Ternium S.A.
Form 20-F
June 30, 2006
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934**

or

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2005

or

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

or

¨ **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission file number: 001-32734

TERNIUM S.A.

(Exact Name of Registrant as Specified in its Charter)

N/A

(Translation of registrant s name into English)

Grand Duchy of Luxembourg

(Jurisdiction of incorporation or organization)

46a, Avenue John F. Kennedy 2nd floor

L-1855 Luxembourg

(Address of registrant s principal executive offices)

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

Title of Each Class	Name of Each Exchange On Which Registered
American Depositary Shares	**New York Stock Exchange**
Ordinary Shares, par value USD1.00 per share	**New York Stock Exchange***

* **Ordinary shares of Ternium S.A. are not listed for trading but only in connection with the registration of American Depositary Shares which are evidenced by American Depositary Receipts.**

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

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

1,396,551,886 ordinary shares, par value USD1.00 per share [1]

[1] Following consummation of the registrant s initial public offering on February 6, 2006, the outstanding shares were 2,004,743,442.

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

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

Note checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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

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

Large accelerated filer ¨ Accelerated Filer ¨ Non-accelerated filer x

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

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

Please send copies of notices and communications from the Securities and Exchange Commission to:

Cristian J.P. Mitrani	**Carlos J. Spinelli-Noseda, Esq.**
Bruchou, Fernández Madero, Lombardi & Mitrani	**Sullivan & Cromwell LLP**
Ing. Butty 275, 12th Floor	**125 Broad Street**
C1001AFA - Buenos Aires, Argentina	**New York, New York 10004**
(54-11) 5288-2300	**(212) 558-4000**

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CERTAIN DEFINED TERMS

In this annual report, 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) organize 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 1 and 2 to our combined consolidated financial statements included elsewhere in this annual report and Item 4. Information on the Company History and Corporate Organization ;

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.

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References to ADSs are to the American Depositary Shares which are evidenced by American Depositary Receipts;

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, or 1,000,000,000.

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Accounting Principles

We prepare our combined consolidated financial statements in conformity with International Financial Reporting Standards, or IFRS. IFRS differ in certain significant respects from generally accepted accounting principles in the United States, commonly referred to as U.S. GAAP. See note 36 to our audited combined consolidated financial statements included in this annual report, which provide a description of the principal differences between IFRS and U.S. GAAP as they relate to the Company and a reconciliation of net income and shareholders equity for the years and at the dates indicated.

Our audited combined consolidated financial statements at, and for the year ended December 31, 2005 included in this annual report consolidate at December 31, 2005, and for the year then ended, 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 and Hylsamex, which companies came under the control of San Faustín on February 15, 2005 and August 22, 2005, respectively. As a result of the consolidation of Amazonia s and Hylsamex s results and other financial data, Ternium s results and other financial data for the year ended December 31, 2005 varied significantly from the results and other financial data for the years ended December 31, 2004 and 2003. For a list of our subsidiaries, see notes 1 (b) and 2 to our audited combined consolidated financial statements included in this annual report. For comparative purposes, the audited combined consolidated financial statements of Ternium as of December 31, 2004 and 2003 and for the years then ended included in this annual report 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 dates and for each of the years then ended, on the basis that such companies were under the common control of San Faustín as of each such dates and for each such years. 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. For more information, see notes 1, 2 and 3 to our audited combined consolidated financial statements included in this annual report.

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Currencies

In this annual report, unless otherwise specified or the context otherwise requires:

- dollars , U.S. dollars or USD each refers to the United States dollar;
- , EUR or euros each refers to the Euro;
- Argentine pesos or ARP each refers to the Argentine peso;
- Venezuelan bolívares or VEB each refers to the Venezuelan bolívar; and
- Mexican pesos or MXN each refers to the Mexican peso.

On December 30, 2005, 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 ARP3.032=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 MXN10.63=USD1.00. Those rates may differ from the actual rates used in preparation of Ternium s combined consolidated financial statements. We do not represent that any of these currencies could have been or could be converted into U.S. dollars or that the U.S. dollars could have been or could be converted into any of these currencies.

Rounding; Comparability of Data

Certain monetary amounts, percentages and other figures included in this annual report 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.

Our Internet Site is Not Part of This Annual Report

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

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This annual report and other oral and written statements made by us to the public contain forward-looking statements within the meaning of and subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. This annual report 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.

Sections of this annual report that by their nature contain forward-looking statements include, but are not limited to, Item 3. Key Information, Item 4. Information on the Company, Item 5. Operating and Financial Review and Prospects and Item 11. Quantitative and Qualitative Disclosure About Market Risk.

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 globally and in the countries in which Ternium operates;

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

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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. You should not place undue reliance on the forward-looking statements, which speak only as of the date of this annual report. 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.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The selected combined consolidated financial data set forth below have been derived from our audited combined consolidated financial statements for each of the years and at the dates indicated. Our combined consolidated financial statements were prepared in accordance with IFRS and were audited by Price Waterhouse & Co. S.R.L., Argentina, an independent registered public accounting firm and a member firm of PricewaterhouseCoopers. IFRS differ in certain significant respects from U.S. GAAP. See note 36 to our audited combined consolidated financial statements included in this annual report, which provide a description of the principal differences between IFRS and U.S. GAAP as they relate to the Company and a reconciliation to U.S. GAAP of net income and shareholders equity for the years and at the dates indicated therein.

