Ternium S.A.
Form 20-F
April 30, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

¨ **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, 2012**

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)

29, Avenue de la Porte-Neuve 3rd floor

L-2227 Luxembourg

(Address of registrant s registered office)

Alicia Alvarez

29, Avenue de la Porte-Neuve 3rd floor

L-2227 Luxembourg

Tel. +352 26 68 31 52, Fax. +352 26 59 83 49, e-mail: luxembourg@ternium.com

(Name, Telephone, E-Mail and/or Facsimile number and Address of Company Contact Person)

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

Title of Each Class	Name of Each Exchange On Which Registered
American Depositary Shares	**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.

2,004,743,442 ordinary shares, par value USD1.00 per share

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No x

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 x Accelerated Filer ¨ Non-accelerated filer ¨

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

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

If Other has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow Item 17 ¨ Item 18 ¨

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

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

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CERTAIN DEFINED TERMS

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

References to the Company refer exclusively to Ternium S.A., a Luxembourg public limited liability company (*Société Anonyme*);

References in this annual report to Ternium, we, us or our refer to Ternium S.A. and its consolidated subsidiaries;

References to the Ternium companies are to the Company s manufacturing subsidiaries, namely Ternium México S.A. de C.V., or Ternium Mexico, a Mexican corporation, Siderar S.A.I.C., or Siderar, an Argentine corporation, Ferrasa S.A.S., or Ferrasa, a Colombian corporation, Ternium Internacional Guatemala S.A., or Ternium Guatemala, a Guatemalan corporation, Ferrasa Panamá S.A., or Ferrasa Panama, a Panamanian corporation, and Ternium USA Inc., or Ternium USA, a Delaware corporation, and their respective subsidiaries;

References to Tenaris are to Tenaris S.A., a Luxembourg public limited liability company (*Société Anonyme*) and a significant shareholder of the Company;

References to San Faustin are to San Faustin S.A., a Luxembourg corporation and the Company s indirect controlling shareholder;

References to the Ternium commercial network or Ternium Internacional are to an international group of companies wholly owned by Ternium that market and provide worldwide distribution services for products offered primarily by Ternium;

References to the Exiros comprise Exiros B.V., a Netherlands corporation, and its subsidiaries under the brand Exiros ;

References to Usiminas refer to Usinas Sideúrgicas de Minas Gerais Usiminas, a Brazilian corporation in which we own 22.7 % of the ordinary shares. For further information on our investment in Usiminas, see note 3 to our consolidated financial statements included elsewhere in this annual report;

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

References to finished steel products when used in connection with production capacity are to finished steel products and semi-finished steel products intended to be sold to third parties;

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; and

References to billions are to thousands of millions, or 1,000,000,000.

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PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Accounting Principles

We prepare our consolidated financial statements in conformity with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB, and adopted by the European Union (EU). IFRS differ in certain significant respects from generally accepted accounting principles in the United States, commonly referred to as U.S. GAAP.

Currencies

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

dollars, U.S. dollars, USD or US$ each refers to the United States of America dollar;

Mexican pesos or MXN each refers to the Mexican peso; and

Argentine pesos or ARP each refers to the Argentine peso.

On December 31, 2012, the noon buying rate between the Mexican peso and the U.S. dollar (as published by *Banco de México*, or the Mexican Bank) was MXN12.9658=USD1.0000, and the U.S. dollar sell exchange rate in the Argentine Republic (as published by *Banco Central de la República Argentina*, or the Argentine Central Bank) was ARP4.9173=USD1.0000. Those rates may differ from the actual rates used in preparation of the Company s 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 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.

Industry Data

Unless otherwise indicated, industry data and statistics (including historical information, estimates or forecasts) in this annual report are contained in or derived from internal or industry sources believed by Ternium to be reliable. Industry data and statistics are inherently predictive and are not necessarily reflective of actual industry conditions. Such statistics are based on market research, which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market. In addition, the value of comparisons of statistics for different markets is limited by many factors, including that (i) the markets are defined differently, (ii) the underlying information was gathered by different methods and (iii) different assumptions were applied in compiling the data. Such data and statistics have not been independently verified, and the Company makes no representation as to the accuracy or completeness of such data or any assumptions relied upon therein.

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 this Internet site are inactive textual references to this URL, or uniform resource locator and are for your informational reference only. We assume no responsibility for the information contained on this site.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This annual report and any other oral or written statements made by us to the public may 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, including 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 Disclosures About Market Risk.

We use words such as aim, will continue, will likely result, 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 on 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. These factors include the risks related to our business discussed under Item 3. Key Information D. Risk Factors, and among them, the following:

- uncertainties about the behavior of steel consumers in the markets in which Ternium operates and sells its products;
- changes in the pricing environments in the countries in which Ternium operates;
- the impact in the markets in which Ternium operates of existing and new competitors whose presence may affect Ternium s customer mix, revenues and profitability;
- increases in the prices of raw materials, other inputs or energy or difficulties in acquiring raw materials or other inputs or energy supply cut-offs;
- the policies of, and the economic, political and social developments and conditions in, the countries in which Ternium owns facilities or other countries which have an impact on Ternium s business activities or investments;
- inflation or deflation and foreign exchange rates in the countries in which Ternium operates;
- volatility in interest rates;
- the performance of the financial markets globally and in the countries in which Ternium operates;
- the performance of our investment in Usiminas (including the operating and financial performance of Usiminas, and changes in the value of the Brazilian Real versus the U.S. dollar);
- changes in domestic and foreign laws and regulations, including on tax, trade and foreign exchange matters;

regional or general changes in asset valuations;

uncertainties as to the result of our exploration activities or the successful exploitation of our mines;

our ability to successfully implement our business strategy or to grow through acquisitions, greenfield projects, joint ventures and other investments; and

other factors or trends affecting the steel and mining industries generally and our financial condition in particular.

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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.

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 consolidated financial data set forth below have been derived from our audited consolidated financial statements for each of the years and at the dates indicated herein. Our consolidated financial statements were prepared in accordance with IFRS, and were audited by PricewaterhouseCoopers, Société coopérative (formerly PricewaterhouseCoopers S.à r.l.), Réviseur d entreprises agréé, or PwC Luxembourg, as of December 31, 2012 and for the two years in the period ended December 31, 2012 and were audited by Price Waterhouse & Co. S.R.L. as of December 31, 2010 and for the year ended December 31, 2010, which are independent registered public accounting firms that are member firms of the PwC International Ltd. network. IFRS differ in certain significant respects from U.S. GAAP.

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 *(except number of shares and per share data)*	For the year ended December 31, 2012	2011	2010	2009	2008
Selected consolidated income statement data					
Continuing operations					
Net sales	8,608,054	9,122,832	7,339,901	4,922,984	8,422,817
Cost of sales	(6,871,090)	(7,020,127)	(5,560,201)	(4,087,165)	(6,098,790)
Gross profit	1,736,964	2,102,706	1,779,700	835,819	2,324,027
Selling, general and administrative expenses	(809,181)	(839,362)	(738,304)	(526,615)	(663,843)
Other operating (expenses) income, net	(11,881)	(11,495)	2,162	(20,557)	8,700
Operating income	915,903	1,251,849	1,043,558	288,647	1,668,884
Interest expense	(144,439)	(100,712)	(72,953)	(105,754)	(136,111)
Interest income	19,226	39,981	87,323	157,021	32,174
Other financial income (expenses), net	7,866	(239,691)	114,867	81,336	(692,304)
Equity in (losses) earnings of non-consolidated companies	(346,833)	10,137	12,867	7,249	5,575
Income before income tax expense	451,722	961,563	1,185,662	428,499	878,218
Income tax expense, benefit					
Current and deferred income tax expense	(264,567)	(311,655)	(406,191)	(89,398)	(256,414)
Reversal of deferred statutory profit sharing					96,265
Income from continuing operations	187,154	649,907	779,470	339,101	718,069
Discontinued operations					
Income from discontinued operations				428,023	157,095
Profit for the year	187,154	649,907	779,470	767,124	875,164
Attributable to:					
Equity holders of the Company	139,235	513,540	622,076	717,400	715,418
Non-controlling interest	47,919	136,367	157,394	49,724	159,746
	187,154	649,907	779,470	767,124	875,164
Depreciation and amortization	370,855	395,989	374,201	374,815	404,808
Weighted average number of shares (1)	1,963,076,776	1,968,327,917	2,004,743,442	2,004,743,442	2,004,743,442
Basic earnings per share (expressed in USD per share) for profit: (2) (3)					
From continuing operations attributable to the equity holders of the Company	0.07	0.26	0.31	0.15	0.27
From discontinued operations attributable to the equity holders of the Company				0.21	0.09
For the year attributable to the equity holders of the Company	0.07	0.26	0.31	0.36	0.36
Dividends per share	0.065(4)	0.075	0.075	0.050	
Dividends per share (expressed in EUR)	0.051(4)	0.057	0.052	0.041	

(1) Of the 2,004,743,442 shares issued as of December 31, 2012, Ternium held 41,666,666 through its wholly-owned subsidiary Ternium International Inc. and such shares were not considered outstanding. For further information related to the repurchase of shares in 2011, see note 30 to our audited consolidated financial statements included elsewhere in this annual report.

(2) International Accounting Standard N° 1 (IAS 1) (Revised) requires that income for the year as shown in the income statement includes the portion attributable to non-controlling interest. Basic earnings per share, however, continue to be calculated on the basis of income attributable solely to the equity holders of the Company.

(3) Diluted earnings per share (expressed in USD per share), equals basic earnings per share.

(4) Reflects dividend proposal for the year ended December 31, 2012, which has been submitted to the shareholders for a vote at the shareholders meeting to be held on May 2, 2013.

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In thousands U.S. dollars (except number of shares and per share data)	At December 31, 2012	2011	2010	2009	2008
Selected consolidated balance sheet data					
Non-current assets	7,211,371	5,195,688	5,600,608	5,287,744	5,515,687
Property, plant and equipment, net	4,438,117	3,969,187	4,203,685	3,983,887	4,149,959
Other non-current assets (1)	2,773,254	1,226,501	1,396,923	1,303,857	1,365,728
Current assets	3,655,628	5,547,374	5,499,306	5,014,144	5,146,876
Cash and cash equivalents	560,307	2,158,044	1,779,294	2,093,800	1,065,319
Other current assets (2)	3,083,303	3,378,956	3,710,050	2,911,099	4,076,224
Non-current assets classified as held for sale	12,018	10,374	9,961	9,246	5,333
Total assets	10,866,999	10,743,062	11,099,914	10,301,888	10,662,563
Capital and reserves attributable to the Company s equity holders (3)	5,420,883	5,756,371	5,880,740	5,296,342	4,597,370
Non-controlling interest	1,074,763	1,084,827	1,135,361	964,897	964,094
Non-current liabilities	2,245,907	1,922,481	2,527,702	2,860,775	3,364,348
Borrowings	1,302,753	948,495	1,426,574	1,787,204	2,325,221
Deferred income tax	682,091	740,576	869,474	848,215	802,674
Other non-current liabilities	261,063	233,410	231,655	225,356	236,453
Current liabilities	2,125,446	1,979,383	1,556,110	1,179,874	1,736,751
Borrowings	1,121,610	1,047,641	513,083	538,832	940,667
Other current liabilities	1,003,836	931,742	1,043,028	641,042	796,084
Total liabilities	4,371,353	3,901,864	4,083,813	4,040,649	5,101,099
Total equity and liabilities	10,866,999	10,743,062	11,099,914	10,301,888	10,662,563
Number of shares (3)	1,963,076,776	1,963,076,776	2,004,743,442	2,004,743,442	2,004,743,442

(1) As of December 31, 2012, 2011, 2010, 2009 and 2008, includes goodwill mainly related to the acquisition of our Mexican subsidiaries for a total amount of USD663.8 million, USD663.8 million, USD750.1 million, USD708.6 million and USD683.7 million, respectively.

