gains in 2005, which resulted from lower domestic inflation and fewer monetary liabilities on Hylsamex s balance sheet.

Equity income from associated company (Amazonia)

Hylsamex s minority stake in Amazonia generated a gain of MXN253 million in the first half of 2005, compared to the gain of MXN302 million recorded for the same period in the previous year. For a discussion of the operating performance of Amazonia during this period, please see Management s Discussion and Analysis of Financial Condition and Results of Operations Ternium.

Taxes (income tax, asset tax and employees profit sharing)

Taxes for the first half of 2005 were MXN808 million, representing an increase, due to Hylsamex s improved profitability, of 10.5% from the MXN731 million recorded in the same period of 2004. In addition, Hylsamex began to make required interim tax payments.

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Year ended December 31, 2004 compared to year ended December 31, 2003

Overview

Throughout 2004, Hylsamex s competitive strengths have permitted Hylsamex to capitalize on the favorable environment in the global steel industry. While Hylsamex s revenue per ton increased during 2004 due to tightness in international steel demand and supply, Hylsamex has maintained a relatively stable cost per ton as a result of its vertical integration with in-house access to low-cost iron ore, DRI production capability and flexibility in its metallic charge.

Hylsamex s status as supplier-of-choice in the Mexican market, strong distribution network and proximity to the U.S. market allowed it to register solid sales volumes during 2004. Hylsamex has also reaped the benefits of the numerous cost efficiency programs implemented in past years.

Hylsamex s net income corresponding to majority interest was MXN6,238 million for 2004, as compared to a net loss of MXN884 million for 2003. The significant variation is mainly explained by the positive swing in Hylsamex s operating profitability from 2003 to 2004, lower net financial expenses and higher equity income from Amazonia, partially offset by greater tax charges.

Net sales

In the year ended December 31, 2004, Hylsamex s net sales amounted to MXN26,986 million, 59.2% higher than the MXN16.948 million recorded in 2003. The key element supporting revenue growth during 2004 has been Hylsamex s ability to promptly adjust product prices according to international steel prices, particularly steel prices in the United States. Steel prices also reflect the increased cost of certain inputs such as steel scrap. Hylsamex especially benefited from the favorable trends in prices since most sales are on a spot basis. In addition, Hylsamex s value-added product mix has facilitated a price premium, further enhancing Hylsamex s average prices.

Strong export volumes and prices allowed Hylsamex to generate export revenues of MXN6,439 million in 2004, 68.3% greater than the MXN3,825 million recorded in 2003. Hylsamex s privileged geographic location in the NAFTA region and its ability to adjust product prices were key factors that facilitated the increase in export revenues.

The table below shows Hylsamex s net sales by market and average revenue per ton for the periods indicated.

	For the year ended December 31,	
Millions of Mexican pesos	**2003**	**2004**

Net sales		
Domestic	MXN 13,123	MXN 20,547
Export	3,825	6,439
Total net sales	MXN 16,948	MXN 26,986
Average MXN/ton	5,866	8,521

Sales volume

Hylsamex sold 3,167 thousand tons of steel products during 2004, representing an increase of 9.6% from the 2,889 thousand tons sold in 2003. Shipments of flat products (which include coated and tubular products) were up 11% or 202 thousand tons for the year, while the sale of long products increased 7% or 76 thousand tons. Greater domestic economic growth and lower concentration of imports into Mexico, coupled with an improved international steel market, led to the stronger sales volume in 2004.

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Total domestic sales volume for the year amounted to 2,436 thousand tons, an increase of 8.1% from the 2,253 thousand tons sold in 2003. The increase was due to higher sales of flat products and to greater sales of wirerod.

Hylsamex recorded a year of solid export volume, fueled by a pick up in economic activity in the NAFTA region. Hylsamex reported the highest level of export tonnage in the past eight years. Total export shipments amounted to 731 thousand tons, increasing 14.9% from the 636 thousand tons sold in 2003. Most of the increase is attributable to growth in sales volume of flat products.

The table below shows Hylsamex s sales volume by market for the periods indicated.

	For the year ended December 31,	
Thousands of tons	**2003**	**2004**
Sales volume		
Domestic	M XN 2,253	M XN 2,436
Export	636	731
Total shipments	M XN 2,889	M XN 3,167

Sales prices

In 2004, average sales price per ton reached MXN8,521, representing an increase of 45.3%, or MXN2,655, from MXN5,866 in 2003.

Cost of sales

Cost of sales for 2004 amounted to MXN18,093 million, increasing 21.1% from the MXN14,940 million recorded in 2003. The 21.1% rise in cost of sales is due to the 9.6% growth in sales volume and higher variable costs in 2004. On a per ton basis, cost of sales increased 10.5%, due to higher costs of scrap and energy inputs.

Cost of sales, expressed as a percentage of net sales, decreased to 67.0% during 2004, compared to 88.2% for the previous fiscal year. This decrease was mainly due to Hylsamex s ability to promptly adjust its products according to international steel prices, as mentioned above. On a per ton basis, cost of sales increased only 10.5% while net sales increased 45.3%.

However, beginning in the last quarter of 2004, the steel industry experienced a decline in prices, yet prices remained at levels that were significantly higher than those experienced in 2003, although this trend may not continue in the future. For further information related to industry trends, please see Steel Industry Overview Current industry trends.

The table below summarizes the total cost of sales, the cost per ton and gross margin for the periods indicated.

	For the year ended December 31,	
	2003	2004
Total cost of sales (in millions of Mexican pesos)	M XN 14,940	M XN 18,093
Cost per ton (in Mexican pesos)	5,171	5,713
Gross margin	11.8%	33.0%

Some of the main elements of Hylsamex s cost of sales are gas, electricity and metallic inputs. The following information presents an explanation of the impact of these elements during the periods under analysis.

Natural gas. Hylsamex s effective cost for natural gas in 2004 was MXN62.0/MMBtu, increasing 15% from the MXN53.68/MMBtu registered in 2003. In contrast, Hylsamex s reference price for natural gas the

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South Texas index increased 19% on average (MXN65.96/MMBtu in 2004 compared to MXN55.51/MMBtu in 2003). Hylsamex s effective cost for natural gas increased less than the market price as a result of the Hylsamex s hedging strategies. Hylsamex is constantly monitoring and studying the natural gas markets to manage this exposure.

While Hylsamex s financial hedges are referenced to NYMEX natural gas prices, all of Hylsamex s financial hedges described below are shown at their South Texas equivalent price. In 2004, South Texas prices were on average MXN3.39 lower than the NYMEX price. As of December 31, 2004, Hylsamex s natural gas hedging program consists of the following positions:

Calendar 2005: 32% of the needs are hedged with a MXN48.42/MMBtu swap capped at MXN75.80/MMBtu.

February to August 2005: an additional 32% of the requirements are covered through a MXN66.30/MMBtu swap. When market prices hover between MXN50.91/MMBtu and MXN64.83/MMBtu, Hylsamex will pay the prevailing market price plus MXN1.47/MMBtu. The swap is capped at MXN87.12/MMBtu.

January, and September to December 2005: an additional 32% of the requirements are covered through a MXN64.83/MMBtu swap. When market prices hover between MXN55.44/MMBtu and MXN64.83/MMBtu, Hylsamex will pay the prevailing market price. The swap is capped at MXN87.12/MMBtu.

Calendar 2007: Hylsamex sold a swaption at MXN47.52/MMBtu for 32% of the requirements for the year.

Electricity. Hylsamex s average cost of electricity was MXN0.49/KWh in 2004, 14% higher than the cost of MXN0.43/KWh observed in 2003. The increase in the cost of electricity was the result of higher international prices for fossil fuels.

Metallic inputs. The weighted average cost of Hylsamex s metallic charge in 2004 was MXN2,228.86/ton, up 38% from that of 2003. The cost of metallic charge increased mainly as a result of higher scrap prices during the year and, to a lesser extent, from higher natural gas prices affecting the cost of DRI. The average cost of producing DRI rose MXN33.94/ton compared to the previous year. In 2004, domestic and imported scrap prices experienced important rises versus the prior year due to greater demand from steel producers. The cost of Hylsamex s domestic scrap mix in 2004 rose MXN984.32/ton compared to 2003; the cost of Hylsamex s imported scrap mix in 2004 increased by MXN1,137/ton in the comparison with 2003. As a result of DRI s cost competitiveness compared to other metallics, in 2004 Hylsamex increased its DRI production and DRI s relative importance in the metallic charge. In 2004, the total content of internally-sourced metallics mainly DRI and home scrap in Hylsamex s metallic charge increased to 63%, from 61% during 2003.

Operating expenses (selling, general and administrative expenses)

Operating expenses for 2004 amounted to MXN1,435 million, up 13.0% from the MXN1,270 million recorded in 2003. The ratio of operating expenses to sales decreased from 7.5% in 2003 to 5.3% in 2004, as a result of greater revenues and the fixed nature of most operating expenses.