The audited combined consolidated financial statements of Ternium as of December 31, 2005 and for the year then ended included in this annual report 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 and Hylsamex, which companies came under the control of San Faustín on February 15, 2005 and on August 22, 2005, respectively. As a result of the consolidation of Amazonia s and Hylsamex s results and other financial data, Ternium s results and other financial data for the year ended December 31, 2005 vary significantly from the results and other financial data for the years ended December 31, 2004 and 2003. The audited combined consolidated financial statements of Ternium as of December 31, 2004 and 2003 and for the years then ended included in this annual report 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 dates and for each of the years then ended, on the basis that such companies were under the common control of San Faustín as of each such dates and for each such years. 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 years presented. For more information, see notes 1, 2 and 3 to our audited combined consolidated financial statements included in this annual report. For a discussion of the currencies used in this annual report, exchange rates and accounting principles affecting the financial information contained in this annual report, see Presentation of Certain Financial and Other Information Accounting Principles and Currencies.

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In thousands of U.S. dollars	**For the year ended December 31,**		
(except number of shares and per share data)	**2005**	**2004**	**2003**
Selected combined consolidated income statement data			
IFRS			
Net sales	4,447,680	1,598,925	1,056,566
Cost of sales	(2,470,844)	(965,004)	(671,720)
Gross profit	1,976,836	633,921	384,846
General and administrative expenses	(269,231)	(58,428)	(51,557)
Selling expenses	(251,962)	(60,524)	(62,786)
Other operating expenses, net	(63,482)	(798)	(5,721)
Operating income	1,392,161	514,171	264,782
Financial (expenses) income, net	(310,736)	202,289	75,606
Excess of fair value of net assets acquired over cost	188,356		
Equity in earnings of associated companies	21,524	209,201	110,250
Income before income tax expense	1,291,305	925,661	450,638
Income tax expense	(218,492)	(177,486)	(94,087)
Net income for the year(1)	1,072,813	748,175	356,551
Attributable to:			
Equity holders of the Company	704,406	457,339	218,215
Minority interest	368,407	290,836	138,336
	1,072,813	748,175	356,551
Depreciation and amortization	316,405	99,192	85,479
Weighted average number of shares outstanding(2)	1,209,476,609	1,168,943,632	1,168,943,632
Basic earnings per share for profit attributable to the equity holders of the Company during the year(2)	0.58	0.39	0.19
Diluted earnings per share for profit attributable to the equity holders of the Company during the year (3)	0.54	0.39	0.19
U.S. GAAP			
Net sales	4,447,680	1,598,925	1,056,566
Net income for the year(4)	559,305	424,655	264,173
Weighted average number of shares outstanding(2)	1,209,476,609	1,168,943,632	1,168,943,632
Basic earnings per share for profit attributable to the equity holders of the Company during the year(2)	0.46	0.36	0.23
Diluted earnings per share for profit attributable to the equity holders of the Company during the year(3)	0.43	0.36	0.23

(1) For IFRS purposes, net income for the year 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 year is shown net of minority interest.

(2) As described in note 1 to our audited combined consolidated financial statements, in October 2005, Usiminas exchanged its 5.3% equity interest in Siderar, its 16.6% equity interest in Amazonia and its 19.1% equity interest in Ylopa and other items for 227,608,254 new shares of the Company. Upon the consummation of this exchange, capital increased to USD1,396.5 million, represented by 1,396,551,886 shares of USD1.00 nominal value each.

Ternium s combined earnings per share for the year ended December 2004 and 2003 have been calculated based on the assumption that 1,168,943,632 shares were issued and outstanding in each of the periods presented. For fiscal year 2005, the weighted average of shares outstanding totaled 1,209,476,609 shares.

(3) Diluted earnings per share have been calculated giving effect to the conversion of the Subordinated Convertible Loans. See note 35(a) to our audited combined consolidated financial statements.

(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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In thousands of U.S. dollars	At December 31,		
(except number of shares and per share data)	2005	2004	2003
Selected combined consolidated balance sheet data			
IFRS			
Non-current assets	6,116,423	1,728,410	1,610,810
Property, plant and equipment, net	5,463,871	1,244,691	1,275,699
Other non-current assets(1)	652,552	483,719	335,111
Current assets	2,543,558	918,220	576,078
Cash and cash equivalents	765,630	194,875	129,020
Other current assets	1,777,928	723,345	447,058
Total assets	8,659,981	2,646,630	2,186,888
Capital and reserves attributable to the Company s equity holders(2)	1,842,454	1,026,725	701,821
Minority interest	1,733,465	745,126	550,264
Non-current liabilities	3,690,629	359,510	677,649
Borrowings	2,399,878	1,008	283,914
Deferred income tax	1,048,188	337,473	374,907
Other non-current liabilities	242,563	21,029	18,828
Current liabilities	1,393,433	515,269	257,154
Borrowings	516,399	121,998	80,238
Other current liabilities	877,034	393,271	176,916
Total liabilities	5,084,062	874,779	934,803
Total equity and liabilities	8,659,981	2,646,630	2,186,888
Number of shares outstanding(3)	1,396,551,886	1,168,943,632	1,168,943,632
U.S. GAAP			
Total assets	7,938,086	2,115,271	1,201,734
Non-current liabilities	3,699,842	44,647	311,054
Total shareholders equity	1,436,638	954,255	382,703

(1) As of December 31, 2005, includes USD399.7 million of goodwill related to the acquisition of Hylsamex. See note 3(a) to our audited combined financial statements.