(2) As of December 31, 2012, 2011, 2010, 2009 and 2008, includes financial assets with maturity of more than three months for a total amount of USD160.8 million, USD281.7 million, USD848.4 million, USD46.8 million and USD90.0 million, respectively.

(3) The Company s share capital as of December 31, 2012, 2011, 2010, 2009 and 2008 was represented by 2,004,743,442 shares, par value USD1.00 per share, for a total amount of USD2,004.7 million. Of the 2,004,743,442 shares, as of December 31, 2012, Ternium held 41,666,666 through its wholly-owned subsidiary Ternium International Inc. For further information related to the repurchase of shares in 2011, see note 30 to our audited consolidated financial statements included elsewhere in this annual report.

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

A downturn in the global economy would cause a reduction in worldwide demand for steel and would have a material adverse effect on the steel industry and Ternium.

Ternium s activities and results are affected by international economic conditions, as well as by national and regional economic conditions in the markets where Ternium operates and/or sells its products. A downturn in the global economy would reduce demand for steel products. This would have a negative effect on Ternium s business and results of operations.

If global macroeconomic conditions deteriorate, the outlook for steel producers would be adversely affected. In particular, a recession or depression in the developed economies (such as the global downturn experienced in 2008 and 2009 and the current European crisis), or slower growth or recessionary conditions in emerging economies that are substantial consumers of steel (such as China and India, as well as emerging Asian markets, the Middle East, Latin America and the Commonwealth of Independent States regions) would exact a heavy toll on the steel industry, and would depress demand for our products and adversely affect our business and results of operations. The current European crisis has had and may continue to have adverse effects on the steel industry, and, accordingly, may adversely affect our business and results of operations.

A protracted fall in steel prices would have a material adverse effect on the results of Ternium, as could price volatility.

Steel prices are volatile and are sensitive to trends in cyclical industries, such as the construction, automotive, appliance and machinery industries, which are significant markets for Ternium s products. Steel prices in the international markets, which had been rising fast during the first half of 2008, fell sharply beginning in the second half of 2008 as a result of collapsing demand and the resulting excess capacity in the industry. The fall in prices during this period adversely affected the results of steel producers generally, including Ternium, as a result of lower revenues and writedowns of finished steel products and raw material inventories. For example, in the second half of 2008, Ternium recorded a valuation allowance on inventories in an amount of USD200 million and in the first half of 2009 it recorded an additional valuation allowance in the amount of USD127.6 million. Historically, the length and nature of business cycles affecting the steel industry has been unpredictable. A downturn in steel prices would materially and adversely affect Ternium s revenues and profitability.

In addition, the steel industry is highly competitive with respect to price, product quality, customer service and technological advances, and competition 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 to accept price increases of products which are used as raw materials for the manufacture of other goods, as such increases could ultimately affect competitiveness in other industries or increase inflation. In some other cases, governments restrict the ability of companies to pass on to the domestic markets any increases in international prices. Accordingly, increases in the purchase costs of raw materials, energy and other inputs might not be recoverable through increased product prices.

A sudden increase in exports from China could have a significant impact on international steel prices and adversely affect Ternium s profitability.

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

Excess capacity may hamper the steel industry s ability to sustain adequate profitability.

In addition to economic conditions and prices, the steel industry is affected by other factors such as worldwide production capacity and fluctuations in steel imports/exports and tariffs. Historically, the steel industry has suffered, especially on downturn cycles, from substantial over-capacity. Currently, as a result of the 2008 global downturn, the current European crisis and the increase in steel industry production capacity in

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recent years, there are signs of excess capacity in all steel markets, which is impacting the profitability of the steel industry. Accordingly, it is possible that the industry s excess capacity will result in an extended period of depressed margins and industry weakness.

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

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, slabs and energy could adversely affect Ternium s profitability.

Like other manufacturers of steel-related products, Ternium s operations require substantial amounts of raw materials, energy and other inputs from domestic and foreign suppliers. In particular, the Ternium companies consume large quantities of iron ore, scrap, ferroalloys, electricity, coal, natural gas, oxygen and other gases in operating their blast and electric arc furnaces. The prices of these raw materials, energy and some other inputs can be volatile. In addition, Ternium is a large consumer of slabs and hot and cold-rolled steel, which are used as inputs in the production process. Also, the availability and price of a significant portion of the raw materials, slabs, energy and other inputs 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 Siderar s facilities in Argentina. Similarly, in Mexico, existing constraints in natural gas transportation capacity have led to increased imports of liquefied natural gas, which, from April 1, 2013, resulted in increased natural gas transportation costs and, thus, higher steel production costs. In the past, Ternium has usually been able to procure sufficient supplies of raw materials, slabs, energy and other 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 and results of operations. For further information related to raw materials, energy and other inputs requirements, see Item 4. Information on the Company B. Business Overview Raw Materials, Energy and Other Inputs.

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

The Ternium companies depend on certain key suppliers for their requirements of some of their principal inputs, including Vale for iron ore and ArcelorMittal for slabs. In general, there is a trend in the industry towards consolidation among suppliers of iron ore and other raw materials. The Ternium companies have entered into long-term contracts for the supply of some of their principal inputs (including iron ore) 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 some raw materials, energy or other inputs, or higher costs and delays resulting from the need to obtain their input requirements from other suppliers. As an example, in 2007 Vale was unable to provide Siderar with the quantities of iron ore that it required, forcing Siderar to import iron ore from Ternium s mining operations in Mexico.

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

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 steel products, which in some cases have greater financial and operating resources. Competition from larger steel manufacturers could result in declining margins and reductions in sales volumes and revenues.

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Ternium s larger competitors could use their resources against Ternium in a variety of ways, including by making additional acquisitions, implementing modernization programs, expanding their production capacity, investing more aggressively in product development, and displacing demand for Ternium s products in certain markets. To the extent that these producers become more efficient, Ternium could confront stronger competition and could fail to preserve its current share of the relevant geographic or product markets. In addition, there has been a trend in recent years toward steel industry consolidation among Ternium s competitors, and current smaller competitors in the steel market could become larger competitors in the future. For example, in June 2006, Mittal Steel and Arcelor merged to create the world s largest steel company, ArcelorMittal; and in October 2012 Nippon Steel and Sumitomo Metal Industries merged to form Nippon Steel & Sumitomo, the world s second largest steel company. Regional players in Ternium s markets have also experienced consolidation through acquisitions; for example, Siderperu was acquired by Gerdau in 2006, Sicartsa of Mexico was acquired by ArcelorMittal in December 2006 and Aceria Paz del Rio of Colombia was acquired by Votorantim in March 2007. For further information, see Item 4. Information on the Company B. Business Overview Competition.

Moreover, competition from alternative materials (including aluminum, wood, concrete, plastic and ceramics) could adversely affect the demand for, and consequently the market prices of, certain steel products and, accordingly, could affect Ternium s sales volumes and revenues.

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, see Item 4. Information on the Company B. Business Overview Regulations Trade regulations.

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 enhancing its position as a competitive steel producer, pursuing strategic growth opportunities, gaining further access to iron ore and other inputs, developing value-added products, and providing services to a wider range of customers in the local and export markets. 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 projects and/or to make acquisitions to increase its steel production capacity, or may lose market share in its regional markets. Even if Ternium successfully implements its business strategy, it may not yield the desired goals.

Recent and future acquisitions, green-field projects, significant investments and strategic alliances could have an adverse impact on Ternium s operations or profits, and Ternium may not realize the benefits it expects from these business decisions.

A key element of Ternium s business strategy is to identify and pursue growth-enhancing strategic opportunities, and as part of that strategy we regularly consider capital investments, strategic acquisitions, greenfield projects and alliances. However, any growth project will depend upon market and financing conditions. We must necessarily base any assessment of potential capital investments, acquisitions, green-field projects and alliances on assumptions with respect to operations, profitability and other matters that may subsequently prove to be incorrect. Furthermore, we may fail to find suitable acquisition targets or fail to consummate our acquisitions under favorable conditions.

In the recent past, Ternium acquired interests in various companies, including Hylsamex, one of the main steel producers in Mexico; Grupo Imsa, a leading steel processor with operations in Mexico, the United States and Guatemala; and Ferrasa, a Colombian steel producer and processor. In addition, Ternium, together with Nippon Steel, formed the Mexican company Tenigal S.R.L. de C.V., or Tenigal, for the manufacturing and sale of hot-dip galvanized and galvannealed steel sheets to

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serve the Mexican automobile market, including Japanese car makers. Finally, on January 16, 2012, Ternium, together with its subsidiary Siderar, acquired a participation in the control group of Usiminas, the largest flat steel producer in Brazil (for further information on the Usiminas transaction, see note 3 to our audited consolidated financial statements included elsewhere in this annual report). Our recent and future acquisitions, investments and alliances may not perform in accordance with our expectations and could have an adverse impact on our operations and profits. Furthermore, we may be unable to successfully integrate any acquired businesses into our operations, realize expected synergies or accomplish the business objectives that were foreseen at the time of deciding any such investment. Moreover, we may also acquire, as part of future acquisitions, assets unrelated to our business, and we may not be able to integrate them or sell them under favorable terms and conditions. These risks, and the fact that integration of any acquired businesses will require a significant amount of time and resources of Ternium s management and employees, could have an adverse impact on 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, other amortizable intangible assets, or investments in non-consolidated companies.

In accordance with IFRS, management must test for impairment all of Ternium s assets whenever events or change in circumstances indicate that the carrying amount may not be recoverable. Assets subject to testing include goodwill, intangible assets and investments in non-consolidated companies. In addition, management must test for impairment goodwill at least once a year whether or not there are indicators of impairment. IFRS requires us to recognize a non-cash charge in an amount equal to any impairment.

We recorded significant goodwill in connection with the acquisition of our Mexican subsidiaries, as well as an investment in non-consolidated companies in connection with our acquisition of a participation in Usiminas. We performed an impairment test over the investment in Usiminas as of December 31, 2012, and as described further below, wrote it down by USD275.3 million. As of December 31, 2012, goodwill in connection with our Mexican subsidiaries amounted to USD662.3 million and, following the impairment charge, our investment in non-consolidated companies in connection with our investment in Usiminas amounts to USD1.6 billion.

If Ternium s management determines in the future that the goodwill from our acquisitions or our investments in non-consolidated companies are impaired, Ternium will be required to recognize a non-cash charge against earnings, which could materially adversely affect Ternium s results of operations or net worth.

If Usiminas is not able to successfully implement its business strategy, or the business conditions in Brazil or in the global steel and mining industries were to be worse than we expected, the Company may be required to record a significant charge to earnings in the form of an impairment to its investment in Usiminas, which could have a material adverse effect on Ternium s results, financial conditions or net worth.