Operating income

Operating income for 2004 amounted to MXN7,458 million, more than ten times the operating income of MXN738 million obtained in 2003. The operating margin for 2004 reached 27.6%, compared to the 4.4% recorded in 2003. The increase in operating income is mainly explained by improved steel prices and Hylsamex s ability to maintain its unit cost relatively stable. Greater sales volume also contributed to the increase in operating income.

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Comprehensive financing expenses, net

During 2004 Hylsamex recorded financial expenses of MXN646 million, representing a decrease of 60.7% from the financial expenses of MXN1,642 million recorded in 2003. The difference between 2003 and 2004 primarily related to:

- a MXN888 million decrease in foreign exchange losses for 2004 that resulted from the relative stability of the Mexican peso-U.S. dollar exchange rate throughout the year, and

- a MXN136 million drop in net interest expense caused by the reduction of debt carried out during 2004.

Equity income from associated company (Amazonia)

Hylsamex s minority stake in Amazonia generated a gain of MXN788 million in 2004, as compared to the gain of MXN318 million recorded in 2003. For a discussion of the operating performance of Amazonia during this period, please see Management s Discussion and Analysis of Financial Condition and Results of Operations Amazonia Fiscal Year ended December 31, 2004 compared to fiscal year ended December 31, 2003 Net income attributable to minority interest.

Taxes (income tax, asset tax and employee profit sharing)

Hylsamex s income statement reflected a charge of MXN1,261 million in tax accruals during 2004, compared to the MXN242 million charged in 2003. Tax figures include income taxes, asset taxes and employees profit sharing. Net income and asset taxes accrued in 2004 was MXN902 million, compared to MXN224 million in 2004. In 2004, Hylsamex recovered asset tax credits for MXN554 million. Also, Hylsamex accrued MXN359 million in profit sharing. Taxes rose due to Hylsamex s improved profitability.

Year ended December 31, 2003 compared to year ended December 31, 2002

Overview

In 2003, Hylsamex recorded a net loss corresponding to majority interest of MXN884 million, compared to a net loss corresponding to majority interest of MXN808 million in 2002. Hylsamex recorded stable operating results in spite of the volatility observed in international steel prices, steel demand and the increase of certain inputs. Steel sales were influenced by the strong steel demand from Asia throughout the year, and the recovery of the U.S. economy during the second half of the year. The anticipated cancellation of the import tariffs imposed by the United States had no impact in steel prices in the North American region, as the Asian demand helped to stabilize global aggregate demand and supply and the weak U.S. dollar made imports less attractive. Mexican steel market showed little growth during 2003, in line with general Mexican economic growth.

Average sales price per ton in 2003 was MXN5,866, 9.6% higher than the MXN5,352 per ton attained in 2002. Similarly, annual sales volume increased by 4% to 2,889 thousand tons. Hylsamex recorded another year of solid export volume, as shipments overseas reached their highest level in eight years.

Net sales

In the year ended December 31, 2003, Hylsamex s net sales amounted to MXN16,948 million, 14.0% higher than the MXN14,869 million recorded in 2002. Steel sales were influenced by the recovery of the U.S. economy in the second half of the year. Export revenues for the year totaled MXN3,825 million, 22% above the MXN3,135 million recorded in 2002 on account of the increase in export shipments of long, coated and tubular products.

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The table below shows Hylsamex s net sales by market and revenue per ton for the periods indicated.

	For the year ended December 31,	
Millions of Mexican pesos	2002	2003
Net Sales		
Domestic market	MXN 11,734	MXN 13,123
Export market	3,135	3,825
Total net sales	MXN 14,869	MXN 16,948
Average MXN/ton	5,352	5,866

Sales volume

Hylsamex sold 2,889 thousand tons of steel products during 2003, an increase of 4% from the 2,778 thousand tons sold in 2002. Steel sales were influenced by the recovery of the U.S. economy in the second half of the year. Shipments of flat products hot and cold rolled band, tubular and coated products were up 3.0%, or 60 thousand tons, for the year, while the sale of long products increased 5%, or 52 thousand tons, during the year.

Total domestic sales volume for the year amounted to 2,253 thousand tons, an increase of 2.6% from the 2,196 thousand tons sold in 2002. The increase was due to higher sales in certain categories of flat products and to greater tonnage sold of billet, a semi-finished long product. The other major categories of steel products remained at levels similar to the previous year.

Total export shipments amounted to 637 thousand tons, increasing 9.5% from the 582 thousand tons sold in 2002. Most of the rise is attributable to growth in sales volume of long, coated and tubular products.

The table below shows Hylsamex s shipments by market for the periods indicated.

	For the year ended December 31,	
Thousands of tons	2002	2003
Sales volume		
Domestic	2,196	2,253

Export	582	637
Total shipments	2,778	2,889

Sales prices

In 2003, average sales price per ton reached MXN5,866, 9.6% higher than the MXN5,352 per ton attained in 2002. The increase in revenue per ton compared to 2002 was due to the improvement in Hylsamex s average steel price. The improvement in domestic prices was mostly due to better average pricing in the long products division. Average domestic prices in the flat, coated and tubular products divisions showed modest improvements.

Cost of sales

Cost of sales for the year 2003 totaled MXN14,940 million and was 16.7% higher than the MXN12,800 million recorded in 2002. The growth in cost of sales was led by higher prices for energy and steel scrap inputs, the 4.0% annual increase in sales volume and higher prices for externally-sourced steel for use at the coating operations. The increase in cost of sales was diminished by the positive effect on Mexican peso-linked items by the 12% Mexican peso devaluation (comparing the daily average exchange rate for each year).

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On a per ton basis, cost of sales in 2003 amounted to MXN5,171 per ton, increasing 12.2%, or MXN563 per ton from the MXN4,608 per ton recorded in 2002.

The table below summarizes the total cost of sales, the cost per ton and gross margin for the periods indicated.

	For the year ended December 31,	
	2002	2003
Total cost of sales (in millions of Mexican pesos)	M XN12,800	M XN14,940
Cost per ton (in Mexican pesos)	4,608	5,171
Gross margin	13.9%	11.8%

Some of the main elements of Hylsamex s cost of sales are gas, electricity and metallic inputs. The following information presents an explanation of the impact of these elements during the periods under analysis.

Natural gas. Hylsamex s effective cost for natural gas was MXN53.69/MMBtu, increasing 60% from the MXN33.62/MMBtu registered in 2002. In contrast, Hylsamex s reference price for natural gas the South Texas index increased 90% on average (MXN55.51/MMBtu in 2003 compared to MXN29.27/MMBtu in 2002). Management s hedging strategies proved effective because approximately 95% of the annual natural gas needs were hedged with mechanisms that reduced the volatility connected to the South Texas spot prices to a narrow range between MXN53.46/MMBtu and MXN56.70/MMBtu. Hylsamex monitors the natural gas markets to manage this exposure. In addition, management actively pursues physical hedges to reduce consumption of natural gas when prices are high.

During the fourth quarter of 2003, management saw the opportunity to monetize the value of a cap at MXN54.0/MMBtu it had in place to hedge 63% of its requirements from January to October of 2004. As a result of this transaction, Hylsamex will receive a MXN4.25/MMBtu discount in its natural gas cost from January to October of 2004, on 200 natural gas contracts per month. Thus, the unrealized benefit to Hylsamex from this transaction totals MXN84.94 million.

As of December 31, 2003, the natural gas hedging program consists of the following positions:

2004: 63% of the requirements for November and December hedged with a costless collar of MXN44.52-54.0/MMBtu against the South Texas price; 63% of the requirements for the January to October period remain with a floor at MXN44.52/MMBtu.

2005: 32% of the needs for the calendar year are hedged with a MXN49.47MMBtu swap capped at MXN75.60/MMBtu, against the NYMEX natural gas price, which historically has been MXN2.16 higher than the South Texas price, on average.

Electricity. Hylsamex s average cost of electricity was MXN0.43/KWh, 26% higher than the cost of MXN0.34/KWh observed in 2002. The increase in the cost of electricity was the result of higher international prices for fossil fuels.

Metallic inputs. The weighted average cost of Hylsamex s metallic charge in 2003 was MXN1,620.0/ton, up 30% from the previous year. The cost of metallic charge increased due to higher natural gas prices affecting the cost of DRI and also due to the upward trend observed in scrap prices during the year. The average cost of producing DRI rose MXN420/ton or 32% compared to the previous year. Domestic and imported scrap prices rose in a similar fashion, each increasing 32% measured against the prior year. The total content of DRI in Hylsamex s metallic charge was 52%, with scrap, whether domestic, imported or internally generated, representing 48%.