(2) The Company s common stock as of December 31, 2005, 2004 and 2003 was represented by 1,396,551,886, 1,168,943,632 and 1,168,943,632, par value USD1.00 per share, for a total amount of USD1,396.5 million, USD1,168.9 million and USD1,168.9 million, respectively.

(3) As described in note 1 to our audited combined consolidated financial statements, in October 2005, Usiminas exchanged its 5.3% equity interest in Siderar, its 16.6% equity interest in Amazonia and its 19.1% equity interest in Ylopa and other items for 227,608,254 new shares of the Company. Upon the consummation of this exchange, capital increased to USD1,396.5 million, represented by 1,396,551,886 shares of USD1.00 nominal value per share.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

You should carefully consider the risks and uncertainties described below, together with all other information contained in this annual report, before making any investment decision. Any of these risks and uncertainties could have a material adverse effect on our business, financial condition and results of operations, which could in turn affect the price of the Company s shares and ADSs.

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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 has 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 and continuing through 2005. Nevertheless, prices in 2005 reached generally higher levels than those prevailing in 2001 through 2003. In the first quarter of 2006, the steel prices began to recover. 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 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

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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 higher costs of production and eventually to production cutbacks at Ternium s facilities in Argentina. See Risks Relating to the Countries in Which We Operate Argentina 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 Item 4. Information on the Company 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. Moreover, in some cases, the governments of some countries are reluctant (as is currently the case in Argentina) to accept price increases of products which are used as raw materials for the manufacture of other goods, as such increases could ultimately impact the inflation rate and in the prices paid by end consumers of those goods (e.g., tinplate for cans). Accordingly, increased purchase costs of raw materials and energy might 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 Item 4. Information on the Company 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, depending on the circumstances, 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 increased Sidor s cost of iron ore from approximately USD19 to approximately USD31 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 Item 4. Information on the Company Raw Materials and Energy Venezuela Iron Ore, Electricity and Natural gas.

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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 Item 4. Information on the Company 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 Item 4. Information on the Company 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. Furthermore, in January 2006, Mittal Steel announced a tender offer to acquire Arcelor, which terms were improved in May 2006. Also, in May 2006, Arcelor announced plans to merge with Severstal. 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 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, which could result in decreased sales.

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Risks Relating to our 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, the acquisition of Hylsamex, one of the main steel producers in Mexico, the acquisition of the assets and facilities of Acindar Industria Argentina de Aceros S.A. (Acindar), related to the production of welded steel pipes in the province of Santa Fe in Argentina, the acquisition of 100% of the issued and outstanding shares of Impeco S.A. (Impeco), which in turn owned a plant located in the province of San Luis in Argentina, and the acquisition of the 50% interest not previously owned by Hylsamex in Acerex S.A. de C.V. (Acerex), a service center in Mexico that processes steel to produce short length and thin steel sheets in various widths.

We will continue to actively consider other strategic acquisitions and partnerships from time to time. We must necessarily base any assessment of potential acquisitions and alliances on assumptions with respect to operations, profitability and other matters that may subsequently prove to be incorrect. Ternium s future acquisitions, significant investments and alliances may not perform in accordance with our expectations and could adversely affect our 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 its newly acquired businesses into its operations since the consummation the acquisitions, 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 its newly acquired businesses 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

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- 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 businesses 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.

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, Ternium recorded USD399.7 million in goodwill as of December 31, 2005. 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.

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In addition, these credit agreements contain indemnification provisions. For information concerning these credit agreements and debt instruments, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Principal Borrowings.

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 Item 7. Major Shareholders and Related Party Transactions 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 Item 6. Directors, Senior Management and Employees 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

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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.

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 20.0% 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.

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, as of March 31, 2006 Ternium s outstanding variable interest rate indebtedness amounted approximately to USD1,556 million. For each 1% increase in interest rates, Ternium s annual interest expenses will increase by USD15.6 million. However, Ternium and its subsidiaries have entered into derivative swap contracts for a total notional amount of USD450 million in order to mitigate this risk. For further information, see Item 11. Quantitative and Qualitative Disclosure About Market Risk Interest Rate Risk .

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

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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.