On January 16, 2012, Ternium, together with its subsidiary Siderar, acquired a participation in the control group of Usiminas, the largest flat steel producer in Brazil, for a total consideration of USD2.2 billion. Ternium owns approximately 22.7% of Usiminas ordinary shares, or approximately 11.3% of Usiminas issued and outstanding capital. For further information on the Usiminas transaction, see note 3 to our audited consolidated financial statements included elsewhere in this annual report.

Usiminas is making efforts to improve its performance and results of operations and has introduced certain changes in its strategy and business practices. However, we cannot assure you that these efforts or changes will be successful, or that further changes will not be required. Under the shareholders agreement governing the rights of the members of Usiminas control group, Ternium cannot, without the consensus of one or more of the other shareholder groups party to that agreement, cause the control group to adopt any decision at Usiminas shareholders meetings or cause the directors nominated by the control group to adopt any decision at Usiminas board or directors meetings (see Item 4. Information on the Company C. Organizational Structure Other Investments Usiminas). Accordingly, Ternium cannot, without the consensus of such other shareholder group or groups, implement any change to Usiminas business strategy.

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In addition, the business conditions in Brazil or the global steel and mining industries could turn out to be worse than those we expected when assessing the value of our investment in Usiminas, which could in turn modify our expectations for such investment s financial return. For example, as a result of expectations of a weaker industrial environment in Brazil (where industrial production and consequently steel demand suffered downward adjustments during 2012) and a higher degree of uncertainty regarding future prices of iron ore (which led to a reduction in Ternium s forecast of long term iron ore prices that affected cash flow expectations), we performed an impairment test over our investment in Usiminas and subsequently wrote down the investment by USD275.3 million. This charge was recorded in the fourth quarter of 2012. Any further write-down to Ternium s investment in Usiminas could have a material adverse effect on Ternium s results of operations or net worth.

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. Ternium could also suffer plant stoppages or strikes if it were to implement cost reduction plans.

In Argentina, in early 2009, following a decrease in the level of activity since the last quarter of 2008 due to the global economic downturn, Siderar downsized contractor and subcontractor activities and temporary personnel, triggering adverse reactions from the construction workers union and the steelworkers union. Later in 2009, during the negotiations between Siderar and the steelworkers union regarding the annual bonuses related to results, the unions called for work stoppages and other measures. For more information on the collective bargaining agreement applicable to most of Siderar s employees in Argentina, see Item 6. Directors, Senior Management and Employees D. Employees Argentina.

Since 2009, the various measures that Ternium has taken in order to become more competitive in Mexico, Argentina and Colombia have not resulted in significant labor unrest. However, we cannot assure that this situation will remain stable or that future measures will not result in labor actions against us. Any future stoppage, strike, disruption of operations or new collective bargaining agreements could result in lost sales and could increase Ternium s costs, thereby affecting our results of operations. For more information on labor relations, see Item 6. Directors, Senior Management and Employees D. Employees.

Ternium s related party transactions with companies controlled by San Faustin 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 companies controlled by San Faustin. These sales and purchases are primarily made in the ordinary course of business, and we believe that they are made on terms no less favorable than those we 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 B. Related Party Transactions.

Changes in exchange rates or any limitation in the Ternium companies ability to hedge against exchange rate fluctuations could adversely affect Ternium s business and results.

The operations of the Ternium companies expose them to the effects of changes in foreign currency exchange rates and changes in foreign exchange regulations. A significant portion of Ternium s sales are 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 and net worth as reported in their income statements and statements of financial position in the form of both translation risk and transaction risk.

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In the ordinary course of business, the Ternium companies enter from time to time into exchange rate derivatives agreements to manage their exposure to exchange rate changes. Future regulatory or financial restrictions in the countries where Ternium operates may affect its ability to mitigate its exposure to exchange rate fluctuations, and thus cause an adverse impact on Ternium s results of operations, financial condition or cash flows.

Risks Relating to our Mining Activities

Mining is one of Ternium s two reporting segments, and iron ore is one of the principal raw materials used by Ternium s operating subsidiaries in its steelmaking segment. Ternium has equity interests in two iron ore mining companies in Mexico: a 100% interest in Las Encinas S.A. de C.V. and a 50% interest in Consorcio Minero Benito Juárez Peña Colorada, S.A. de C.V., or Consorcio Peña Colorada, which operates Peña Colorada, Mexico s largest iron ore mine. In addition, Ternium may seek to expand its mining activities in the future. Our present and future mining activities are or would be subject to particular risks, as follows:

Our mining activities depend on governmental concessions and on our ability to reach and maintain lease agreements (or other agreements for the use of land) with the owner of the real estate where the mines are located.

Our mining activities are subject to specific regulations and depend on concessions and authorizations granted by governmental authorities. Amendments to applicable law and regulations in Mexico may change the terms pursuant to which we are required to pursue our exploration, mining and ore processing activities. Currently, a proposed amendment to Mexican mining laws is under discussion in the Mexican Congress. The amendment contemplates, among other things, the introduction of a 5% royalty on mining profits and an increase in the amount paid for mining rights in areas not explored or exploited for certain predetermined periods. It is uncertain whether this or any other amendment will be approved and, if approved, what the timing or scope of implementation of such proposals will be. Any such changes may result in new taxes or royalties or require modifications to the processes and technologies used in our mining activities, leading to unexpected capital expenditures and higher costs. If the relevant government authority determines that we are not in compliance with our obligations as concessionaires, it may terminate our concession. Furthermore, in order to explore or exploit mines it is necessary to obtain the right to occupy and use the land where the mines are situated. Even though government regulations frequently establish provisions intended to facilitate the establishment of such rights, in some cases it may be difficult to reach and maintain agreements with the owners or such agreements may be excessively onerous. If we are unable to establish use and occupancy rights on acceptable terms, our mining activities may be compromised.

Our reserve estimates may differ materially from mineral quantities that we may be able to actually recover, or our estimates of mine life may prove inaccurate; and market price fluctuations and changes in operating and capital costs may render certain ore reserves uneconomical to mine in the future or cause us to revise our reserve estimates.

Ternium s reported reserves are estimated quantities of ore that it has determined can be economically mined and processed under present and anticipated conditions to extract their mineral content. There are numerous uncertainties inherent in estimating quantities of reserves and in projecting potential future rates of mineral production, including factors beyond our control. Reserve calculations involve estimating deposits of minerals that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment. Reserve estimates also depend on assumptions relating to the economic viability of extraction, which are established through the application of a life of mine plan for each operation or project providing a positive net present value on a forward-looking basis, using forecasts of operating and capital costs based on historical performance, with forward adjustments based on planned process improvements, changes in production volumes and in fixed and variable proportions of costs, and forecasted fluctuations in costs of raw material, supplies, energy and wages. These forecasts and projections involve assumptions and estimations that, although we believe are reasonable at the time of estimating our reserves, may change in the future and may fail to anticipate geological or other environmental factors or events that could make it difficult or unprofitable to mine certain ore deposits.

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In addition, our reserve estimates are of in-place material after adjustments for mining depletion and mining losses and recoveries, with no adjustments made for metal losses due to processing. As a result, no assurance can be given that the indicated amount of ore will be recovered from our reserves, or that it will be recovered at the anticipated rates, or that extracted ore will be converted into saleable production over the mine life at levels consistent with our reserve estimates. Reserve estimates may vary from those included in this annual report, and results of mining and production subsequent to the date of an estimate may lead to future revisions of estimates.

In addition, estimates of mine life may require revisions based on actual productions figures, changes in reserve estimates and other factors. For example, fluctuations in the market prices of minerals, reduced recovery rates or increased operating and capital costs due to inflation, exchange rates, mining duties or other factors could affect our mine life projections. To the extent that market price fluctuations or changes in our operating and capital costs increase our costs to explore, locate, extract and process iron ore, we may be required to revise our reserve estimates if certain ore reserves become uneconomical to mine in the future.

Our exploration activities are subject to uncertainties as to the results of such exploration; even if the exploration activities lead to the discovery of ore deposits, the effective exploitation of such deposits remains subject to several risks.

Exploration activities are highly speculative, involve substantial risks and may be unproductive. We may incur substantial costs for exploration which do not yield the expected results. The failure to find sufficient and adequate reserves could adversely affect our business. In addition, even if ore deposits are discovered, our ability to pursue exploitation activities may be delayed for a long time during which market conditions may vary. Significant resources and time need to be invested in order to establish ore resources through exploration, define the appropriate processes that shall be undertaken, obtain environmental licenses, concessions and other permits, build the necessary facilities and infrastructure for greenfield projects and obtain the ore or extract the metals from the ore. If a project does not turn out to be economically feasible by the time we are able to exploit it, we may incur substantial write-offs.

Our expected costs for exploration or exploitation activities may vary significantly and affect our expected results.

We may be subject to increased costs or delays relating to the acquisition of adequate equipment for the exploration and exploitation of ore deposits. We may also fail to obtain any necessary permits, or experience significant delays in connection with the issuance of such permits. Moreover, we may face increasing costs as iron ore reserves or their ferrous content diminish, the pits and operational sections of the mine become deeper and more distant from the surface, or iron ore deposits within the pit area become more difficult to locate and extract. Adverse mining conditions and other situations related to the operation of the mine, whether permanent or temporary, may lead to a significant increase in our costs and/or affect our ability to produce the expected quantities of mineral. If this occurs, our expected results of operations may also be negatively affected.

Difficulties in the relationships with local communities may adversely affect our mining activities.

Communities living or owning land near areas where we operate may take actions to oppose and interfere with our mining activities. Although we make significant efforts to maintain good relationships with such communities, actions taken by them (or by interest groups within those communities) may hamper our ability to conduct our mining activities as planned, request the government to revoke or cancel our concessions or environmental or other permits, prevent us from fulfilling agreements reached with the government in connection with our mining activities, or significantly increase the cost of exploring and/or exploiting the mines, thereby adversely affecting our business and results of operations. For example, in Aquila, Mexico, in 2011 and 2012, native communities blocked roads demanding higher compensation for the use of land for mining activities. These actions prevented Ternium from transporting iron ore from the mines to the pelletizing facilities for several months and ultimately resulted in a technical stoppage of the mining activities in Aquila for several weeks.

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Risks Relating to the Structure of the Company

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

The Company conducts all its operations through subsidiaries. Dividends or other intercompany transfers of funds from those subsidiaries are the Company s primary source of funds to pay its expenses, debt service and dividends and to repurchase shares or ADSs. The Company does not and will not conduct operations at the holding company level.

The ability of the Company s subsidiaries to pay dividends and make other payments to the Company will depend on their results of operations and financial condition and could be restricted by, among other things, applicable corporate and other laws and regulations, including those imposing foreign exchange controls or restrictions on the repatriation of capital or the making of dividend payments, and agreements and commitments of such subsidiaries. If earnings and cash flows of the Company s operating subsidiaries are substantially reduced, the Company may not be in a position to meet its operational needs or to pay dividends. In addition, the Company s ability to pay dividends is subject to legal and other requirements and restrictions in effect at the holding company level. For example, the Company may only pay dividends out of net profits, retained earnings and distributable reserves and premiums, each as defined and calculated in accordance with Luxembourg laws and regulations.