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Operating expenses (selling, general and administrative expenses)

Operating expenses in 2003 totaled MXN1,270 million, increasing from the MXN1,266 million recorded in the previous year. Operating expenses as a percentage of sales shrank from 8.5% in 2002 to 7.5% in 2003. Since most of this line is denominated in Mexican pesos, the decline was mainly caused by the Mexican currency s weakness during the year. In addition, Hylsamex incurred fewer administrative expenses as a result of the cancellation of a payroll tax item previously charged to Hylsamex.

Operating income

Operating income was MXN738 million during 2003, as compared to MXN803 million in 2002. The operating margin for 2003 reached 4.4%, compared to the 5.4% recorded in 2002. The drop in operating income resulted from increases in prices for energy, metallic inputs and externally-sourced steel for the coating operations.

Comprehensive financing expenses, net

Hylsamex recognized a net financial cost of MXN1,642 million in 2003 as compared to a net financial cost of MXN1,768 million in 2002. A considerable share of the variation relates to the lower interest expenses in 2003 as compared to those incurred in 2002 that include roughly seven months of the pre-restructuring period. The yearly drop is also explained by decreases in foreign exchange losses and monetary position gains, as a consequence of a reduction in foreign currency debt, since during both years inflation in Mexico was similar and the Mexican peso suffered moderate devaluations.

Other income (expense), net

Hylsamex recorded other net expenses of MXN38 million in 2003, as compared to MXN482 million in 2002. The difference is mainly attributable to a one time charge of MXN290 million recorded in 2002 in relation to the write-off of assets of operations that were closed, and the results related to valuation allowances and the debt restructuring process.

Taxes (income tax, asset tax and employees profit sharing)

Hylsamex s income statement reflected a charge of MXN242 million in tax accruals during 2003, compared to a tax credit of MXN559 million in 2002. Tax figures include income taxes, asset taxes and employees profit sharing. The charge to the income statement in 2003 was produced by the cancellation of deferred tax assets generated in prior years, which, according to current estimates, will not be recovered in the future.

Liquidity and capital resources

General

Hylsamex s operating cash requirements consist primarily of capital expenditures, working capital requirements and scheduled payments of principal and interest on outstanding indebtedness. To date, Hylsamex has funded its capital requirements through a combination of operating cash flow, short-term and long-term indebtedness and advances from customers.

Hylsamex experienced excellent overall liquidity in 2004. Strong operating cash flow increased cash reserves, which reached MXN1,425 million as of December 31, 2004, representing MXN407 million more than the balance of MXN1,018 million as of year-end 2003. Hylsamex s USD60 million liquidity facility, which was obtained to support general corporate purposes and working capital needs, remains unused.

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Cash flows

The following table summarizes Hylsamex s cash flows for the periods indicated.

	For the year ended December 31,		
Millions of Mexican pesos	**2004**	**2003**	**2002**
Resources (used in) provided by operations	MXN 5,304	MXN 421	MXN (1,393)
Resources used in investing activities	(505)	(709)	(322)
Resources (used in) provided by financing activities	(4,390)	664	1,935
Increase (decrease) in cash and cash equivalents	MXN 409	MXN 376	MXN 220
Cash and cash equivalents at the beginning of the period	1,018	642	422
Cash and cash equivalents of divested company	(2)		
Cash and cash equivalents at the end of the period	MXN 1,425	MXN 1,018	MXN 642

Fiscal year ended December 31, 2004 compared to fiscal year ended December 31, 2003

Operating activities

Net cash provided by operations during 2004 was MXN5,304 million, compared to MXN421 million in 2003. Cash flow from operations was affected by a substantial increase in collections related to higher steel prices and sales volumes and a strong increase in working capital of MXN2,758 million.

Investing activities

Net cash used in investing activities in 2004 was MXN505 million, compared to MXN709 million in 2003. The main capital expenditures carried out in 2004 were those in connection with the removal of overburden material at the mines and with customary capital expenditures throughout Hylsa. In addition, Hylsamex continued its investments in Galvak, in accordance with its strategic expansion program.

Financing activities

Net cash used in financing activities was MXN4,390 million in 2004, compared to MXN664 million provided in 2003. The variation mainly reflects the strong decrease in net borrowings of MXN5,490 million. Hylsamex s debt as of December 31, 2004 amounted to MXN7,554 million, down 42.3%, or MXN5,544 million, from the MXN13,098 million reported as of year-end 2003. This significant reduction in net debt in 2004 was reached primarily through bank debt prepayments made by Hylsamex with cash generated internally in 2004, net proceeds from equity issuance used entirely for bank debt prepayments and a considerable rise in free cash flow.

Principal sources of funding

Financial liabilities

Total financial debt decreased 42.3% to MXN7,554 million at December 31, 2004 from MXN13,098 million at December 31, 2003 due to the repayments in borrowings.

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The following table shows Hylsamex long-term financial liabilities as of the end of each of the last two years.

Millions of Mexican pesos	As of December 31, 2003	2004
Eurobonds	MXN 3,575	MXN 3,407
Debt tranches A and B	6,489	
Bank loans collateralized by accounts receivables and by the assets purchased	2,221	2,204
Unsecured bank loans		1,136
Other	17	10
Debt certificates	725	726
Medium term promissory notes	71	71
Total debt	MXN 13,098	MXN 7,554
Current maturities	(776)	(334)
Long-term portion of debt	MXN 12,322	MXN 7,220

The table below sets forth Hylsamex s debt amortization schedule as of December 31, 2004.

Millions of Mexican pesos	Total Amounts	Less than 1 year	1-3 years	4-5 years	After 5 years
Borrowings[(1)]	MXN 7,554	MXN 334	MXN 4,820	MXN 2,400	

(1) The total estimated interest to be paid under these borrowings is MXN2,223.0 million. The variable interest portion was calculated using the forward LIBOR curve as of December 31, 2004.

The following table details Hylsamex s debt structure for the periods indicated.

Millions of Mexican pesos	As of December 31, 2003	2004
Outstanding debt	MXN 13,098	MXN 7,554
Short-term debt	5.9%	4.4%
Long-term debt	94.1%	95.6%
Rate		
Fixed	33%	56%
Variable	67%	44%
Currency		

MXN	6%	
USD	94%	100%

Net income (loss) and shareholders equity information on a U.S. GAAP basis

Hylsamex s consolidated financial statements have been prepared in accordance with Mexican GAAP, which, as applied to Hylsamex, differs in significant respects from U.S. GAAP.

Under U.S. GAAP, Hylsamex recorded net income of MXN2,255 million for the six-month period ended June 30, 2005 (compared to net income of MXN1,996 million under Mexican GAAP) and net income of MXN2,455 million for the six-month period ended June 30, 2004 (compared to net income of MXN2,157 million under Mexican GAAP).

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Shareholders equity determined in accordance with U.S. GAAP was MXN15,530 million as of June 30, 2005 compared to MXN17,472 under Mexican GAAP, and MXN9,027 million as of June 30, 2004 compared to MXN11,376 million under Mexican GAAP.

Under U.S. GAAP, Hylsamex recorded net income of MXN6,586 million for the fiscal year ended December 31, 2004 (compared to net income attributable to equity holders of MXN6,238 million under Mexican GAAP), net loss of MXN(1,382) million for the fiscal year ended December 31, 2003 (compared to net loss attributable to equity holders of MXN(884) million under Mexican GAAP).

Shareholders equity determined in accordance with U.S. GAAP was MXN14,816 million as of December 31, 2004 compared to MXN16,650 million under Mexican GAAP and MXN6,718 million as of December 31, 2003 compared to MXN9,159 million under Mexican GAAP.

The principal differences between Mexican GAAP and U.S. GAAP that affected Hylsamex s total assets, net income and shareholders equity on a U.S. GAAP basis were:

- differences in the capitalization of interest on property, plant and equipment under construction;
- differences in the accounting for pension benefits;
- differences in the accounting of equity investees;
- differences in the accounting for deferred employee s statutory profit sharing;
- differences in pre-operating expenses;
- differences in amortization of debt issuance cost;
- differences in valuation of fixed assets of foreign origins; and
- the effects on deferred taxes and minority interest of the reconciling items listed above.

For a discussion and a quantitative reconciliation of the differences between Mexican GAAP and U.S. GAAP as they relate to Hylsamex s consolidated net income (loss) and shareholders equity, see note 16 to Hylsamex s consolidated financial statements included in this prospectus.