Moreover, our ability and the ability of the Ternium companies to pay dividends and make other payments depend in part on contractual arrangements relating to the distribution of profits. The credit agreement entered into to finance the acquisition of Hylsamex contains 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. In addition, under the terms of its restructuring agreements, Sidor may not pay dividends until the earlier of (i) August 2015 or (ii) the prepayment in full of certain obligations arising from the debt restructuring that took place in 2003. As of the date of this annual report, such indebetedness amounted to less than USD200 million. For further information about the impact of such restrictions and covenants, please see Risks Relating to our 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 Item 8. Financial Information Consolidated Statements and Other Financial Information 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 May 31, 2006, San Faustín beneficially owned 59.06% of our 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, 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 May 31, 2006, approximately 36.4% of Siderar was publicly held and approximately 7.5% was held by certain Siderar employees. As of the same date, approximately 20.7% 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 19.6% was held by certain Sidor employees. Also as of the same date, 0.2% of Hylsamex was owned by minority shareholders. 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 the relief obtained from the Luxembourg tax authorities 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. Our 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 had qualified for such exemption and we obtained confirmation from the Luxembourg tax authorities on the availability of the exemption with respect to each such contribution. However, 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.

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A current EU investigation could lead Luxembourg to change the tax rules applicable to 1929 holding companies and result in a higher tax burden on us in the future.

We were established as a *société anonyme holding* under Luxembourg s 1929 holding company regime. The 1929 holding companies are exempt from certain business taxes on earnings and on payments. In the past, 1929 holdings were questioned by the EU as a harmful tax practice . As a result, in 2005 Luxembourg amended the holding company regime to eliminate the exemption with respect to income not previously subject to comparable tax. The new regime will not apply to pre-existing companies, including us, until 2011. On February 8, 2006, the European Commission launched a formal investigation into Luxembourg s 1929 legislation exempting holdings and financial companies from corporate taxation. The new EU investigation seeks to determine whether the 1929 regime is contrary to the EC Treaty state aid rules. The EU investigation is directed against the Luxembourg government, not against the relevant holding companies. If an investigation finds the tax exemptions are a form of state aid in violation of EU law, the EU can demand that Luxembourg change the applicable tax rules, and any such change could in turn result in a higher tax burden on us in the future. For further information, see Item 10. Additional Information Taxation Holding company status .

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; direct and indirect 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 2001, a sustained period of economic contraction culminated in severe social, monetary and financial turmoil and the resignation of President Fernando de la Rúa on December 21, 2001, amid wide-spread and violent demonstrations. An interim administration adopted a series of emergency measures affecting Argentina s monetary and fiscal policies, including the end of the decade-old peg of the Argentine peso to the U.S. dollar and obligatory unwinding of dollar-denominated contracts. As a result, the Argentine pesos experienced significant devaluation in 2002.

Presidential elections held on April 2003 were eventually won by Nestor Kirchner with the smallest plurality on record. Since taking office, however, President Kirchner has enjoyed high levels of popular support and the economy has recovered to levels last attained in 1998, with growth of the country s gross domestic product, or GDP, averaging 9% per annum in the three-year period from 2003 - 2005. During 2005, the Argentine government restructured most of the country s defaulted debt. As a result of the sustained economic growth, unemployment rates have dropped to 10.1% in 2005 from a peak of 24.1% in 2002. Furthermore, the Argentine economy continues to benefit strongly from high international commodity prices, low international interest rates and high levels of global liquidity.

Despite the progress to date, several significant issues remain to be addressed by the government. Inflation increased significantly during 2005 to 12%, and the economy has been affected by supply constraints as capacity idled during the economic crisis has been utilized. Capital investment in general has lagged due to political uncertainties caused by the government s increasing anti-business tone and its inclination to resort to price controls, nationalizations and other measures limiting the private conduct of business.

Economic conditions in Argentina have deteriorated rapidly in the past and may deteriorate rapidly in the future. Should the current favorable conditions reverse, inflation become a problem or supply constraints hinder future growth, the Argentine economy may not continue to grow at current rates. Our business and operations in Argentina could be adversely affected by rapidly changing economic conditions in Argentina or by the Argentine government s policy response to such conditions.

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, 2004 and 2005, 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, 72% in 2004 and 71% in 2005.

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 have a significant effect on 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 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

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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.

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.

In 2005, the Argentine government 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 January 4, 2006, the Argentine government prepaid of all of its outstanding obligations to the International Monetary Fund (IMF), amounting to approximately USD9.5 billion. This prepayment, together with Argentina s limited access to foreign capital, could curtail its ability to assess international credit markets.

To date, Argentina has experienced difficulty and greater costs when accessing the international credit markets, given its past default, its failure to restructure the entire amount of its existing sovereign debt and 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 USD473.6 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.

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.

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.

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, 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.

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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 efforts to organize 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. In addition, the Venezuelan government has pressured foreign oil companies to apply, on a retroactive basis, a new standard for determining income tax that differs from previously applicable fiscal regulations. The Venezuelan government has also canceled mining concessions and has proposed that a state-run mining corporation administer mining operations. 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.

The Venezuelan government has recently announced its decision to finance and form state-controlled industrial companies that could have direct or indirect effect on Ternium s subsidiaries in Venezuela. For instance, the following projects, among others, have been announced: a plant dedicated to concentration of iron ore mined by FMO, a seamless pipe production facility, an integrated steel production facility and a scrap distribution company. However, the Venezuelan administration has stated that these projects would not compete against Sidor.