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 March 31, 2013, San Faustin beneficially owned 62.02% of our outstanding voting shares and Tenaris, which is also controlled by San Faustin, also held 11.46% of our outstanding voting shares. Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin, or RP STAK, controls a significant portion of the voting power of San Faustin and has the ability to influence matters affecting, or submitted to a vote of, the shareholders of San Faustin. As a result, RP STAK is indirectly able to elect a substantial majority of the members of the Company s 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. The decisions of the controlling shareholder may not reflect the will or best interests of other shareholders. For example, the Company s articles of association permit the 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 Relating to our ADSs Holders of our shares and ADSs in the United States may not be able to exercise preemptive rights in certain cases and Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders.

Non-controlling interests in our subsidiaries could delay or impede our ability to complete our strategy.

We do not own one hundred percent of the interests in certain of our subsidiaries.

Approximately 26.03% of Siderar is held by *Administración Nacional de la Seguridad Social*, or ANSeS, Argentina s governmental social security agency, approximately 10.46% is publicly held, and approximately 2.56% is held by certain Siderar employees. ANSeS became a significant shareholder of Siderar in the last quarter of 2008 as a result of the nationalization of Argentina s private pension system, which caused assets under administration of Argentina s private pension funds including significant interests in publicly traded companies, such as Siderar, held by such funds to be transferred to ANSeS.

Ternium holds a 54% ownership interest in Ferrasa and Ferrasa Panama, and the former controlling shareholders hold the remaining 46% interest in each of Ferrasa and Ferrasa Panama. Ternium holds a 51% ownership interest in Tenigal, and Nippon Steel holds the remaining 49%.

The existence of non-controlling interests in these subsidiaries could prevent Ternium from taking actions that, while beneficial to Ternium, might not be beneficial to each relevant subsidiary, considered separately. As a result, we could be delayed or impeded in the full implementation of our strategy or the maximization of Ternium s competitive strengths.

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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 shipment volumes or prices, increase its costs or 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, principally in Mexico and Argentina and to a lesser extent in Colombia, and have been, and could in the future be, affected from time to time to varying degrees by economic, political, social and regulatory developments, such as nationalization, expropriation or forced divestiture of assets; restrictions on production, domestic sales, imports and exports; interruptions to essential energy inputs; restrictions on the exchange or transfer of currency, repatriation of capital, or payment of dividends, debt principal or interest, or other contractual obligations; inflation; devaluation; war or other international conflicts; civil unrest and local security concerns that threaten the safe operation of our facilities; direct and indirect price controls; tax increases, changes (including retroactive) in the enforcement or interpretation of tax laws and other retroactive tax claims or challenges; changes in laws or regulations; cancellation of contract rights; and delays or denial of governmental approvals. 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 and, depending on their materiality, on the results of operations and financial condition of Ternium as a whole.

Mexico

Ternium has significant manufacturing operations and assets located in Mexico and a majority of its sales are made to customers in this country. The majority of Ternium s revenues from its Mexican operations, therefore, are related to market conditions in Mexico and to changes in its economic activity. Ternium s business could be materially and adversely affected by economic, political and regulatory developments in Mexico.

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

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 reemerge, or social instability, political unrest, reduction in government spending or other adverse social developments reemerge in the future, they could lead to continued 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 or liquidity of Ternium. Moreover, adverse economic conditions in Mexico could result in, among other things, higher interest rates accompanied by reduced opportunities for refunding or refinancing, reduced domestic consumption of Ternium s products, decreased operating results and delays in the completion of ongoing and future capital expenditures.

Regulatory changes in Mexico could adversely impact our results of operations.

In December 2012, new labor regulations became effective in Mexico. The most relevant aspects of these regulations are a reassessment of the status of third-party workers, changes in rest periods, and an increase in the amounts of the fines and penalties applicable for violations of the existing regulations. Ternium is taking the necessary measures to comply with these new regulations, and does not expect that the adjustments to comply with the new labor regulations will result in a significant increase in Mexican labor costs. However, we are unable to estimate the potential increase in costs that will result from these new regulations at this time.

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In December 2012, representatives of the three main political parties in Mexico (the Institutional Revolutionary Party (PRI), the National Action Party (PAN) and the Party of Democratic Revolution (PRD)), together with President Enrique Peña Nieto, signed the Pact for Mexico and committed to promote certain legislative reforms. These reforms will include, among others, a comprehensive fiscal reform that could potentially eliminate Ternium s ability to perform fiscal consolidation among its Mexican subsidiaries, an energy reform platform aimed at promoting competition in the sector, and the enactment of a new mining law that could include the payment of mining rights, royalties and/or other charges. Although these reforms are expected to have an impact on Ternium s operations, the extent of such impact cannot yet be assessed.

Violence and crime in Mexico could negatively impact Ternium s business and operations.

In recent years there have been high incidences of violence and crime related to drug trafficking in Mexico, especially in the Monterrey areas, where our main facilities are located, and in Michoacán, where some of our mining facilities are located. Security issues could affect our day-to-day operations and could also result in an economic slowdown, reducing domestic demand for our products and thereby having an adverse effect on our business. A continued deterioration of the security situation may result in significant obstacles or additional costs to the implementation of our growth plans in Mexico, including delays in the completion of capital expenditures.

Argentina

Approximately 15% of Ternium s consolidated net assets are located in Argentina and a significant portion of its sales are made in Argentina through our subsidiary, Siderar. Most of Siderar s sales revenue is affected by market conditions in Argentina and changes in Argentina s gross domestic product, or GDP, and per capita disposable income. Accordingly, Siderar s business could be materially and adversely affected by economic, political, social, fiscal and regulatory developments in Argentina.

Economic and political instability in Argentina, which resulted in a severe recession in 2002, may occur in the future, thereby adversely affecting our business, financial condition and results.

Our business and results of operations in Argentina have closely followed macroeconomic conditions. Domestic sales of Siderar were severely affected by Argentina s recession during 2001 and 2002. While the domestic economic recovery over the 2003 2008 period led to a recovery of steel shipments to the Argentine domestic market, the downturn in the global economy in the last quarter of 2008 reached the Argentine economy and had a significant adverse impact on our shipments to the Argentine domestic market until their recovery beginning in the second quarter of 2009. More recently, a slowdown in economic activity in Argentina in 2012 resulted in a year-over-year decrease in steel shipments.

The Argentine economy is currently facing significant challenges. Inflation is high, as further discussed below, leading to increasing labor unrest. In addition, the economy has been affected by supply constraints and capital investment in general has declined significantly due to, among other factors, political, economic and financial uncertainties and government actions, including price and foreign exchange controls, import restrictions, export taxes, an increased level of government intervention in, or limitations to, the conduct of business in the private sector, and other measures affecting investor confidence. For example, in February 2011, the Argentine government imposed controls on the price of steel products sold in Argentina, including products sold by Siderar, and required that sales of steel products be invoiced in Argentine pesos. Although Ternium believes that price controls are illegal under Argentine law and these measures were ultimately revoked, other price controls or similar measures could be imposed in the future. Inflation and declining capital investment may affect growth and, accordingly, cause demand for our local subsidiary s products in the domestic market to drop.

Economic conditions in Argentina have deteriorated rapidly in the past and may deteriorate rapidly in the future. The Argentine economy may not continue to grow and economic instability may return. Our business and results of 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.

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Inflation may undermine economic growth in Argentina and impact our costs, thereby adversely affecting our results of operations and financial position.

In the past, inflation has undermined the Argentine economy and the government s ability to stimulate economic growth. Beginning in 2004, inflation indicators began showing significant year-over-year increases, signaling a trend characteristic of an inflationary economy. The pace of inflation has increased rapidly and significantly over the last few years. Since 2007 Argentina s official inflation data published by the *Instituto Nacional de Estadística y Censos*, or INDEC, Argentina s national statistics institute, have been subject to changes in calculation; following the implementation of such changes, the official inflation figures have been consistently disputed by independent economists. For example, the annual inflation rates based on consumer data published by INDEC (IPC GBA) were 7.2%, 7.7%, 10.9%, 9.5% and 10.8% for December 2008, 2009, 2010, 2011 and 2012, respectively, while private estimates, on average, refer to annual rates of inflation significantly higher than those published by INDEC.

Sustained high inflation in Argentina could negatively impact our results of operations and financial position as the Argentine peso-denominated costs (mainly labor-related costs) at Siderar increase, thereby affecting its cost-competitiveness and deteriorating its margins. In addition, a high inflation economy could undermine Argentina s foreign competitiveness in international markets and negatively affect the economy s activity and employment levels. Argentine inflation rate volatility makes it impossible to estimate with reasonable certainty the extent to which activity levels and results of operations of Siderar could be affected by inflation in the future.

The Argentine government has increased taxes on Argentine companies and could further increase the fiscal burden 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. As a result of the substantial devaluation of the Argentine peso against the U.S. dollar and significant inflation over the last decade, the amounts that the Argentine tax authorities permit Siderar to deduct as depreciation for its past investments in plant, property and equipment have been substantially reduced in real terms, thus creating artificial gains for tax purposes which result in higher-than-nominal effective income tax charges. In addition, provincial taxes on Siderar s sales have increased over the last few years. If the Argentine government continues to increase the tax burden on Siderar s operations, Ternium s results of operations and financial condition could be adversely affected.

Argentine exchange controls could prevent Ternium from paying dividends or other amounts from cash generated by Siderar s operations.

In the past, the Argentine government and the Argentine Central Bank introduced several rules and regulations to reduce volatility in the ARS/USD exchange rate, and implemented formal and informal restrictions on capital inflows into Argentina and capital outflows from Argentina. In addition, Siderar 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 relevant exchange rate applicable on the date of repatriation. Since the last quarter of 2011, the Argentine government tightened its controls on transactions that would represent capital outflows from Argentina, prohibiting the purchase of foreign currency for saving purposes and limiting formally or informally the ability of Argentine companies to transfer funds (including in connection with the purchase of goods or services, or the payment of interest, dividends or royalties) outside of Argentina. The existing controls, and any additional restrictions of this kind that may be imposed in the future, could expose Ternium to the risk of losses arising from fluctuations in the exchange rate or affect Ternium s ability to finance its investments and operations in Argentina or impair Ternium s ability to convert and transfer outside Argentina funds generated by Siderar, for example, to fund the payment of dividends or to undertake investments and other activities that require offshore payments. For additional information on Argentina s current exchange controls and restrictions, see Item 10. Additional Information D. Exchange Controls.

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Restrictions on the imports of key steelmaking inputs for Siderar s operations in Argentina could adversely affect Siderar s production and, as a result, growth projects and negatively impact Ternium s results of operations.

Some of Siderar s key steelmaking inputs, including iron ore and coking coal, are imported into Argentina. The Argentine government has implemented significant import restrictions, which may affect the availability of key steelmaking inputs for our operations in Argentina. All payments on imports of goods and services must be approved by the Argentine federal tax authority and other authorities, such as the Secretary of Commerce. The authorization criteria for such imports have not been determined in the applicable regulations. Such import restrictions could delay imports and, if sustained, adversely affect our business, operations and growth projects in Argentina. In addition, they could affect Siderar s exports from Argentina, considering that foreign countries may adopt and implement counter-measures. For additional information on current Argentina s current exchange controls and restrictions, see Item 10. Additional Information D. Exchange Controls.

Restrictions or an increase of the costs on the supply of energy to Siderar s operations in Argentina could curtail Siderar s production and negatively impact Ternium s results of operations.