Quantitative and qualitative disclosures about market risk

Interest rate risk

Hylsamex is exposed to interest rate risk related to certain instruments entered into for other than trading purposes. Hylsamex has, from time to time, used interest swap agreements to hedge interest rate exposure associated with these variable-rate on-balance sheet financial instruments, but does not enter into any such arrangements for the purposes of trading or speculation. Currently, Hylsamex and its principal subsidiaries, Hylsa and Galvak, have LIBOR-based interest rate cap contracts that provide coverage for Hylsamex s variable-rate debt in case there is a significant rise in interest rates during the period from 2005 to 2007. Hylsamex does not anticipate any near-term changes in the nature of its market risk exposures or in management s objectives and strategies with respect to managing these exposures.

Foreign currency exchange rate risk

Hylsamex reports its financial statements in Mexican pesos. Nearly all of Hylsamex s sales in its domestic market are made in Mexican pesos, while its export sales are denominated in U.S. dollars. On the cost side, a majority of its domestic purchases are denominated and settled in Mexican pesos, while its import purchases (mainly scrap and slabs) are denominated and settled in U.S. dollars. Hylsamex s indebtedness is partly denominated in Mexican pesos and partly in U.S. dollars. Consequently, its results of operations are exposed to foreign currency exchange rate risk. Any significant change in the relevant exchange rates could have a material

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effect on its financial statements. In 2004, the Mexican peso appreciated 0.8% against the U.S. dollar, while in 2003, the Mexican peso depreciated 7.8% against the U.S. dollar. As of December 31, 2004, the exchange rate was MXN11.15 per U.S. dollar (MXN11.24 and MXN10.43 at December 31, 2003 and 2002, respectively). In such circumstances, Hylsamex will experience fluctuations in its results of operations solely as a result of exchange rate fluctuations.

From time to time, Hylsamex has entered into hedging agreements to hedge against foreign currency exchange rate risks on long-term debt denominated in currency other than the Mexican peso. In certain circumstances, Hylsamex may decide to accept the inherent currency risk, principally because of the relatively high cost of buying, or the inability to buy, forward cover in currencies of the countries in which Hylsamex operates. Hylsamex does not anticipate any near-term changes in the nature of its market risk exposures or in management s objectives and strategies with respect to managing these exposures.

Commodity price risk

Hylsamex s production process requires extensive use of natural gas. Hylsamex purchases all of its natural gas from Pemex, the Mexican state-owned oil and gas company that is Mexico s sole supplier of natural gas. Natural gas is affected by commodity pricing and is, therefore, subject to price volatility caused by weather, production problems and other factors that are outside Hylsamex s control and which are generally unpredictable. Hylsamex monitors the natural gas markets to manage this exposure. Hylsamex s current efforts to hedge against commodity price risk is discussed further under Results of operations Year ended December 31, 2004 compared to year ended December 31, 2003 Cost of sales Natural gas above. Hylsamex does not anticipate any near-term changes in management s objectives and strategies with respect to managing these risk exposures.

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STEEL INDUSTRY OVERVIEW

Steel is one of the most important and versatile materials in use today, and it is an integral part of commercial and industrial development around the world. In 2004, global crude steel production increased by 7.3% compared with the previous year, reaching 1.04 billion tons.[1] The growing demand for steel is driven by a number of factors, including overall global economic growth, as well as increased demand in key end-markets such as construction, transportation, automobiles, appliances and other industrial markets and applications.

During 2004, global economic growth as calculated by the International Monetary Fund was 5.1%, reflecting a general recovery in international business. In the United States, growth reached 4.2%, mainly due to significant increases in consumption and capital investment in machinery and equipment. Canada and Mexico benefited from the sustained U.S. recovery with growth rates of 2.9% and 4.4%, respectively. In Asia, economic growth remained high throughout 2004 despite a slight slowdown during the fourth quarter of the year. Asian results were mainly fuelled by the Chinese and Indian economies, which experienced GDP growth rates of 9.5% and 7.3%, respectively. In South and Central America, the positive economic trend also continued in 2004. GDP grew at a rate of 4.9% in Brazil and 9.0% in Argentina, where industrial production also increased significantly. Worldwide growth resulted in record increases in the prices of raw materials, oil and sea freights. The global steel industry also benefited from rising prices and the improved global economic environment.

Steel production and consumption

The steel industry operates predominantly on a regional basis, with large industry participants selling the bulk of their steel production in their home countries or regions, where they have natural advantages and are able to more effectively market value-added products and provide additional customized services. Despite the limitations associated with significant transportation costs, as well as the restrictive effects of protective tariffs and other trade restrictions, steel exports have generally increased in the last decade as production has shifted towards low-cost production regions such as China and Southeast Asia. In addition, during the last five years several large steel manufacturers have merged with each other or acquired steel companies in other parts of the world. This wave of consolidation has resulted in a number of large, global producers with significant operations in several regions and/or continents, contributing to the increasing globalization of the steel industry. Considered as a whole, however, the steel industry still remains considerably fragmented.

While steel production has historically been concentrated in North America, Europe, Japan and the former Soviet Union, steel production in the developing countries and regions of the world (including Latin America, China and elsewhere in Asia) has grown in importance over the past decade. Moreover, while production in Europe, Japan and the United States remains significant, steel producers in those regions have increasingly focused on the rolling and finishing of semi-finished products. In 2004, China was the largest single producer of steel in the world, producing approximately 275 million tons of crude steel (representing 26.2% of global steel production), as well as the largest apparent consumer of steel, consuming 265 million tons of finished steel products.

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1 Information in this section about steel production and consumption is based on data published by the International Iron and Steel Institute.

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Global Steel Production

(Million metric tons of crude steel production)	2000	2001	2002	2003	2004
Germany	46.4	44.8	45.0	44.8	46.4
Italy	26.8	26.5	26.1	26.8	28.7
Spain	15.9	16.5	16.4	16.5	17.9
France	21.0	19.3	20.3	19.8	20.8
United Kingdom	15.2	13.5	11.7	13.3	13.9
Others	38.2	37.8	39.3	39.5	40.7
Total European Union	**163.4**	**158.5**	**158.7**	**160.7**	**168.4**
Russia	59.1	59.0	59.8	62.8	65.8
Ukraine	31.8	33.1	34.1	36.9	38.7
Others	7.6	7.5	7.3	7.8	8.6
Total CIS	**98.5**	**99.6**	**101.1**	**107.5**	**113.1**
United States	101.8	90.1	91.6	93.7	98.9
Canada	16.6	15.3	16.0	15.9	16.3
Mexico	15.6	13.3	14.0	15.2	16.7
Total North America	**134.0**	**118.7**	**121.6**	**124.8**	**132.0**
Brazil	27.9	26.7	29.6	31.1	32.9
Argentina	4.5	4.1	4.4	5.0	5.2
Venezuela	3.8	3.8	4.2	3.9	4.5
Others	4.3	3.9	4.1	4.3	4.1
Total South and Central America	**40.4**	**38.6**	**42.2**	**44.4**	**46.8**
China	127.2	150.9	182.2	220.1	274.7
Japan	106.4	102.9	107.7	110.5	112.7
South Korea	43.1	43.9	45.4	46.3	47.5
India	26.9	27.3	28.8	31.8	32.6
Taiwan	16.9	17.3	18.2	18.8	19.5
Total Asia	**320.6**	**342.1**	**382.4**	**427.5**	**487.1**
Others	**90.7**	**92.7**	**97.7**	**103.3**	**92.1**
WORLD	**847.6**	**850.2**	**903.8**	**968.3**	**1,039.4**

Source: International Iron and Steel Institute

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Steel consumption has historically been centered in developed economies such as the United States, Western Europe and Japan. However, in recent years steel consumption in Asia, and in particular China, has increased significantly. The following table sets forth the apparent consumption of steel, which accounts for steel production and imports minus steel exported by a given country, of several countries, separated by region:

Global Apparent Consumption of Steel

(Million metric tons of finished steel products)	2000	2001	2002	2003	2004
Germany	37.0	35.6	34.3	34.3	35.9
Italy	30.5	30.4	30.2	31.6	32.4
Spain	17.4	18.9	19.3	21.1	21.2
France	18.0	16.5	16.4	15.7	16.6
United Kingdom	13.6	13.6	12.9	12.8	14.0
Others	43.1	41.2	42.0	42.4	46.3
Total European Union	**159.6**	**156.2**	**155.1**	**157.9**	**166.4**
Russia	28.5	29.2	27.8	31.9	33.7
Ukraine	9.6	10.6	11.5	13.3	13.1
Others	5.4	5.2	4.9	5.1	5.2
Total CIS	**43.5**	**45.0**	**44.2**	**50.3**	**52.0**
United States	114.7	101.6	102.7	100.9	115.9
Canada	17.8	15.2	15.9	15.5	17.1
Mexico	14.1	13.1	13.8	14.3	15.6
Total North America	**146.6**	**129.9**	**132.4**	**130.7**	**148.6**
Brazil	15.8	16.7	16.5	16.0	18.4
Argentina	3.0	2.6	1.8	2.9	3.6
Venezuela	1.7	2.3	1.6	1.5	2.3
Others	7.6	7.5	8.2	8.6	9.0
Total South and Central America	**28.1**	**29.1**	**28.1**	**29.0**	**33.3**
China	124.3	153.6	186.3	233.6	265.0
Japan	76.1	73.2	71.7	73.4	76.9
South Korea	38.5	38.3	43.7	45.8	47.2
India	26.3	27.4	28.9	30.3	32.3
Taiwan	21.1	17.4	20.4	19.9	22.1
Others	35.2	38.8	42.5	40.6	43.7
Total Asia	**321.5**	**348.7**	**393.5**	**443.6**	**487.2**
Others	**60.3**	**61.5**	**67.0**	**74.9**	**80.4**
WORLD	**759.6**	**770.4**	**820.3**	**886.4**	**967.9**