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 of natural gas from PDVSA Gas, S.A. (PDVSA Gas). Accordingly, Ternium s subsidiaries in Venezuela could suffer from any potential increase in the prices of other raw materials or supplies. 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 increased Sidor s cost of iron ore from approximately USD19 to approximately USD31 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 June 2006, Sidor was notified that it had been granted a 7.61% discount on its iron ore price in connection with the initial assessment of Sidor s proposed industrial development plan. The other terms and conditions of the 1997 contract remain in effect under the revised contract. See Risks relating to the steel industry The Ternium companies depend on a limited number of key suppliers. and Item 4. Information on the Company Raw Materials and Energy Venezuela .

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, price 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.

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 on July 2, 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.

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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, 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 Item 4. Information on the Company Regulation Trade regulations.

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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 Relating to our ADSs

The market price for our ADSs could be highly volatile.

The market price for our ADSs 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.

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. The Company, however, 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 Item 10. Additional Information Memorandum and Articles of Association.

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 named in this annual report 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 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.

Item 4. Information on the Company

Overview

Ternium is one of the leading steel companies in the Americas, with a strategic presence in several major steel markets through a 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 an aggregate annual production capacity of approximately 11.6 million tons (during the first months of 2006, the annual capacity decreased by approximately 800,000 tons due to the Company s management decision to abandon the Hylsamex s ingot steel plant). 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.

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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 other major steel markets, such as Europe, Asia (mainly China) and Africa through its 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.

Approximately 63.1% of Ternium s sales were made to South and Central America, 29.0% to North America, 6.1% to Europe and 1.8% to the rest of the world.

In 2005, Ternium s net sales were USD4.4 billion, gross profit was USD1,976.8 million, and net income attributable to equity holders was USD704.4 million, which amounts reflect the consolidation of Amazonia and Hylsamex since February 15, 2005 and August 22, 2005, respectively.

A. History and Corporate Organization

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 2668 31 52.

As a part of a recent corporate reorganization, the Techint Group reorganized its investments in flat and long steel manufacturing, processing and distribution businesses by contributing all of its interests in Siderar, Sidor (through Amazonia and Ylopa) and Techintrade to the Company.

On May 6, 2005, San Faustín assigned and contributed to its subsidiary ISL a 100% interest in I.I.I.-Industrial Investments Inc., a British Virgin Islands company (I.I.I. BVI) and a 100% interest in Fasnet International S.A. (Fasnet). The investments then held by I.I.I. BVI consisted principally of a 50.7% interest in Siderar, a 25% interest in Amazonia, a 34.3% interest in Ylopa and a 100% interest in Techintrade.

Also, on May 6, 2005, ISL acquired a 96.77% interest in the Company, which it afterwards increased to an interest of almost 100%.

On June 29, 2005, ISL assigned and contributed to the Company all of its assets (then including, among other things a 100% interest in I.I.I. BVI, a 100% interest in Fasnet and an almost 100% interest in the Company) and liabilities, in exchange for 959,482,775 newly issued shares of the Company. Upon consummation of this contribution, the Company shares contributed by ISL to the Company were cancelled and the Company s issued share capital was increased.

On August 22, 2005, we acquired, together with Siderar, an indirect 99.3% interest in the Mexican company Hylsamex and its subsidiaries 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 of Hylsamex 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, as borrower 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 (collectively, the Subordinated Convertible Loan Agreements and the loans thereunder, the Subordinated Convertible Loans), 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 as lenders (collectively, the Subordinated Lenders).

On September 9, 2005, Tenaris exchanged with ISL its 21.2% interest in Amazonia and its 24.4% interest in Ylopa for 209,460,856 shares of the Company.

On September 15, 2005, ISL assigned and contributed to the Company all of its assets (then including a 21.2% interest in Amazonia, a 24.4% interest in Ylopa and 750,021,919 shares of the Company) and liabilities in exchange for 959,482,775 newly issued shares of the Company. Upon consummation of this contribution, the 750,021,919 shares contributed by ISL to the Company were cancelled and the Company s issued share capital was increased.

On September 22, 2005, the Company assumed all of I.I.I. BVI s rights and obligations under the Ternium Credit Facility and the Subordinated Convertible Loan Agreements.

On October 27, 2005, Usiminas Europa A/S, a Danish wholly owned subsidiary of Usiminas, assigned and contributed to the Company all of its assets (then including a 5.3% interest in Siderar, a 16.6% interest in Amazonia and a 19.1% interest in Ylopa) and liabilities in exchange for 227,608,254 newly issued shares of the Company. Upon the consummation of this contribution the Company s issued share capital was increased to USD 1,396,551,886 represented by 1,396,551,886 shares of USD1.00 nominal value each. On the same date, I.I.I. BVI transferred to the Company all of its shares of Siderar, Amazonia, Inversiones Siderúrgicas S.A. (IS), Techintrade, Hylsa Latin LLC and Ylopa in consideration of the assumption by the Company of I.I.I. BVI s obligations under the Ternium Credit Facility and the Subordinated Convertible Loan Agreements.