In recent years, there has been an insufficient level of investment in natural gas and electricity supply and transport capacity in Argentina, coupled with a substantial increase in demand for natural gas and electricity. This in turn resulted in shortages of natural gas and electricity to residential and industrial users including Siderar during periods of high demand. Such shortages may, in the future, result in significant price increases for gas and electricity. Siderar s operations experienced constraints in their natural gas supply requirements and interruptions in their electricity supply at peak hours on many occasions. If demand for natural gas and electricity increases and a matching increase in natural gas and electricity supply and transport capacity fails to materialize on a timely basis, Siderar s production in Argentina (or that of its main customers and suppliers) could be curtailed, and Siderar s sales and revenues could decline. In addition, the Argentine government announced a cut off in the government s subsidies to the price of the natural gas and electricity. An increase in Siderar s energy costs may adversely affect Siderar s results of operations. See Risks Relating to the Steel Industry Price fluctuations or shortages in the supply of raw materials, slabs and energy could adversely affect Ternium s profitability above.

Colombia

Ternium has manufacturing operations and assets located in Colombia and some of its sales are made in Colombia. The majority of Ternium s revenues from its Colombian operations, therefore, are affected by market conditions in Colombia and to changes in Colombia s GDP, and per capita disposable income. Accordingly, Ternium s business could be adversely affected by economic, political and regulatory developments in Colombia.

Colombia has experienced internal security issues that have had or could have in the future a negative effect on the Colombian economy.

Colombia has experienced internal security issues, primarily due to the activities of guerrillas, paramilitary groups and drug cartels. In the past, guerrillas have targeted the crude oil pipelines, including the Oleoducto Transandino, Caño Limón-Coveñas and Ocensa pipelines, and other related infrastructure disrupting activities in the oil industry. These activities, their possible escalation and the effects associated with them have had and may have in the future a negative impact on the Colombian economy, thus affecting our business in the country.

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. We are a significant purchaser of slabs for our operations in Mexico (which we buy from

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various suppliers in Mexico and overseas) and a significant purchaser of steel products for our operations in Colombia (which we buy from our subsidiaries overseas and from various suppliers in Colombia and overseas). Imports of slabs into Mexico and steel products in Colombia are, subject to certain conditions, imported under zero- or low-import duties. In the future, we may not be able to make such imports under the zero- or low-duty regime, or the Mexican or Colombian government may increase the applicable duties or impose restrictions in the quantities allowed to be imported.

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 in its domestic markets is increasing competition for Ternium in such markets. In recent years, as a consequence of the global downturn, the number of antidumping and countervailing actions limiting trade has increased substantially. Accordingly, producers from certain countries find themselves excluded from certain markets and in need to find alternatives for their products. As a result, Ternium s domestic market share could be eroded in the face of foreign imports and 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 the imposition of trade-related restrictions potentially affecting Ternium s exports are unpredictable. 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 duties can severely limit or altogether impede an exporter s ability to export to relevant markets. In several of Ternium s 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, as is currently the case. 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 certain 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 B. Business Overview Regulations Trade regulations.

The cost of complying with environmental regulations and potential environmental and product liabilities may increase our operating costs and negatively impact our business, financial condition, results of operations and prospects.

Our steelmaking and mining activities are subject to a wide range of local, provincial and national laws, regulations, permit requirements and decrees relating to the protection of human health and the environment, including laws and regulations relating to hazardous materials and radioactive materials and environmental protection governing air emissions, water discharges and waste management. Laws and regulations protecting the environment have become increasingly complex and more stringent and expensive to implement in recent years. International environmental requirements may vary.

Environmental laws and regulations may, in some cases, impose strict liability rendering a person liable for damages to natural resources or threats to public health and safety without regard to negligence or fault. Some environmental laws provide for joint and several strict liability for remediation of spills and releases of hazardous substances. These laws and regulations may expose us to liability for the conduct of, or conditions caused by others or for acts that were in compliance with all applicable laws at the time they were performed.

Compliance with applicable requirements and the adoption of new requirements could have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows. The ultimate impact of complying with environmental laws and regulations is not always clearly known or determinable since regulations under some of these laws have not yet been promulgated or are undergoing revision. The expenditures necessary to remain in compliance with these laws and regulations, including site or other remediation costs, or costs incurred from potential environmental liabilities, could have a material adverse effect on our financial condition and profitability. While we incur and will continue to incur expenditures to comply with applicable laws and regulations, there always remains a risk that environmental incidents or accidents may occur that may negatively affect our reputation or our operations.

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Some of the activities for which Ternium supplies 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, and subject us to potential product liability risks that could extend to being held liable for the damages produced by such products. Furthermore, Ternium s products are also sold to, and used in, certain safety-critical appliances. Actual or claimed defects in our products may give rise to claims against us for losses suffered by our customers and expose us to claims for damages. The insurance we maintain may not be adequate or available to protect us in the event of a claim, its coverage may be limited, canceled or otherwise terminated, or the amount of our insurance may be less than the related impact on enterprise value after a loss.

Risks Relating to our ADSs

The market price for our ADSs could be highly volatile.

Volatility in the price of our ADSs may be caused by factors within or 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 announcements of transactions, investments, or changes in strategies or business plans of Ternium or its competitors, could adversely affect the trading price of our ADSs, regardless of the likely outcome of those developments. Broad market and industry factors could adversely affect the market price of our ADSs, regardless of its actual operating performance. As an example of this volatility, the price of our ADSs closed at USD45.18 on June 2, 2008, and fell to a low of USD4.55 on November 20, 2008. In 2009 and 2010, the price of our ADSs generally recovered to a high closing price of USD43.26 on January 5, 2011, but then fell to a 2011 low of USD15.54 on November 29, 2011. In 2012, the price of our ADSs was generally in the range of USD18 to USD24. See Item 9 The Offer and Listing A. Offer and Listing Details .

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, almost 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 political, 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 Mexico, Argentina and Colombia. See Risks Relating to the Countries in Which We Operate.

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, IFRS differ in certain material aspects from the accounting standards used in the United States.

Holders of our ADSs may not be able to exercise, or may encounter difficulties in the exercise of, certain rights afforded to shareholders.

Certain shareholders rights under Luxembourg law, including the right to vote, to receive dividends and distributions, to bring actions, to examine the books and records and to exercise appraisal rights may not be available to holders of ADSs, or may be subject to restrictions and special procedures for their exercise, as holders of ADSs only have those rights that are expressly granted to them in the deposit agreement. The Bank of New York Mellon, or BNY Mellon, as depositary, through its custodian agent, is the registered shareholder of the deposited shares underlying the ADSs and therefore only

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the depositary can exercise the shareholders rights in connection with the deposited shares. For example, if we make a distribution in the form of securities, the depositary is allowed, at its discretion, to sell that right to acquire those securities on your behalf and to instead distribute the net proceeds to you. Also, under certain 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. In the circumstances specified in the deposit agreement, if the depositary does not receive voting instructions from the holder of ADSs or the instructions are not in proper form, then the depositary shall deem such holder to have instructed the depositary to give, and the depositary shall give, a proxy to a person designated by the Company with respect to that amount of shares underlying such ADSs to vote that amount of shares underlying such ADSs in favor of any proposals or recommendations of the Company (including any recommendation by the Company to vote that amount of shares underlying such ADSs on any issue in accordance with the majority shareholders vote on that issue) as determined by the appointed proxy. No instruction shall be deemed given and no proxy shall be given with respect to any matter as to which the Company informs the depositary that (x) it does not wish such proxy given, (y) substantial opposition exists, or (z) the matter materially and adversely affects the rights of the holders of ADSs.

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 is authorized to waive, limit or suppress such preemptive subscription rights until July 15, 2015. 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 preemptive 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; or
- 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 B. 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 shares, 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.

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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 public limited liability company (*Société Anonyme*) 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. Likewise, it may be difficult for a U.S. investor to bring an original action in a Luxembourg court predicated upon the civil liability provisions of the U.S. federal securities laws against the Company, its directors or its officers. There is also uncertainty with regard to the enforceability of original actions in courts outside the United States of civil liabilities predicated upon the civil liability provisions of U.S. federal securities laws. Furthermore, the enforceability in courts outside the United States 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 applicable local law, including the condition that the judgment does not violate the public policy of the applicable jurisdiction.

Item 4. Information on the Company

Overview

Ternium is a leading steel producer in Latin America. We manufacture and process a broad range of value-added steel products, including hot-dipped galvanized and electro-galvanized sheets, pre-painted sheets, tinplate, steel pipes and tubular products, hot-rolled coils and sheets, cold-rolled products, bars and wire rods as well as slit and cut-to-length offerings through our service centers. Our customers range from large global companies to small businesses operating in the construction, automotive, home appliances, capital goods, container, food and energy industries.

With an annual production capacity of approximately 10.8 million tons of finished steel products and 4.4 million tons of iron ore (most of which are used in our steelmaking activities), and 16,600 employees as of December 31, 2012, Ternium has steel production facilities located in Mexico, Argentina, Colombia, the southern United States, and Guatemala, iron ore mines in Mexico, and a network of service and distribution centers throughout Latin America that provide it with a strong position from which to serve its core markets. In addition, Ternium participates in the control group of Usiminas, a leading steel company in the Brazilian flat steel market. Our proximity to local steel consuming markets as well as our commercial agreements with Usiminas enable us to differentiate from our competitors by offering valuable services to our customer base across Latin America. Our favorable access to iron ore sources and proprietary iron ore mines in Mexico provide reduced logistic costs, and our diversified steel production technology enables us to adapt to fluctuating input-cost conditions.

Ternium primarily sells its steel products in the regional markets of the Americas. Ternium provides specialized products and delivery services, mainly to customers in Mexico, Argentina, Colombia and various Central American countries, through its network of manufacturing facilities and service centers. We believe that Ternium is the leading supplier of flat steel products in Mexico and Argentina, a significant supplier of steel products in Colombia and in various other countries in Latin America, and a competitive player in the international steel market for steel products. Through its network of commercial offices in several countries in Latin America, the United States and Spain, Ternium maintains an international presence that allows it to reach customers outside its local markets, achieve improved effectiveness in the supply of its products and in the procurement of semi-finished steel, and maintain a fluid commercial relationship with its customers by providing continuous services and assistance.

In 2012, 52% of Ternium s net sales of steel products were made to Mexico, 32% to the Southern Region (which is comprised of sales to customers in Argentina, Bolivia, Chile, Paraguay and Uruguay), and 16% to other markets (including major shipment destinations, such as Colombia, the United States and Central America, as well as other international destinations). In 2012, Ternium s net sales were USD8.6 billion, operating profit was USD915.9 million, and net income attributable to equity holders was USD139.2 million.

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A. History and Development of the Company

The Company

Our legal and commercial name is Ternium S.A. The Company was organized as a public limited liability company (*Société Anonyme*) under the laws of the Grand-Duchy of Luxembourg on December 22, 2003. Our Luxembourg office is located at 29, Avenue de la Porte-Neuve 3rd floor, L-2227 Luxembourg, telephone number +352 2668 3152. Our agent for U.S. federal securities law purposes is Ternium International U.S.A. Corporation, located at 2200 West Loop South, 8th floor, Houston, TX 77027, United States.