Source: International Iron and Steel Institute

There has been a trend in recent years toward steel industry consolidation among Ternium s competitors. For example, Aceralia, Arbed and Usinor merged in February 2002 to create Arcelor, and LNM Holdings and Ispat International merged in October 2004 to create Mittal Steel, which subsequently acquired International Steel Group. Despite this trend, the global steel market remains highly fragmented. In 2004, the five largest producers (Mittal Steel, Arcelor, Nippon Steel, JFE and POSCO) accounted for approximately 19% of total worldwide steel production, with Mittal Steel, the largest, accounting for less than 6%. Also in 2004, the ten largest steel producers accounted for 28% of total worldwide steel production (compared to 20% in 1992), and the 20 largest steel producers accounted for approximately 41% of such production.

Steel prices in general, including for both flat and long products, have undergone significant volatility in recent years. From 2000 to 2002, the industry, especially in North America, experienced fluctuating capacity, low demand growth levels and other adverse conditions, which led to depressed steel prices and also adversely impacted many steel producers profitability. During 2003 and 2004, steel prices generally rose around the world, supported by increased economic growth in most regions, continued strong demand from China and other developing countries, as well as higher raw material prices (particularly coal, iron ore and energy). Beginning in the last quarter of 2004, the industry experienced a decline in prices, partially driven by the liquidation of excess inventory at steel producers and distributors. However, prices have generally remained at levels that are significantly higher than those experienced from 2000 to 2002.

The following chart presents the price range for hot rolled coils for the periods mentioned, measured in USD/ton and based on FOB Antwerp.

Source: CRU (Commodity Research Unit)

Current industry trends

In recent years, the global steel industry has experienced several significant trends including:

Industry consolidation. In the post-World War II industrial boom period, the steel industry responded to increased demand by expanding production capacity in most major steel producing regions of the world. This period also saw a significant amount of new production capacity being built in the developing regions of the world, such as the former Soviet Union and parts of Asia. The rapid ramp-up in capacity led to a fundamental supply/demand imbalance in certain periods, particularly when global steel demand decreased due to economic recessions. After the last steel industry downturn, industry participants began a trend of consolidation which, coupled with the removal of some capacity through bankruptcies, have helped restore the steel supply and demand balance. Consolidation has enabled steel companies to lower their production costs and allowed for more stringent supply-side discipline, including through selective capacity closures. During 2005, major steel companies operating in the United States and Europe announced production cuts to reduce inventories in the industry chain. The steel production in the United States and Europe during the first eight months of 2005 decreased by 5.8% and 3.4%, respectively, compared to the same period of 2004.

Increasing demand from China and other developing regions. During the last ten years, steel consumption in the developing regions of the world has dramatically increased, especially in China and other parts of Asia. Steel consumption in China in 2003 was 220% higher than steel consumption in China in 1997,

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while overall global demand increased only 29% during the same period. India and other developing areas of the world are undergoing similar industrial and commercial transformations, resulting in significant incremental demand for steel. The positive market situation recorded in recent years has allowed several companies to recover from difficult financial positions and initiate new capital investment and acquisition opportunities.

Increased technological innovation. Although the basic tenets of the steel manufacturing process used for most global steel production have not changed significantly in the last century, steel producers increasingly have been focusing on improvements and refinements to the steelmaking process. Improved use of raw materials and superior metallurgical designs allow large, well-capitalized steel companies to produce higher quality, more value-added products, which help distinguish their products from lower grade commodity products produced by others.

Recovery of Ternium s local markets. Since 2003, the recovery in the regional economies in which Ternium s production facilities are located led to an increase in the activity of steel consuming sectors. During 2004, Argentina s gross domestic product increased by 8.8%, mainly led by private consumption and investment. Venezuela and Mexico also recorded GDP increases of 18.4% and 4.4%, respectively, influenced by the recovery of the local markets and an upward trend in manufacturing exports. The steel-intensive construction sector also increased substantially, mainly driven by local and foreign investment in Argentina and by the increase in private residential housing and other activities linked to the construction sector in Mexico. Other steel consuming sectors such as the packaging and canning, home appliance, car manufacturing and agricultural industries also experienced a strong recovery led by the general recovery of the international economy and by export opportunities and by substitution of imports in Argentina.

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BUSINESS

The following summarizes information contained elsewhere in this prospectus and does not contain all of the information you should consider in making your investment decision. To understand the offering and the businesses of Ternium more fully, you should read this entire prospectus carefully, especially the risks of investing in our ADSs discussed under Risk Factors and Ternium s unaudited pro forma combined consolidated financial statements and its combined consolidated financial statements and notes to those financial statements included elsewhere in this prospectus.

Overview

The Company holds the Techint Group s investments in flat and long steel manufacturing, processing and distribution businesses, including its controlling direct and indirect equity interests in Argentina s largest steel company, Siderar, Venezuela s largest steel company, Sidor, the recently acquired Hylsamex, one of Mexico s largest steel companies, and Techintrade.

Ternium is one of the leading flat and long steel producers in Latin America and a strong competitor in the Americas, with strategic presence in several major steel markets through a broad network of distribution, sales and marketing services. We believe Ternium is among the largest producers of crude steel in Latin America, with manufacturing, processing and finishing facilities that have aggregate annual production capacity of approximately 11.6 million tons. Of this total production capacity, 2.8 million tons correspond to Ternium s operations in Argentina, 5.0 million tons to its operations in Venezuela and 3.8 million tons to its operations in Mexico. For further information regarding Ternium s competitive position, see Steel Industry Overview. The Company believes that it is one of the lowest cost steel producers in the Americas due to its integrated operations, state-of-the-art steel production facilities, access to diversified sources of low-cost raw materials and other production inputs and operating efficiencies.

Ternium produces and distributes a broad range of semi-finished and finished steel products, including value-added products such as cold rolled coils and sheets, tin, galvanized and electrogalvanized sheets, pre-painted sheets and tailor-made flat products. Ternium also produces long steel products such as bars and wire rod.

Ternium primarily sells its steel products in the regional markets of North, Central and South America, where its manufacturing facilities are located, allowing it to provide specialized products and delivery services to its clients. We believe that Ternium is the leading supplier of flat steel products in Argentina and of flat and long steel products in Venezuela, a significant competitor in the Mexican market for flat and long steel products, and a competitive player in the international steel market for flat and long steel products. Ternium maintains a strategic presence in several other major steel markets, such as Europe, Asia (mainly China) and Africa through its broad network of commercial offices, which allows it to reach clients outside its regional markets and place products in case of slower demand in domestic economies, achieve improved effectiveness in the supply of its products and maintain a fluid commercial relationship with its clients by providing continuous services and assistance.

On a pro forma basis giving effect to the Pro Forma Transactions, in 2004, approximately 44.9% of Ternium s sales were made to South and Central America, 48.7% to North America, 4.3% to Europe and 2.2% to the rest of the world. In the first half of 2005, these percentages were approximately 46.2%, 45.9%, 5.7% and 2.1%, respectively.

In 2004, Ternium s net sales were USD1.6 billion, gross profit was USD633.9 million, and net income attributable to equity holders was USD457.3 million. In the first half of 2005, Ternium s net sales were USD1.8 billion, gross profit was USD0.9 billion, and net income attributable to equity holders was USD477.6 million, which amounts reflect the consolidation of Amazonia since February 15, 2005.

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On a pro forma basis giving effect to the Pro Forma Transactions, in 2004, Ternium s net sales were USD5.5 billion, gross profit was USD2.4 billion, and net income attributable to equity holders was USD761.5 million, and in the first half of 2005 net sales were USD3.3 billion, gross profit was USD1.4 billion and net income attributable to equity holders was USD500.8 million.

For information on Ternium s recent results of operation and consolidated financial condition, see Ternium s unaudited summary financial information for the nine-month period ended September 30, 2005, attached as Annex A to this prospectus.

Corporate reorganization

As a part of a recent corporate reorganization, the Techint Group reorganized the Company as a holding company for its flat and long steel interests by contributing all of its interests in Siderar, Sidor (through Amazonia and Ylopa) and Techintrade to the Company.