On November 17, 2005, Siderúrgica del Turbio S.A. SIDETUR (Sidetur), a subsidiary of Siderúrgica Venezolana SIVENSA , S.A. (Sivensa), exchanged with ISL its 3.4% interest in Amazonia for 33,800,735 shares of the Company (the Sivensa Exchange).

On January 11, 2006 the Company launched an initial public offering of 24,844,720 American Depositary Shares, each representing 10 shares of the Company (each an ADS), in the United States. In connection with the offering, the Company granted the underwriters of the Company s initial public offering an option to purchase up to 3,726,708 additional ADSs to cover over-allotments in the sale of the ADSs.

On January 31, 2006, ISL and the Company entered into a Corporate Reorganization Agreement (the Corporate Reorganization Agreement) pursuant to which ISL assumed a firm and irrevocable commitment to (i) deliver shares of the Company to the underwriters of the Company s initial public offering and to the Subordinated Lenders in an amount sufficient to satisfy the Company s obligation to deliver shares of the Company to the underwriters (other than with respect to the underwriters over-allotment option) and to the Subordinated Lenders pursuant to the terms of the offering and the Subordinated Convertible Loan Agreements and, (ii) as soon as practicable after ISL s delivery of such shares, contribute all of its assets and liabilities to the Company in exchange for 959,482,775 newly issued shares of the Company.

On February 6, 2006, the Company s initial public offering settled, and ISL delivered for and on behalf of the Company 248,447,200 Ternium shares to the underwriters of the offering and 374,272,579 Company shares to the Subordinated Lenders.

As provided in the Corporate Reorganization Agreement, on February 9, 2006, ISL assigned and contributed to the Company all of its assets (then including the 3.4% interest in Amazonia acquired pursuant to the Sivensa Exchange, two notes issued by the Company in consideration of ISL s delivery of Company shares pursuant to the Corporate Reorganization Agreement and 374,272,579 shares of the Company) and liabilities in exchange for 959,482,775 newly-issued shares of the Company. Upon consummation of this contribution, the 374,272,579 Company shares contributed by ISL to the Company were cancelled and the Company s issued share capital was increased to USD1,981,762,082, represented by 1,981,762,082 shares, each having a nominal value of USD1.00.

On February 23, 2006, the underwriters of the Company s initial public offering exercised in part the over-allotment option granted by the Company. In connection with this over-allotment option exercise, on March 1, 2006, the Company issued 22,981,360 new shares against payment in cash of an aggregate subscription price of USD45,962,720 and the Company s issued share capital was increased to USD2,004,743,442, represented by 2,004,743,442 shares, each having a nominal value of USD1.00.

B. Business Overview

Our 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.

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Our 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;

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

Strong financial position. We believe that, since the completion of our initial public offering in February 2006, Ternium has maintained a solid financial position. In particular, our relatively low debt to equity capital structure, together with our strong cash flow generation, provides us with the flexibility and resources to enhance existing businesses through investment projects and to make strategic investments and acquisitions.

Our 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 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 rod 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 rod: 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 rod can be produced in different qualities according to clients demands.

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.

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Production Process and 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.

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.

Ternium s aggregate production capacity of hot rolled steel products for the year ended December 31, 2005 was 7.6 million tons. Ternium s aggregate production capacity of long steel products (wire rod and rebar) was 2.1 million tons for the same year. In this annual report, 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.

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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.

The following table presents the annual production capacity of the major operational units of the facilities located in Argentina as of December 31, 2005, the year in which operations started for the relevant units and the year of the last major overhaul:

	Capacity (Thousand tpy)	Start year	Year of last major overhaul
Coke Plants	1,070	1974	1996
Sinter Plant	1,200	1972	2002
Blast Furnace No. 1	1,340	1960	2004
Blast Furnace No. 2	2,260	1974	1995
Continuous Casting	2,850	1984	2003
Hot Rolling Mills	2,460	1962	2004
Cold Rolling Mills	1,540	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 2.3 million tpy and No. 1 with a capacity of 1.3 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 2.8 million tpy;

a hot rolling mill, comprised of an 11-stand continuous wide hot strip roller with a total capacity of 2.5 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;

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an electrolytic tinning mill with a total capacity of 160 thousand tpy;

two service centers: one for tin plated products, with a current capacity of 155 thousand tpy and another for hot rolled product with a capacity of 130 thousand 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.

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 thousand 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 thousand 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 thousand 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 thousand 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 thousand 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 thousand 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.

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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.

The following table presents the annual production capacity of the major operational units of the complex located in Venezuela as of December 31, 2005, the year in which operations started for the relevant units and the year of the last major overhaul:

	Capacity *(Thousand tpy)*	Start year	Year of last major overhaul
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, one electrolytic cleaning line, 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

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- 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 thousand 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 mines located in Colima and Michoacán, and refines that iron ore into DRI using proprietary technology.