Ternium

Ternium s origins began in September 1961 with the founding of Propulsora Siderúrgica, or Propulsora, by San Faustin s predecessor in Argentina. Propulsora began its operations as a producer of cold-rolled coils in December 1969 and in the early 1990s began to evolve through a series of strategic investments aimed at transforming Propulsora into an integrated steel producer. In 1993, Propulsora merged with Aceros Parana (a company formed by the Argentine government in connection with the privatization of Somisa, at that time the main integrated producer of flat steel in Argentina) and three other affiliated steel industry companies. After the merger, Propulsora changed its name to Siderar S.A.I.C. San Faustin held a controlling interest in Siderar, with the remainder being held mainly by Usiminas, certain former employees of Somisa, and the public.

In December 1997, a consortium formed by San Faustin, Siderar, Usiminas, Hylsamex and Sivensa won the bid in the privatization of a controlling interest in Sidor, the largest steel company in the Andean Community.

As part of a multiple-step corporate reorganization in 2005, San Faustin reorganized its investments in steel manufacturing, processing and distribution businesses by contributing its controlling interests in Siderar, Sidor and Ternium Internacional to the Company, and Usiminas and Sivensa exchanged their interests in Siderar and Sidor for shares of the Company. In 2005, we acquired, together with Siderar, an indirect 99.3% interest in the Mexican company Hylsamex and its subsidiaries.

On January 11, 2006, the Company launched an initial public offering of 24,844,720 ADSs, each representing 10 shares of the Company, in the United States, and subsequently 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 December 28, 2006, we acquired an additional 4.85% interest in Siderar from CVRD Internacional S.A, thereby increasing our ownership in Siderar to 60.93%.

On April 29, 2007, the Company entered into an agreement with Grupo Imsa and Grupo Imsa s controlling shareholders pursuant to which Grupo Imsa came under our control on July 26, 2007. Under the agreement, the Company, through a wholly owned subsidiary, made a cash tender offer under applicable Mexican law for all of the issued and outstanding share capital of Grupo Imsa, which resulted in the acquisition of 25,133,856 shares, representing 9.3% of the issued and outstanding capital of Grupo Imsa. Concurrently with the consummation of the tender offer, on July 26, 2007, all the shares of Grupo Imsa that were not tendered into the tender offer (including the shares owned by Grupo Imsa s majority shareholders), representing 90.7% of Grupo Imsa s issued and outstanding share capital, were redeemed for cash pursuant to a capital reduction effected at the same price per share. Following this capital reduction, we became the sole shareholder of Grupo Imsa.

In 2007, Grupo Imsa was renamed Ternium Mexico and, effective March 31, 2008, Hylsamex merged with and into Ternium Mexico. In connection with this merger, Siderar became a shareholder of Ternium Mexico with a 28.7% interest.

On April 29, 2008, the National Assembly of Venezuela passed a resolution declaring that the shares of Sidor, together with all of its assets, were of public and social interest, and authorizing the Venezuelan government to take any action it deemed appropriate in connection with any such assets, including expropriation. On May 11, 2008, the President of Venezuela issued Decree Law 6058 ordering that Sidor and its subsidiaries and associated companies were transformed into state-owned enterprises (*empresas del Estado*), with Venezuela owning not less than 60% of their share capital. On May 7, 2009, Ternium

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completed the transfer of its entire 59.7% interest in Sidor to Corporación Venezolana de Guayana, or CVG, a Venezuelan state-owned entity. For more information on the Sidor nationalization process, see note 27 to our audited consolidated financial statements included elsewhere in this annual report.

On August 25, 2010, Ternium completed the acquisition of a 54% ownership interest in Ferrasa. Ferrasa has a 100% ownership interest in Siderúrgica de Caldas S.A.S., Figuraciones S.A.S. and Perfilamos del Cauca S.A.S., all of which are also Colombian companies. Ternium also acquired a 54% ownership interest in Ferrasa Panama. Ferrasa Panama is a long steel products processor and distributor based in Panama. Through these investments Ternium expanded its business and commercial presence in Colombia as well as in Central America.

On October 4, 2010, Ternium and Nippon Steel signed a definitive agreement to form a company in Mexico for the manufacturing and sale of hot-dip galvanized and galvannealed steel sheets to serve the Mexican automobile market. The company, Tenigal, was established in November 2010 with Ternium and Nippon Steel holding 51% and 49% participations, respectively. Tenigal began work on the construction of a hot dip galvanizing plant in the vicinity of Monterrey City, Mexico, which is expected to commence production of high grade and high quality galvanized and galvannealed automotive steel sheets, including outer panel and high strength qualities, in 2013. For more information on the Tenigal project, see note 29 to our audited consolidated financial statements included elsewhere in this annual report.

On January 16, 2012, Ternium Investments, Siderar and its wholly-owned subsidiary Prosid Investments S.C.A., and Confab Industrial, a subsidiary of Tenaris, or TenarisConfab, joined Usiminas existing control group through the acquisition of 84.7, 30.0 , and 25.0 million ordinary shares, respectively, and formed the so called T/T Group. Ternium Investments, Siderar (and Prosid) and TenarisConfab entered into an amended and restated Usiminas shareholders agreement with Nippon Steel, Mitsubishi, Metal One and Previdência, Usiminas employee pension fund, governing Ternium Investments, Siderar (and Prosid) and TenarisConfab s rights within the Usiminas control group. Ternium holds 35.6% of the voting rights within the control group and 22.7% of Usiminas ordinary shares, and has a participation in Usiminas results of 11.3%. Usiminas is a leading steel company in the Brazilian flat steel market. For further information on the Usiminas transaction, see note 3 to our audited consolidated financial statements included elsewhere in this annual report.

For information on Ternium s capital expenditures, see B. Business Overview Capital Expenditure Program.

B. Business Overview

Our Business Strategy

Our main strategic objective is to enhance shareholder value by strengthening Ternium s position as a competitive producer of steel products, in a manner consistent with minority shareholders rights, while further consolidating Ternium s position as a leading steel producer in Latin America and a strong competitor in the Americas. The main elements of this strategy are:

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 this regard, the cold-rolling and hot-dipped galvanizing mills being built in Pesquería, in the vicinity of Monterrey City, which are expected to commence production in the third quarter of 2013, will allow Ternium to increase its offering of cold-rolled and galvanized products to meet the demanding requirements of our industrial customers in Mexico, and the vacuum degassing station planned at Siderar s facility in San Nicolás will allow Ternium to increase production of specialty steels targeting the automotive industry;

Pursue strategic growth opportunities. We have a history of strategically growing our businesses through acquisitions and joint ventures. In addition to strongly pursuing organic growth, we intend to identify and actively pursue growth-enhancing strategic opportunities to consolidate Ternium s presence in its main markets and expand it to the rest of Latin America, increase its upstream integration, expand its offerings of value-added products, increase its steel production, and increase its distribution capabilities. For a description

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of some of the risks associated with Ternium s growth strategy, see Item 3. Key Information D. Risk Factors Risks Relating to our Business Recent and future acquisitions, green-field projects, significant investments and strategic alliances could have an adverse impact on Ternium s operations or profits, and Ternium may not realize the benefits it expects from these business decisions. ;

Implement Ternium s best practices. We believe that the implementation of Ternium s managerial, commercial and production best practices in acquired new businesses should generate additional benefits and savings. For example, the implementation of Ternium s cost control procedures and performance analysis in Ternium Mexico improved control over its production variables and led to cost savings;

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 customers 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; and

Enhance Ternium s position as a competitive steel producer. We are focused on improving utilization levels of our plants, increasing efficiency and further reducing production costs from levels that we already consider to be among the most competitive in the steel industry through, among other measures, capital investments and further integration of our facilities.

Our Products

The Ternium companies produce mainly finished and semi-finished steel products and iron ore, which are sold either directly to steel manufacturers, steel processors or end-users, after different value-adding processes.

In the steel segment, steel products include slabs, billets and round bars (steel in its basic, semi-finished state), hot-rolled coils and sheets, bars and stirrups, wire rods, cold-rolled coils and sheets, tin plate, hot dipped galvanized and electrogalvanized sheets and pre-painted sheets, steel pipes and tubular products, beams, roll formed products, and other products. Galvanized and pre-painted sheets can be further processed into a variety of corrugated sheets, trapezoidal sheets and other tailor-made products to serve Ternium s customer requirements.

In the mining segment, iron ore is sold as concentrates (fines) and pellets.

Steel products

Slabs, billets and round bars: these products are semi-finished steel forms with dimensions suitable for its processing into specific product types. Slabs are processed into hot-rolled flat products. The use of slabs is determined by their dimensions and by their chemical and metallurgical characteristics. Billets are processed into long steel products, such as wire rods, bars and other shapes. Round bars are processed into seamless tubes.

Hot-rolled products: hot-rolled flat 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 flat 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. Merchant bars include specific shape features, such as rounds, flats, angles, squares and channels, which are used by customers to manufacture a wide variety of products such as furniture, stair railings and farm equipment. Reinforcing bars (rebars) and stirrups, obtained from the mechanical transformation of rebars, are used to strengthen concrete highways, bridges and buildings. Rods are commonly drawn into wire products or used to make bolts and nails. Wire rod can be produced in different qualities according to customers demands.

Cold-rolled products: cold-rolled products are applied mainly to the automotive, home appliance and capital goods industries, 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. These products also serve as inputs for the production of coated products.

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Coated products: tinplate, given its resistance to corrosion and its mechanical and chemical characteristics, is mainly sold to the packaging industry for food canning, sprays and paint containers. Tin plate is produced by coating cold-rolled coils with a layer of tin. Galvanized sheets are produced by adding a layer of zinc to cold-rolled coils, which are afterwards cut into sheets. Galvanized sheets are used in the automotive, construction and home appliances industries. Galvanized coils can also be further processed with a color coating to produce pre-painted sheets, resulting in a product that is mainly sold for building coverings, manufacturing of ceiling systems, panels, air conditioning ducts, refrigerators, air conditioners, washing machines and several other uses. Ternium also offers, under the trademark Zintroalum in Mexico and Cincalum in Argentina, a distinctive type of galvanized product with coating composition that contains approximately 55% aluminum and 44% zinc to improve product performance for the construction industry, including rural, industrial and marine sites.

Roll-formed and tubular products: these products include tubes for general use, structural tubes, tubes for mechanical applications, conduction tubes, conduction electrical tubes and oil tubes. Tubular products, uncoated or galvanized, have applications in several sectors including home accessories, furniture, scaffolding, automotive, bicycles, hospital equipment, posts for wire mesh garden and poultry tools, handrails, guard-rails, agricultural machinery, industrial equipment, conduction of water, air, gas, oil, high-pressure liquids and special fluids and internal building electrical installations. Beams, including C and Z section steel profiles (purlings) and tubular section beams, are obtained by roll-forming of steel strips and have applications in window frames, stilts, mainstays, crossbeams, building structures, supports, guides and crossbars for installing windows, doors, frames and boards. Other products include insulated panels, roofing and cladding, roof tiles and steel decks. Obtained from the mechanical transformation of flat steel, uncoated, galvanized or pre-painted, these products are used mainly in the construction industry in warehouses, commercial and industrial refrigeration installations, grain storage, poultry and porcine confinement facilities, roofing and side walls for buildings, and terraces and mezzanine floorings.