On August 22, 2005, we acquired, together with Siderar, an indirect 99.3% interest in the Mexican company Hylsamex and its subsidiaries, including Hylsa and Galvak, and the equity stakes owned by Hylsamex s former controlling shareholder, Alfa, in Amazonia and Ylopa. We have subsequently been purchasing shares in the open market, subject to applicable law, and our and Siderar s indirect interest in Hylsamex has increased to 99.8%. Hylsamex s shares were deregistered as of December 19, 2005 in accordance with applicable Mexican law, and Hylsamex s ADR program was terminated in October 2005. As part of the financing for the acquisition, we or our affiliates entered into the Credit Facilities and the Subordinated Convertible Loan Agreements. Pursuant to the terms of the Subordinated Convertible Loan Agreements, on the date on which our ADSs are delivered to the underwriters of this offering, the Subordinated Convertible Loans will be converted into shares of the Company at a price per share equal to the price per share paid by the investors in this offering.

In September 2005, Tenaris exchanged its shares in Amazonia and Ylopa for shares of the Company, and in October 2005, Usiminas exchanged its shares in Siderar, Amazonia and Ylopa for shares of the Company.

We believe that the corporate reorganization of the Techint Group s flat and long steel manufacturing, processing and distribution businesses under the Company will result in the following positive effects:

Benefit from industry consolidation. We believe that the worldwide steel industry will continue to consolidate, increasing the importance of larger global and regional platforms. Ternium s leading position in Latin America and strong position in the Americas in terms of production capacity, cost efficiency and geographic reach will position it favorably to benefit from this industry trend;

Create a platform for growth. Ternium s integrated operations are expected to provide a solid platform to expand its business, through capacity expansions and/or strategic acquisitions, as in the case of the recent acquisition of Hylsamex;

Benefit from integrating production and commercial operations. We believe that consolidating commercial and production operations will allow Ternium to generate synergies and savings, while improving its overall performance and returns. For example, the incorporation of the distribution centers of the recently acquired Hylsamex into Ternium s broad network of distribution, sales and marketing services is expected to enhance Ternium s ability to operate and provide services in the North American market. Ternium should also be able to benefit from the extensive experience of the Techint Group in acquiring, successfully integrating and operating companies in steel-related businesses;

Realize synergies and cost savings. Operating its subsidiaries under a single corporate vehicle, in a manner consistent with shareholder rights, is expected to allow Ternium to realize synergies and cost savings across all of its manufacturing facilities, its selling and marketing division and its logistics and distribution structure. For example, the integration of Hylsamex under a unified purchasing strategy that is already used by Siderar and Sidor is expected to lower the cost of raw materials and other production inputs and may allow Ternium to better allocate orders for production, sales and distribution depending on specific requests by Ternium s clients;

Improve access to international capital markets and lower the cost of capital. Ternium s size and position in the steel markets of Latin America is expected to increase its visibility and improve its access to the international financial markets and lower its cost of capital.

Below is a simplified diagram of Ternium s corporate structure after giving effect to the Pro Forma Transactions, which forms the basis for the preparation and presentation of Ternium s unaudited pro forma combined consolidated financial statements included in this prospectus.

For additional information on Ternium s corporate reorganization and corporate structure, see Formation of Ternium and Related Party Transactions and Subsidiaries.

Ternium s competitive strengths

We believe that the following competitive strengths distinguish Ternium from its competitors and enhance its leading market position:

State-of-the-art, low cost producer. The combination of a portfolio of state-of-the-art, low cost steel production mills (some of which are located near proprietary iron ore mines), access to diversified sources of low-cost raw materials and cost-competitive energy and labor sources and other production inputs and operating efficiencies makes Ternium a low cost producer of steel and value-added products;

Strong market position and extensive market reach. Ternium has leading market participation in Argentina and Venezuela and has a strong market position in Mexico. The location of its production facilities gives Ternium favorable access to some of the most important regional markets in the Americas, including NAFTA, Mercosur and the Andean Community. Additionally, through its broad distribution network and commercial capabilities, Ternium has access to some of the most relevant steel markets in the world;

Experienced and committed management team. Our management team has extensive experience in, and knowledge of, the steel industry, which enhances Ternium s reputation in the global steel markets. A large percentage of our senior managers have spent their entire careers working within the steel businesses of the Techint Group and its related companies. Our management team has substantial experience in increasing productivity and reducing costs, as well as in identifying, evaluating and pursuing growth opportunities and integrating acquisitions; and

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Strong financial position. We believe that, after giving effect to this offering, we will have a solid financial position. In particular, our relatively low debt to equity capital structure, together with our strong cash flow generation, provide us with the flexibility and resources to enhance existing businesses through investment projects and to make strategic investments and acquisitions.

Ternium s business strategy

Our main strategic objective is to enhance shareholder value by strengthening Ternium s position as a low cost producer of steel products in a manner consistent with minority shareholder rights, while further consolidating Ternium s position as a leading flat and long steel producer in Latin America and a strong competitor in the Americas with strategic presence in several other major steel markets.

The main elements of this strategy are:

Further integrate Ternium s operations. We have recently changed our functional organization from three independent companies to one company organized under business units with specific geographic and functional responsibilities. Integrating the operations of our subsidiaries is expected to allow Ternium to better serve its clients, to increase the diversification of its products, to benefit from enhanced flexibility and operative synergies and to rationalize its cost structure;

Enhance Ternium s position as a low cost producer. We believe that further integration of Ternium s operating facilities, including the recently acquired Hylsamex, should improve utilization levels of its plants, increase efficiency and further reduce production costs from levels that we already consider to be among the most competitive in the steel industry;

Implementing Ternium s best practices. We believe that the implementation of Ternium s commercial and production best practices in acquired new businesses should generate additional benefits and savings. For example, we believe that the implementation of Ternium s cost control procedures and performance analysis in Hylsamex will improve control over production variables and lead to future cost savings;

Focus on higher margin value-added products. We intend to continue to shift Ternium s sales mix towards higher margin value-added products, such as cold rolled sheets and coated and tailor-made products, and services, such as just-in-time delivery and inventory management. In addition, the acquisition of Hylsamex will allow Ternium to expand its offerings of value-added products, such as galvanized products and panels;

Maximize the benefits arising from Ternium s broad distribution network. We intend to maximize the benefits arising from Ternium s broad network of distribution, sales and marketing services to reach clients in major steel markets with a comprehensive range of value-added products and services and to continue to expand its customer base and improve its product mix. In addition, the acquisition of Hylsamex is expected to allow us to increase Ternium s participation in the North American market; and

Pursue strategic growth opportunities. The Techint Group has a history of strategically growing its businesses through acquisitions. In addition to strongly pursuing organic growth, we intend to identify and pursue growth-enhancing strategic opportunities to consolidate Ternium s presence in its markets, expand its offerings of value-added products and increase its distribution capabilities.

Ternium s products

The Ternium companies produce mainly finished and semi-finished flat and long steel products which are sold either directly to steel processors or to end-users, after different value-adding processes. Flat steel products include hot rolled coils and sheets, cold rolled coils and sheets, tin plate, hot dipped galvanized and electrogalvanized sheets and pre-painted sheets. Galvanized and pre-painted sheets can be further processed into

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a variety of corrugated sheets, trapezoidal sheets, corrugated and galvanized steel guard rails and drains and other tailor-made products to serve its customers requirements. Long steel products include billets (steel in its basic, semi-finished state), wire rods and bars.

Flat steel products

Slabs: Slabs are semi-finished steel forms that are used as inputs for the production of flat steel products such as hot rolled coils, cold rolled coils, and the coated and tailor-made products described below. A slab is different from a billet (the semi-finished product used for long steel production) mainly in its dimensions. Both slabs and billets are generally continually casted. The use of slabs is determined by its dimensions and by its chemical and metallurgical characteristics.

Hot rolled products: Hot rolled products are used by a variety of industrial consumers in applications such as the manufacturing of wheels, auto parts, pipes, gas cylinders and containers. They are also directly used for the construction of buildings, bridges and railroad cars, and for the chassis of trucks and automobiles. Hot rolled products can be supplied as coils or as sheets cut to a specific length. These products also serve as inputs for the production of cold rolled products.

Cold rolled products: Cold rolled products are sold mainly to the automotive, home appliance and capital goods sectors, as well as to galvanizers, drummers, distributors and service centers. Cold rolled coils are sold as coils or cut into sheets or blanks to meet customers needs.

Tin plate: Given its resistance to corrosion and its mechanical and chemical characteristics, tin plate is mainly sold to the packaging industry for food, sprays and paint containers. Tin plate is produced by coating cold rolled coils with a layer of tin that is attached with an electrolytic charge.