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 and a hot rolling mill (Mill No. 2);
- a hot rolling mill (Mill No. 1).
- two DRI facilities: one adjacent to Mill No. 2 that 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;
- 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 300,000 tons;
- ten tubing mills with an annual capacity of 290,000 tons;
- three panel lines with a total annual capacity of 2.5 million square meters; and
- a steel service center that produces a variety of specialized products, with a total annual capacity of 544,000 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	DRI	1,570
Mill No. 1 Hot Rolling Mill	Hot rolled coils	620
Mill No. 2 Continuous Casting Mill	Hot rolled coils, ultra-thin hot band	1,650
4 Cold Mills	Cold rolled coils	760
3 Galvanizing Lines	Galvanized and coated sheets	500

3 Painting Lines	Pre-painted sheets	300
10 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.

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Next to Ternium s Monterrey facilities is the Acerex service center dedicated to processing steel to produce slitted and cut to length products in various widths and lenghs. Acerex has a total annual capacity of 544 thousand tons. Acerex was a joint venture and in April 2006, Ternium acquired (through its subsidiary Hylsa) the remaining 50% ownership interest. Hylsamex (through its subsidiary Hylsa) owns 100% of Acerex. Acerex functions as a cutting and processing plant for Ternium s Mexican operations and an independent processor for other entities.

The North Plant Apodaca. Located in Apodaca, Nuevo León (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	530
Rolling Mill	Rebar	440

The Puebla Plant Xoxtla. Located in Xoxtla, Puebla (120 km from 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, a vacuum degassing station, 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	860
Billets Steel Plant	Billet	770
Rolling Mill	Rebar and wire rod	540

Las Encinas mines. Las Encinas is composed of three separate iron ore mines, Aquila, Cerro Náhuatl and San Ramón, 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.

Aquila is an open-pit mine in Michoacán, Mexico, which began operations in 1998 and is the largest mine at the Las Encinas site. 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.

Cerro Náhuatl is an open-pit mine in Colima, Mexico, which began operations in 1988.Cerro Náhuatl 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 Náhuatl is transported to Ternium s pelletizing facility through a seven kilometer slurry pipe and then 42 kilometers by rail.

San Ramón 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 Ramón 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 mines are set forth in the following table.

Facility	Product	Capacity (Thousands tpy)
Grinding Plant	Grinded ore	4,220
Concentration Plant	Concentrated	1,800
Pelletizing Plant	Pellet	1,800

For further information please refer to Production Process Mexico.

Peña Colorada mine. The Peña Colorada mine consists of a single large mining site located in Minatitlán, Colima, Mexico. The mine is an open-pit mine which began operations in 1975, and has a production capacity of 4.0 million metric tons per year. There are two pelletizing plants serving the Peña Colorada mine, with a total installed production capacity of 4.0 million tons of iron ore pellets per year. Peña Colorada has convenient access to seaport and railroad facilities that enables the distribution of the iron ore pellets to the domestic and international markets.

Peña Colorada is operated by Consorcio Minero Benito Juárez Peña Colorada, S.A. de C.V., which has two shareholders Hylsamex and Mittal Steel Lazaro Cárdenas (MSLC), a subsidiary of the Mittal Steel group. Through Hylsamex, Ternium holds 50% plus one share of Peña Colorada and MSLC holds the remainder. Hylsamex is committed to purchase one half of the mine s production. See Raw Materials and Energy Mexico Iron ore. Annual production capacities for the different production lines of the Peña Colorada mine are set forth in the following table.

Facility	Product	Capacity (Thousands tpy)
Grinding Plant	Grinded ore	8,600
Concentration Plant	Concentrated	4,500
Pelletizing Plant	Pellet	4,000

For further information please refer to Production Process Mexico.

Production process

Ternium specializes in manufacturing and processing flat and long steel products. In the case of flat products, slabs are reheated and taken to rolling temperature. This treatment removes minor superficial defects and softens the steel to permit its transformation in the hot rolling mill to defined specifications. Hot rolled coils and sheets can be processed with or without scaling, according to the clients uses and needs.

Hot rolled products can also be put under a deformation process at normal temperature (cold rolling) to reduce their thickness and obtain cold rolled products. These products can be sold in crude form to the market (full hard) or processed in the reheating ovens, annealing bays and tempers lines, to modify their metallurgic and geometric characteristics. The tempered products can be sold as coils or sheets or processed with chromium or tin coverings.

In the production of long products, billets are reheated and taken to rolling temperature. As in the case of slabs, this treatment removes minor superficial defects and softens the steel to permit its transformation in the rolling trains to obtain wire rods and bars as final products.

The production processes in Ternium s facilities in Argentina, Venezuela and Mexico differ in certain respects. We include a brief description of the different processes below.

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Argentina

Ternium s Argentine subsidiary, Siderar, is the primary integrated manufacturer of flat steel products in Argentina. Siderar produces crude steel through the use of blast furnaces, which are large chambers lined with refractory bricks used to make pig iron through the melting of pellets, sinter (a mixture of iron ore and limestone) and coke. The molten pig iron is then mixed with steel scrap and limestone in a basic oxygen furnace through a process that removes impurities from the pig iron by injecting pure oxygen at high pressure into the molten metal, burning-off carbon and other elements. The molten steel is then cast using the continuous casting method into slabs. The steel slabs are then sent to a hot rolling mill to be reheated and rolled into hot rolled coils.