Other steel products: these products include pre-engineered metal building systems, which are steel construction systems designed for use in low-rise non-residential buildings, and are constructed from the mechanical transformation of flat steel such as frames, secondary steel members, roofs and walls panels, as well as finishing and accessories,; and pig iron, a semifinished product obtained in the blast furnace that is mostly used as metallic charge in the steel shop for the production of crude steel, and also marketed to other steel producers and to manufacturers of iron-based cast products.

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.

Iron ore

Concentrates (fines) and pellets: these products are raw materials used for the production of steel. Iron ore concentrates are iron ore fines with high iron content. Iron ore pellets are produced from iron ore concentrates. Ternium ships most of the pellets to its own steel manufacturing operations and it also markets the surplus portion of its iron ore pellets and concentrates to other steel manufacturers.

Production Facilities and Processes

Ternium has steel production facilities, service centers, distribution centers, or DCs, and mining operations in Mexico, steel production facilities and service centers in the Southern Region, and steel production facilities, service centers and DCs in other markets, specifically Colombia, the United States and Central America.

Ternium s aggregate production capacity of finished steel products as of December 31, 2012, calculated based on management estimates of standard productivity, product mix allocations, the maximum number of possible working shifts and a continued flow of supplies to the production process, was approximately 10.8 million tons, of which 7.3 million tons correspond to facilities located in Mexico, 2.7 million tons correspond to facilities located in the Southern Region and 0.8 million tons correspond to facilities located in other markets. Ternium s aggregate production capacity of iron ore products as of December 31, 2012, was 4.4 million tons. Such iron ore products are mainly sold inter-company for the production of steel products by our steel segment.

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Steel production facilities, service centers and distribution centers

The assets described in this section are owned by Ternium s operating subsidiaries. The following table provides an overview, by type of asset, of Ternium s production capacity as of December 31, 2012:

		Capacity (thousand tons per year) [1]			
Production asset	Quantity	Mexico	Argentina	Other	Total
Coke Plant	4		1,030		1,030
Sinter Plant	1		1,490		1,490
Direct Reduced Iron Plant	3	2,700			2,700
Blast Furnace	2		3,890		3,890
Electric Arc Furnace	5	4,040		170	4,210
Basic Oxygen Furnace	3		5,000		5,000
Thin Slab Continuous Caster	1	2,320			2,320
Slab Continuous Caster	1		2,890		2,890
Billet Continuous Caster	3	1,640		160	1,800
Slab Rolling Mill	4	6,000	2,780		8,780
Skin - Pass Mill	4	2,400	940		3,340
Billet Rolling Mill	4	1,080		180	1,260
Pickling Line	8	3,870	1,790		5,660
Cold-Rolling Mill (Tandem or Reversing)	9	2,480	1,840		4,320
Electrolytic Cleaning	4	1,300	200		1,500
Annealing Line	4	1,240	1,240		2,480
Temper Mill	6	1,510	1,820		3,330
Tension-Leveling / Inspection Line	7	830	1,010		1,840
Electro-tinplating line	1		150		150
Hot Dip Galvanizing Line	12	1,440	610	420	2,470
Electro-Galvanizing Line	1		120		120
Color - Coating Line	8	660	110	180	950
Slitter	34	1,880	350	350	2,580
Cut to length	36	580	870	150	1,600
Roll forming Line	36	540	410	250	1,200
Panel Line	4	80			80
Profile Line	16	200		80	280
Tube Line	23	470	160	50	680
Structural beams Lines	1			60	60
Wire drawing Lines	15			110	110
Wire Mesh Lines	2			30	30
Rebar Processing Lines[2]	35			150	150

[1] In this annual report annual production capacity is calculated based on management estimates of standard productivity, product mix allocations, the maximum number of possible working shifts and a continued flow of supplies to the production process.

[2] Includes shears, straighteners, stirrup benders and shaping centers.

Mexico. Ternium has eleven steel production and/or processing units in Mexico, consisting of three integrated steel-making plants (two of which produce long steel products and one of which produces flat steel products and includes two

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steel service centers), four downstream flat steel processing plants, combining hot-rolling, cold-rolling and/or coating facilities (two of which include steel service centers), and four steel service centers. In addition, Ternium has eleven distribution centers in this region, aimed at serving customers mainly in the construction sector.

The following table sets forth key items of information regarding Ternium s principal production locations and production units:

Unit	Country	Type of Plant				Location
		Integrated	Downstream	Service Center	Distribution Center	
Guerrero[1]	Mexico	X		X		San Nicolás d.l.G., Nuevo León
Norte[2]	Mexico	X				Apodaca, Nuevo León
Puebla[3]	Mexico	X				Puebla, Puebla
Juventud[4]	Mexico		X	X		San Nicolás d.l.G., Nuevo León
Churubusco[5]	Mexico		X	X		Monterrey, Nuevo León
Monclova[6]	Mexico		X			Monclova, Coahuila
Universidad[7]	Mexico		X			San Nicolás d.l.G., Nuevo León
Apodaca Industrial[8]	Mexico			X		Apodaca, Nuevo León
Apodaca Comercial[9]	Mexico			X		Apodaca, Nuevo León
Varco-Pruden[10]	Mexico			X		Ciénaga de Flores, Nuevo León
San Luis[11]	Mexico			X		San Luis, San Luis Potosí
DC Chihuahua	Mexico				X	Chihuahua, Chihuahua
DC BC	Mexico				X	Tijuana, Baja California
DC Norte	Mexico				X	Monterrey, Nuevo León
DC MTY	Mexico				X	Monterrey, Nuevo León
DC Puebla	Mexico				X	Puebla, Puebla
DC Guadalajara	Mexico				X	Guadalajara, Jalisco
DC Mexico	Mexico				X	Tultitlán, Estado De México
DC Culiacán	Mexico				X	Culiacán, Sinaloa
DC Veracruz	Mexico				X	Veracruz, Veracruz
DC Mérida	Mexico				X	Mérida, Yucatán
DC Tuxtla	Mexico				X	Tuxtla Gtz, Chiapas

1 The Guerrero unit, located in the metropolitan area of Monterrey, Nuevo León, Mexico, produces hot-rolled and cold-rolled coils for the industrial, construction and home appliance sectors and for further processing in other Ternium Mexico s units. It also produces slitted and cut-to-length products for the industrial sector, and profiles and tubes for the industrial and construction sectors. This unit includes two steel service centers, a slab-rolling mill, and an integrated facility based on direct reduced iron, or DRI, mini-mill steelmaking and thin-slab casting/rolling mill technologies that uses iron ore pellets and steel scrap as main raw materials. The facility sources all of the iron ore from Ternium Mexico s mining operations and the electricity and natural gas from the Mexican grid. In addition, the facility sources its net requirements of slabs from Mexican and international producers. Ternium s procurement policy for these products is described in greater depth in Item 4. Information on the Company B. Business Overview Raw Materials, Energy and Other Inputs.

2 The Norte unit in Nuevo León, Mexico, produces billets and rebar for the construction industry. It is an integrated facility based on mini-mill steelmaking technology that uses steel scrap as its main raw material.

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The facility sources electricity from the Mexican grid. Ternium s procurement policy for these products is described in greater depth in Item 4. Information on the Company B. Business Overview Raw Materials, Energy and Other Inputs.

3 The Puebla unit in Puebla, Mexico, produces rebar, wire rod and round bar mainly for the construction and industrial sectors, including high-carbon, low-carbon and micro-alloyed wire rod. It is an integrated facility based on DRI and mini-mill steelmaking technologies that uses iron ore pellets and steel scrap as main raw materials. The facility sources all of the iron ore from Ternium Mexico s mining operations and the electricity and natural gas from the Mexican grid. Ternium s procurement policy for these products is described in greater depth in Item 4. Information on the Company B. Business Overview Raw Materials, Energy and Other Inputs.

4 The Juventud unit in Nuevo León, Mexico, produces galvanized and color coated coils for the construction, home appliance and other industries and has a steel service center that produces slitted and roll-formed products, panels and tubes for the construction and industrial sectors. This plant processes hot-rolled and cold-rolled coils received from Ternium Mexico s units in Nuevo León.

5 The Churubusco unit in Nuevo León, Mexico, produces hot-rolled and cold-rolled coils for the industrial, construction and home appliance sectors and for further processing in other Ternium Mexico s units. It also produces slitted and cut-to-length products for the industrial sector. The facility sources its requirements of slabs from other Mexican producers and from the international markets. Ternium s procurement policy for slabs is described in greater depth in Item 4. Information on the Company B. Business Overview Raw Materials, Energy and Other Inputs.

6 The Monclova unit in Coahuila, Mexico, produces galvanized and color coated sheets for the home appliance industry. This plant processes cold-rolled coils mainly received from AHMSA and from Ternium Mexico s units in Nuevo León.

7 The Universidad unit in Nuevo León, Mexico, located across the street from the Guerrero unit, produces galvanized and color coated coils for the construction, home appliance and industrial sectors. This plant, which also has a cold-rolling mill, processes hot-rolled coils received from Ternium Mexico s units in Nuevo León.

8 The Apodaca Industrial unit in Nuevo León, Mexico, is a steel service center that produces slitted and cut-to-length products for industrial customers. This plant processes coated coils mainly received from Ternium Mexico s units in Nuevo León.

9 The Apodaca Comercial unit in Nuevo León, Mexico, is a steel service center that produces slitted and roll-formed products, profiles and tubes for the construction industry. This plant processes coated coils mainly received from Ternium Mexico s units in Nuevo León.

10 The Varco-Pruden unit in Nuevo León, Mexico, produces metal buildings systems for commercial construction. This plant processes heavy plates procured from the local and international markets and coils received from Ternium Mexico s units in Nuevo León.

11 The San Luis unit in San Luis Potosí, Mexico, is a steel service center that produces slitted and cut-to-length products for the home appliance and other industries. This plant processes coated coils received from Ternium Mexico s units in Nuevo León.

On October 4, 2010, Ternium and Nippon Steel signed a definitive agreement to form a company in Mexico for the manufacturing and sale of high-grade and high-quality hot-dip galvanized and galvannealed steel sheets to serve the Mexican automobile market, including outer-panel and high-strength qualities. The company, Tenigal, was established in November 2010 with Ternium and Nippon Steel holding 51% and 49% participations, respectively. Tenigal began work for the construction of a hot-dip galvanizing plant in the vicinity of Monterrey City (equivalent to the state-of-the art equipment now in operation at Nippon Steel s steelworks in Japan), which will manufacture high-grade and high-quality galvanized and galvannealed automotive steel sheets, including outer-panel and high-strength qualities. The total required investment will be approximately USD350 million and the expected production capacity of the new galvanizing facility is

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400,000 metric tons per year. Ternium expects to commence production in the third quarter of 2013. Tenigal is expected to serve the requirements of the growing automotive industry in Mexico, including those of the Japanese car makers. In addition, Ternium Mexico is building a new cold-rolling facility, including new pickling, cold-rolling, annealing and tempering lines at the same site, which is also expected to commence production in the third quarter of 2013. Part of the output from these lines will be used to supply the Tenigal plant. For more information on the Tenigal project, see note 29 to our audited consolidated financial statements included elsewhere in this annual report.

Southern Region. Ternium has nine steel production and/or processing units in this region, located in Argentina, consisting of one integrated flat steel-making plant, four downstream flat steel processing plants, comprising cold-rolling, coating or tube making facilities (three of which include steel service centers), and four steel service centers.