Hot dipped galvanized and pre-painted sheets: The construction industry is the main market for hot dipped galvanized products. Hot dipped galvanized sheets are produced by adding a layer of zinc to cold rolled coils, which are afterwards cut into sheets. Galvanized sheets can also be pre-painted, resulting in a product that is mainly sold to the construction industry for building coverings, manufacturing of ceiling systems, panels, air conditioning ducts and several other uses. Since the acquisition of Comesi S.A.I.C., Ternium also offers a distinctive type of galvanized product with the trademark CINCALUM. This product is manufactured by adding layers of zinc and aluminum to cold rolled coils.

Electrogalvanized and pre-painted sheets: Electro-galvanized and pre-painted sheets are sold not only to customers in the automotive and home appliance industries, but also to clients working in the construction of road-defenses, sewage systems, bridges and other infrastructure projects. Electro-galvanized and pre-painted sheets are produced from cold rolled coils by adding a layer of zinc that is attached with an electrolytic charge. The electro-galvanized coils are subsequently cut and sold either as sheets or are further processed with a color coating to produce pre-painted sheets. Electro-galvanization provides products with a longer useful life and more resistance to corrosion.

Long steel products

Steel billets: Billets are semi-finished steel forms that are used as inputs in the production of long steel products such as bars, channels or other structural shapes. A billet is different from a slab mainly in its dimensions. Both billets and slabs are generally cast using the continuous casting method.

Wire rods: Rods are round, thin, semi-finished steel lengths that are rolled from a billet and coiled for further processing. Rods are commonly drawn into wire products or used to make bolts and nails. Wire rods can be produced in different qualities according to clients demands.

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Bars: Bars are long steel products that are rolled from billets. Two of the most common types of bars produced are merchant bars and reinforcing bars (rebar). Merchant bars include specific shape features such as rounds, flats, angles, squares and channels that are used by clients to manufacture a wide variety of products such as furniture, stair railings and farm equipment. Rebar is used to strengthen concrete highways, bridges and buildings.

Other products

Steel pipes and tubular products: Welded steel pipe is typically used for the transport of water, air, gas and other liquids. Tubular products include galvanized pipes for liquid conduction, structural and industrial applications and light structural shapes which can be used for a variety of applications, including the transport of other forms of gas and liquids under high pressure, pipe for electrical cable conduits and also for oil and gas applications.

We also produce pig iron and pellets.

Within each of the basic product categories there is a range of different items of varying qualities and prices that are produced either to meet the particular requirements of end users or sold as commodity items.

Facilities and production process

Facilities

Ternium operates state-of-the-art steelmaking facilities. We consider Ternium to be among the lowest cost producers in the Americas, as a result of:

- strategically located plants;
- favorable access to raw materials, some purchased under long-term contracts and others available at proprietary mines, and access to cost competitive energy and labor sources;
- operating history of almost 40 years, which translates into solid industrial know-how;
- constant benchmarking and best-practices sharing among the different facilities; and
- intensive use of information technology in its production processes.

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Our main steel production facilities are located in Argentina, Venezuela and Mexico. The following map shows Ternium s manufacturing centers and commercial network offices around the world.

On a pro forma basis, giving effect to the Pro Forma Transactions, Ternium s aggregate production capacity of hot rolled steel products for the year ended December 31, 2004 was 7.9 million tons. Ternium s aggregate production capacity of long steel products (billets and rebar) was 2.1 million tons for the same period. In this prospectus, annual production capacity is calculated based on standard productivity, estimated product mix allocations and considering the maximum number of possible working shifts and a continued flow of supplies to the production process.

Argentina

Ternium s subsidiary Siderar is located in Argentina and conducts its operations through production facilities at the five locations described below. Each facility is owned by Siderar and located in the Province of Buenos Aires, Argentina.

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The following table presents the annual production capacity of the major operational units of the facilities located in Argentina as of December 31, 2004, the year in which operations started for the relevant units and the year of the last major overhaul:

	Capacity	Start year	Year of last major overhaul
	(Thousand tpy)		
Coke Plants	1,070	1974	1996
Sinter Plant	1,200	1972	2002
Blast Furnace No. 1	1,400	1960	2004
Blast Furnace No. 2	2,550	1974	1995
Continuous Casting	2,850	1984	2003
Hot Rolling Mills	2,550	1962	2004
Cold Rolling Mills	1,610	1962(1) / 1969(2)	1998(1) / 1998(2)
Tinning Mills	160	1966	2003
Galvanizing Mills	520	1970(3) / 1976(4)	1998(3) / 2002(4)
Electro-galvanizing Mill	85	1993	2001
Painting Facilities	55	1982	2000

(1) Ramallo
(2) Ensenada
(3) Haedo
(4) Canning

Ramallo. Our principal manufacturing facility in Argentina is a fully integrated, strategically located plant on the banks of the Paraná River near the town of San Nicolás in the district of Ramallo, which is approximately 280 kilometers north of the city of Buenos Aires. This plant was acquired in the privatization of the state-owned company Somisa in 1992. The Ramallo facility produces all of Siderar s crude steel and has an effective annual production capacity of 2.8 million tons per year (tpy). The Ramallo facility includes:

- a coke oven plant composed of two compound coke batteries, with a total of 89 ovens. The coke ovens have an aggregate capacity of 1.1 million tpy;

- a continuous feed sinter plant with a total capacity of 1.2 million tpy;

- two blast furnaces: No. 2 with a total capacity of 2.6 million tpy and No. 1 with a capacity of 1.4 million tpy. Blast Furnace No. 1 was fired up in October 2004, after 9 years of inactivity, to cover the production requirements of the steel complex during the relining of Blast Furnace No. 2;

- a steel making plant, with three 200-ton basic oxygen converters, a ladle furnace and one two-stand slab continuous casting machine with a capacity of 2.9 million tpy;

- a hot rolling mill, comprised of an 11-stand continuous wide hot strip roller with a total capacity of 2.6 million tpy;

- a cold rolling mill, with a pickling line, a four-stand tandem cold reduction line with a capacity of 0.6 million tpy, an electrolytic cleaning line, two annealing bays, and two temper/skin pass lines;

an electrolytic tinning mill with a total capacity of 160,000 tpy;

two service centers: one for tin plated products, with a current capacity of 155,000 tpy and another for hot rolled product with a capacity of 130,000 tpy;

a 27 foot deep, two-dock port on the Paraná river used for the reception of raw materials (mainly iron ore and coal) and for the shipment of finished products; and

auxiliary services such as a thermo-electric plant, an oxygen, nitrogen and argon gas-separation plant, lime kilns, a maintenance shop and computer and training centers.

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Ensenada. The Ensenada plant has a capacity of up to 1.0 million tpy of cold rolled uncoated sheets and coils. The hot rolled coils it uses come from the Ramallo facility, located at a distance of 330 kilometers by land and approximately 300 kilometers by river. The plant is located on the bank of the River Plate at Ensenada, approximately 70 kilometers south of Buenos Aires. The facility includes:

a cold rolling mill with a pickling line, a four-stand tandem cold reduction line, an annealing line, a one-stand temper/skin pass line, one tension flattening line and one inspection line for sheet and coil; and

a private port with one freight platform of 150 meters capable of unloading vessels of up to 35,000 tons and other auxiliary installations for maintenance and administrative activities.

Florencio Varela. This facility is located in Florencio Varela, 30 kilometers south of Buenos Aires at a distance of 35 kilometers and 295 kilometers from Ensenada and Ramallo, respectively. This plant receives cold rolled coils from Ensenada and Ramallo as raw material for its own processes. The facility in this location includes:

Sidercolor, which is an electrolytic galvanizing plant with a capacity of 85,000 tpy of electrogalvanized sheet and includes one soluble anode electrolytic galvanizing line, one cut-to-length line and auxiliary installations.

two service centers that produce blanks, skelp and sheets, which are customized steel shapes cut from flat steel products for use by customers in the manufacture of finished products. Ternium s production of customized products enables its customers to shorten their lead time for their own production. The service centers have a production capacity of 290,000 tpy of blanks and customized products and operate cut-to-length lines, a flattening line, a slitting line and a packaging line for sheet and auxiliary installations comprised of a maintenance shop and an office building.

Haedo. The Haedo plant is located at a distance of 90 kilometers from the Ensenada facility and 270 kilometers from Ramallo. Crude cold rolled sheets used at the plant are received from the Ramallo and Ensenada facilities. The Haedo plant includes a continuous hot dipped galvanizing line with a capacity of 180,000 tpy of coated sheets. The facility also operates a cut-to-length line, four shapers and five presses. In addition, its auxiliary installations include a maintenance shop, a laboratory and an office building.