Depending on its final use, the hot rolled coil is then scaled, tempered and pickled, before being sent for sale as coil or cut into steel sheet. Alternatively, the hot rolled coils may be sent to a cold rolling mill for use as an input in the production of cold rolled coils. In certain cases, cold rolled coils are processed in an electrolytic cleaning line, an annealing line and a two-stand temper mill to produce thin steel used to produce tin plate.

Cold rolled coils can be further processed into galvanized or electro galvanized sheets (by adding a thin layer of zinc to the products through different processes), tin plate (by adding a thin layer of tin) or pre-painted products. Siderar can also process its production into cut-to-length and tailor made products according to its customers needs.

Venezuela

In Venezuela, Ternium s subsidiary Sidor manufactures a wide variety of steel products ranging from semi-finished products such as slabs and billets to finished products such as hot, cold and coated flat products and wire rod and bar long products.

Sidor produces steel through the direct reduction of iron ore, and the use of electric arc furnaces that are complemented by secondary metallurgy equipment to assure product quality.

The first step of the production process is the agglomeration of iron ore minerals in the pellet plant. The pellets obtained are further processed in the direct reduction furnaces, to obtain DRI that can be used as raw material in the electric arc furnaces to produce steel.

The resulting molten steel, which is obtained using primarily DRI, has a high quality and low content of residues and impurities. The molten steel is then refined in the secondary metallurgic facilities, where it is mixed with ferroalloys. The steel is afterwards casted into semi-finished products (slabs or billets) that are destined for the production of flat or long products, respectively.

Mexico

In Mexico, Ternium s subsidiary Hylsamex manufactures a variety of steel products, including hot rolled coils and sheets, cold rolled coils and sheets, rebar and wire rod, tubular products, such as welded pipes, and processed steel products including galvanized steel, pre-painted steel, mechanical tubular products and insulated panels.

The production process begins with the sourcing of iron ore from Ternium s own mines in Mexico. The extraction consists of drilling, loading and transporting the iron ore to a grinding facility in order to reduce it to a specified size and quality through the grinding process and the separation of ore with low iron content.

The ore is then shipped to the pelletizing plant, where is gradually fed into a grinding mill to be reduced to a certain size. After grinding, the ore goes through magnetic drums that separate the iron from the sterile material. The grinding and concentration processes are repeated two more times in order to eliminate all the possible sterile material, concentrate the iron to obtain a pellet with high iron content. These processes are carried out using water as an auxiliary element. Excess water is afterwards eliminated, leaving only the necessary humidity for the formation of pellets using pelletizing disks. Pellets are separated according to their size and are then hardened in ovens. The processed pellets are then shipped to the steel producing facilities for the DRI process. Next, the electric arc furnaces melt a combination of steel scrap and DRI to produce liquid steel.

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For flat products, molten steel is casted into slabs using state-of-the-art technology that produces thin slabs, which then are rolled into hot and cold rolled coils. The steel is then further processed to higher value-added products such as galvanized and prepainted steels, as well as tubing, insulated panels and architectural panels, etc.

Finally, for long products, molten steel is cast into steel billets that are rolled into rebar and wire rod, such as tire cord and cold heading qualities.

One of Monterrey s DRI plants includes the latest DRI HYL® technological advances, such as Hytemp®, which permits the hot discharge of the DRI to the electric arc furnace generating significant energy savings and improving productivity. The use of state-of-the-art proprietary technology allows Hylsamex s production in Mexico to accommodate higher proportions of steel scrap and other metallic charge when high natural gas prices make DRI more expensive to produce.

Sales and Marketing

Net Sales

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.

Our total net sales amounted to USD4.4 billion in 2005, USD1.6 billion in 2004 and USD1.1 billion in 2003. For further information on our net sales see Item 5. Operating and Financial Review and Prospects Results of Operations .

The following table shows Ternium s total combined consolidated net sales by product and geographical region in terms of U.S. dollars for the years indicated:

In thousands of U.S. dollars	**For the year ended December 31,** 2005	2004	2003
Flat Steel Product Sales			
South and Central America	2,383,515	999,567	673,453
North America	859,871	94,299	40,998
Europe	267,934	149,671	171,027
Other	59,094	22,660	70,113
Total Flat Steel Products Sales	3,570,414	1,266,197	955,591
Long Steel Product Sales			
South and Central America	370,634		
North America	252,576		
Europe	2,158		
Other			
Total Long Steel Product Sales	625,368		
Trading Sales[(1)]			
South and Central America		116,624	37,098
North America		136,530	45,620
Europe		62,702	13,006
Other		9,371	2,537
Total Trading Sales		325,227	98,261

Total Other Sales[(2)]	251,898	7,501	2,714
Total Sales	4,447,680	1,598,925	1,056,566

(1) The item Trading includes mainly trading activities for the year ended December 31, 2004 and 2003. The consolidation of Amazonia s results since February 15, 2005 resulted in the elimination of intercompany sales between Sidor and Ternium s subsidiaries, following which trading activities are no longer material.

(2) The item Other Sales includes mainly sales of pig iron, iron ore pellets and steel tubes.

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In thousands of tons

(unaudited)	**For the year ended December 31,**		
	2005	**2004**	**2003**
Flat Steel Product Sales Volume			
South and Central America	3,462	1,718	