Canning (formerly Comesi). This facility is located in Canning, approximately 40 kilometers south of the city of Buenos Aires. This facility includes:

a galvanizing line with a capacity of 340,000 tpy used for the production of hot dipped galvanized steel and products under the trademark CINCALUM.

a continuous painting line for coils with a capacity of 55,000 tpy fully dedicated to the construction and home appliance markets.

a cut-to-length line and corrugating machines for the production of a variety of corrugated products.

Venezuela

Sidor is Ternium s Venezuelan integrated steel manufacturing complex with flat and long steel production capabilities. It is located close to the city of Puerto Ordaz, in the industrial zone of Matanzas on the banks of the Orinoco River. This prime location connects the facilities directly to the Atlantic Ocean.

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The following table presents the annual production capacity of the major operational units of the complex located in Venezuela as of December 31, 2004, the year in which operations started for the relevant units and the year of the last major overhaul:

	Capacity	Start year	Year of last major overhaul
	(Thousand tpy)		
Pelletizing Plant	8,000	1979	2004
Direct Reduction Plant	4,500	1976/1978/1980(1)	2004
Slabs Steel Shop	3,600	1978	2004
Hot Rolling Mills	2,800	1973	2005
Cold Rolling Mills	1,700	1974	2005
Tinning Mills	200	1973	2005
Billets Steel Shop	1,400	1979	2003
Wire Rod	600	1979	2004
Bar Mill	500	1979	2000

(1) The three years correspond to the start years of the three direct reduction modules.

The complex includes:

a pellet plant that produces pellets used as raw materials in the production of direct reduction iron, or DRI, with a total capacity of 8.0 million tpy;

three types of direct reduction technologies to produce DRI: a continuous bed reduction technique using Midrex I (1.1 million tpy) and Midrex II (2.7 million tpy) technologies with an aggregate production capacity of 3.8 million tpy; and one fixed bed reduction technique using HYL II technology with a total production capacity of 0.7 million tpy;

a steel making plant, that comprises four 200-ton electric arc furnaces, two 190-ton electric arc furnaces for secondary metallurgy and three two-stand continuous slab casting machines with a capacity of 3.6 million tpy;

a hot rolling mill, that comprises a six-stand continuous hot strip roller with a capacity of 2.8 million tpy;

a cold rolling mill with a capacity of 1.7 million tpy, with two pickling lines, two five-stand tandem cold reduction lines, two annealing bays, three temper/skin pass scissors lines and finishing lines;

facilities for the production of billets that include two 150-ton electric arc furnaces and two six-stand continuous billets casting machines with a capacity of 1.4 million tpy;

facilities for the production of wire rod, that comprise an eight-stand rolling mill with two lines and finishing rolling facilities with a capacity of 0.6 million tpy;

facilities for the productions of bars that comprise a finishing four-stand rolling line with a capacity of 0.5 million tpy; and a port located on the Orinoco River, 195 miles from the Atlantic Ocean, that operates 11 cranes for the loading and unloading of finished products and raw materials, respectively. The dock is 1,037 meters long and allows the docking of six ships of up to 20,000 tons.

Mexico

Ternium conducts operations through facilities located in the Mexican cities of Monterrey, Apodaca and Puebla. Furthermore, Ternium sources all of the iron ore used in its Mexican facilities from its two mines located in Colima, and refines that iron ore into DRI using proprietary technology.

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Monterrey. Ternium s facilities at San Nicolás de los Garza, located in Monterrey s metropolitan area, include:

a steel making plant that comprises two electric arc furnaces, two ladle furnaces, two thin-slab continuous casters (Mill No. 2) and a hot rolling mill;

a steel making plant that comprises three electric arc furnaces, an ingot casting facility and a hot rolling mill (Mill No 1).

three DRI facilities: one is adjacent to Mill No. 2 and includes the latest DRI HYL® technology advances, such as Hytemp®, which permits the hot discharge of the DRI to the electric arc furnace generating significant energy savings and improving productivity, and the other two facilities are shared by Mill No. 1 and Mill No. 2;

two pickling lines, four reversing cold mills, annealing ovens, two temper mills, a skin-pass mill and tension leveling equipment, each of which is shared by both mills;

three galvanization lines with a total annual capacity of 500,000 tons;

three painting lines with a total annual capacity of 303,000 tons;

ten tubing mills with an annual capacity of 320,000 tons;

three panel lines with a total annual capacity of 2.5 million square meters; and

a transformation plant that produces a variety of specialized products, with a total annual capacity of 410,000 tons.

The following table summarizes the annual production capacity (which does not represent the combined capacity of all the lines operating simultaneously) for the different flat steel production lines at the Monterrey facilities.

Facility	**Product**	**Capacity**
		(Thousands tpy)
Direct Reduction plants	Direct Reduced Iron (DRI)	1,550
Ingots steel plant	Slabs	800
Mill No. 1 hot rolling mill	Hot rolled coils	920
Mill No. 2 continuous casting mill	Hot rolled coils, ultra-thin hot band	1,650
4 cold mills	Cold rolled coils	715
3 galvanization lines	Galvanized and coated sheets	500
3 painting lines	Pre-painted sheets	303
6 tubing mills	Thin tubing	320
3 panel lines	Insulated steel panels	2,500(1)

(1) Measured in square meters.

The primary raw materials required for the Monterrey facilities production of steel include DRI, which Ternium produces in its own direct reduction facilities, and/or other iron material in combination with steel scrap that Ternium buys in the domestic or international markets. Ternium s materials procurement policy is described in greater depth in the section entitled Raw materials and energy.

In close proximity to Ternium s Monterrey facilities is the Acerex service center dedicated to processing steel to produce short length and thin steel sheets in various widths. Acerex has a total annual capacity of 544 thousand tons. Acerex is a joint venture in which Ternium holds (through Hylsamex) a 50% ownership interest, with the remainder owned by Worthington Industries. Acerex functions as a cutting and processing plant for Ternium s Mexican operations and an independent processor for other entities. Hylsamex and Worthington Industries are currently negotiating the termination of the Acerex joint venture through a buy/sell mechanism that

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would result in one of the parties buying the other party s interest. The termination process is expected to be completed in the first quarter of 2006.

The North Plant Apodaca. Located in Apodaca, Nuevo Léon (near Monterrey, Mexico), the North Plant is dedicated exclusively to the production of rebar. This plant uses 100% steel scrap as metallic input for its operations, and includes an electric arc furnace, a continuous caster, a reheating furnace and a rolling mill. Installed production capacities for the different production lines of the North Plant are set forth in the following table.

Facility	Product	Capacity
		(Thousands tpy)
Billets Steel Plant	Billet	520
Rolling mill	Rebar	442

The Puebla Plant Xoxtla. Located in Xoxtla, Puebla (near Mexico City), the Puebla Plant produces both rebar and wire rod, including high-carbon, low-carbon and micro-alloyed wire rod. The Puebla Plant has a direct reduction facility to produce DRI, one electric arc furnace, a ladle furnace, one continuous caster, a reheating furnace and rolling and finishing mills. Installed production capacities for the different production lines of the Puebla Plant are set forth in the following table.

Facility	Product	Capacity
		(Thousands tpy)
Direct Reduction Plant	DRI	880
Billets Steel Plant	Billet	736
Rolling Mill	Rebar and wire rod	542

Las Encinas mines. Las Encinas is composed of three separate iron ore mines, Cerro Náhuatl, Aquila and San Ramon, each of which is located near its pelletizing plant in the Mexican State of Colima, with a maximum annual capacity of 1.8 million metric tons.

Cerro Nahuatl is an open-pit mine in Colima, Mexico, which began operations in 1988, and is the largest mine at the Las Encinas site. Cerro Nahuatl has the lowest percentage of iron content among all of Ternium s mines at Las Encinas, and therefore has the lowest ore processing efficiency. Ore mined at Cerro Nahuatl is transported to Ternium s pelletizing facility through a seven kilometer slurry pipe and then 42 kilometers by rail.

Aquila is an open-pit mine in Michoacán, Mexico, which began operations in 1998. Aquila has the highest percentage of iron content among the Las Encinas mines, and has the option of producing raw iron ore lump that can be used directly in the DRI plants mixed with pellets. Ore mined at Aquila is transported to the pelletizing facility by rail and truck.

San Ramon is an underground mine in Jalisco, Mexico, which began operations in 1998 and is not currently in use, as the Aquila mine is a less expensive option for supplying iron ore. An open pit mine called El Encino was previously operated on the same site. It began operations in 1970 and was depleted in 1998. Ore mined at San Ramon is transported to the pelletizing facility by gondola.

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Ternium s mining operations at Las Encinas are flexible, giving Ternium the ability to halt production at one or more of its mines from month to month depending on market conditions. Annual production capacities for the different production lines of the Las Encinas mine are set forth in the following table.

Facility	Product	Capacity
		(Thousands tpy)