The following table set forth key items of information regarding Ternium s principal production locations and production units:

Unit	Country	Type of Plant				Location
		Integrated	Downstream	Service Center	Distribution Center	
San Nicolás[12]	Argentina	X				Ramallo, Buenos Aires
Canning[13]	Argentina		X	X		Canning, Buenos Aires
Haedo[13]	Argentina		X	X		Haedo, Buenos Aires
Florencio Varela[14]	Argentina		X	X		Florencio Varela, Buenos Aires
Ensenada[15]	Argentina		X			Ensenada, Buenos Aires
Rosario[16]	Argentina			X		Rosario, Santa Fe
San Luis[16]	Argentina			X		San Luis, San Luis
Serviacero III[17]	Argentina			X		Ramallo, Buenos Aires
Sidercrom[18]	Argentina			X		Ramallo, Buenos Aires

12 The San Nicolás unit in the Province of Buenos Aires, Argentina, produces hot-rolled, cold-rolled and tinplate coils for the construction, industrial and packaging sectors and for further processing in other Siderar units. San Nicolás includes an integrated facility based on blast furnace and basic oxygen furnace technologies, supplemented with a sinter plant, coking batteries, a by-product plant and a power plant. It uses metallurgical coal and iron ore lumps, pellets and fines as main raw materials. The facility sources all of its coal and iron ore needs from the international markets, shipped to its own port on the banks of the Paraná river. It sources the natural gas from the Argentine grid, produces most of its electricity needs in its own power plant and sources its net requirements of electricity from the Argentine grid. Ternium s procurement policy for these products is described in greater depth in Item 4. Information on the Company B. Business Overview Raw Materials, Energy and Other Inputs.

13 The Canning and Haedo units in the Province of Buenos Aires, Argentina, produce galvanized sheets, slitted and roll-formed products and profiles for the construction and home appliance sectors. In addition, the Canning facility produces color coated sheets for such markets. Both plants process cold-rolled coils received from Siderar s San Nicolás and Ensenada units.

14 The Florencio Varela unit in the Province of Buenos Aires, Argentina, produces electrogalvanized sheets, blanks and slitted products for the automotive, construction and other industries. This plant processes cold-rolled coils received from Siderar s San Nicolás and Ensenada units.

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[15] The Ensenada unit in the Province of Buenos Aires, Argentina, produces cold-rolled coils for the construction and industrial sectors and for further processing in Siderar s own facilities. This plant processes hot-rolled coils received from Siderar s San Nicolás unit.

[16] The Rosario unit in the Province of Santa Fe, Argentina, and the San Luis unit in the Province of San Luis, Argentina, are steel service centers that produce tubes for the construction industry. These plants process hot-rolled coils received from Siderar s San Nicolás unit.

[17] The Serviacero III unit in the Province of Buenos Aires, Argentina, is a steel service center that produces cut-to-length products for the construction and industrial sectors. This plant processes hot-rolled coils received from Siderar s San Nicolás unit.

[18] The Sidercrom unit in the Province of Buenos Aires, Argentina, is a steel service center that produces cut-to-length and slitted products for the packaging sector. This plant processes tinplate coils received from Siderar s San Nicolás unit.

Other Markets. Ternium has sixteen steel production and/or processing units in Colombia, Central America and the United States, consisting of one integrated long steel-making plant, two downstream flat steel processing plants, comprising coating facilities (one of which includes a steel service center), and thirteen steel service centers. In addition, Ternium has four steel retail distribution centers aimed at serving customers mainly in the construction sector.

The following table set forth key items of information regarding Ternium s principal production locations and production units:

Unit	Country	Type of Plant				Location
		Integrated	Downstream	Service Center	Distribution Center	
Shreveport[19]	USA		X			Shreveport, Louisiana
Manizales Acasa[20]	Colombia	X				Manizales, Caldas
Barranquilla[21]	Colombia			X		Malambo, Atlántico
Itaguí[22]	Colombia			X		Itaguí, Antioquía
Cali Perfilamos[23]	Colombia			X		Puerto Tejada, Cauca
Medellín[24]	Colombia			X		Medellín, Antioquía
Bogotá[24]	Colombia			X		Bogotá, Cundinamarca
Cali Ferrasa[24]	Colombia			X		Cali, Valle del Cauca
Montería[24]	Colombia			X		Montería, Córdoba
Manizales Ferrasa[24]	Colombia			X		Manizales, Caldas
Villa Nueva[25]	Guatemala		X	X		Villa Nueva, Guatemala
DC Norte	Guatemala				X	Guatemala, Guatemala
DC Occidente	Guatemala				X	Mazatenango, Suchitepéquez
Tegucigalpa[26]	Honduras			X		San Pedro Sula, Cortés
DC Tegucigalpa	Honduras				X	Tegucigalpa, Distrito Central
San Salvador[26]	El Salvador			X		San Salvador, San Salvador
DC San Miguel	El Salvador				X	San Miguel, San Miguel
Managua[26]	Nicaragua			X		Managua, Managua
Heredia[27]	Costa Rica			X		Heredia, Heredia
Panamá[24]	Panama			X		Panama, Panama

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[19] The Shreveport unit in Louisiana, US, produces galvanized and color coated sheets. It processes cold-rolled coils procured in the international markets.

[20] The Manizales Acasa unit in Caldas, Colombia, produces billets and rebar for the construction industry. It is an integrated facility based on mini-mill steelmaking technology that uses steel scrap as its main raw material. The facility sources all of its scrap and electricity needs from local suppliers. Ternium s procurement policy for these products is described in greater depth in Item 4. Information on the Company B. Business Overview Raw Materials, Energy and Other Inputs.

[21] The Barranquilla unit in Atlántico, Colombia, is a steel service center that produces slitted, cut-to-length, drawn wire, wire mesh and customized rebar-based products for the construction industry. This plant processes wire rod purchased in the international market and rebar received from Ferrasa s Manizales unit and rebar purchased in the international markets. Hot-rolled and cold-rolled coils are received mainly from Ternium Mexico s units in Nuevo León.

[22] The Itaguaí unit in Antioquía, Colombia, is a steel service center that produces drawn wire, wire mesh and customized rebar-based products for the construction industry. This plant processes wire rod purchased in the international markets and rebar received from Ferrasa s Manizales unit and rebar purchased in the international markets.

[23] The Cali Perfilamos unit in Cauca, Colombia, is a steel service center that produces profiles, tubes and structural beams for the construction industry. This plant processes hot-rolled and cold-rolled coils received mainly from Ternium Mexico s units in Nuevo León and purchased in the international markets.

[24] The Medellín unit in Antioquía, Colombia, the Bogotá unit in Cundinamarca, Colombia, the Cali Ferrasa unit in Valle del Cauca, Colombia, the Montería unit in Córdoba, Colombia, the Manizales Ferrasa unit in Caldas, Colombia and the Panamá unit in Panama, Panama, are steel services centers that produce customized rebar-based products for the construction industry. These plants process rebar received from Ferrasa s Manizales unit and rebar purchased in the international markets.

[25] The Villa Nueva unit in Guatemala, Guatemala, produces galvanized sheets for the construction industry and for further processing in other Ternium Mexico s units in Central America. It also has a steel service center that produces slitted, roll-formed and cut-to-length products, and profiles for the construction industry. This plant processes hot-rolled, cold-rolled and coated coils received from Ternium Mexico s units in the Nuevo León area and from the international markets.

[26] The Tegucigalpa unit in Cortés, Honduras, the San Salvador unit in San Salvador, El Salvador, and the Managua unit in Managua, Nicaragua, are steel service centers that produce roll-formed products for the construction industry. These plants process coated coils received mainly from Ternium Mexico s Villa Nueva unit.

[27] The Heredia unit in Heredia, Costa Rica, is a steel service center that produces roll-formed products and profiles for the construction industry. This plant processes hot-rolled, cold-rolled and coated coils received from Ternium Mexico s units in Nuevo León and from the Villa Nueva unit.

Mining Production Facilities

Ternium has iron ore production facilities in Mexico. We have a 100% interest in Las Encinas, and a 50% interest in Consorcio Peña Colorada, and conduct our mining activities through these companies. Most of our iron ore production is consumed internally and small quantities are sold to third parites. The following table provides an overview of Ternium s active mining operations:

Company	Location	Type of Mine
Las Encinas	Aquila, Michoacán	Open pit
Consorcio Peña Colorada	Minatitlán, Colima	Open pit

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In addition, Las Encinas owns two other mines, El Encino and Cerro Nahuatl, which are substantially exhausted.

The following table provides an overview, by type of facility, of Ternium s production capacity:

	Las Encinas		Consorcio Peña Colorada[1]	
Production facility	**Quantity**	**Capacity[2]**	**Quantity**	**Capacity[2]**
Crushing Plant	2	5,300	1	11,000
Concentration Plant	1	2,100	1	4,500
Pelletizing Line	1	1,900	2	4,100

(1) Figures correspond to total capacity. Ternium has a 50% interest in Consorcio Peña Colorada.
(2) In thousands of tons per year. Crushing capacity for Las Encinas includes crushing lines located in Aquila and in El Encino.

Las Encinas

Las Encinas produces iron ore pellets and magnetite concentrate. At present, Las Encinas operates the Aquila open pit mine located in Michoacán, Mexico. In addition, Las Encinas intends to start operations at El Chilillo, a small open pit mine in Pihuamo, Jalisco, Mexico, expected to be fully operational during 2013 and to last for two to three years until exhaustion.

The Las Encinas facilities include two crushing plants (located close to each of the Aquila and El Encino mines), and a concentration and pelletizing plant located in Alzada, Colima, Mexico, approximately 160 kilometers from Aquila. Its major processing facilities (crushing, concentration and pelletizing facilities) include two primary crushers and a dry cobbing plant in Aquila, and horizontal and vertical ball mills and several stages of magnetic separation in Alzada. The iron ore pre-concentrate is transported from Aquila to a transfer station at Tecoman, Colima by truck and from Tecoman to Alzada by rail and truck for processing in the concentration plant. From time to time, Las Encinas purchases and receives, at its crusher facility in El Encino, magnetite iron ore from other local sources. The crushed iron ore is transported from El Encino to Alzada by cableway for processing in the concentration plant. The iron ore pellets produced in Alzada are transported by rail to Ternium Mexico s integrated facilities in Monterrey and Puebla, Mexico. The Aquila and El Encino operations and the Alzada facilities receive electrical power from the *Comisión Federal de Electricidad*, or CFE, the Mexican state-owned electric utility.

Active mines

At the Aquila site, Las Encinas holds mining rights over 76 hectares. The Aquila operations (including an open pit mine and crushing facilities) stand on 383 hectares, which are leased to Las Encinas by the local community of San Miguel de Aquila. The lease agreement allows Las Encinas to perform all mining activities necessary to exploit the ore located in the 76 hectares granted to Las Encinas by the Mexican federal authorities until the permanent closure of the mine. Las Encinas has operated this mine since 1998.

Aquila is a mine composed predominantly of magnetite with a hematite roof and sulphides and silicates gangue. The form of mineralization is massive and disseminated (mineralized hornfels, endoeskarn), with mineralized gaps. The mine site is hosted along a large failure line and between the contact of an intrusive diorite and limestone, and the shape of the deposit is slightly amorphous crossed by a countless number of dams and mainly controlled by geological structures.

Mines under exploration

In late 2012, Las Encinas resolved to initiate mining activities at the El Chilillo mine during 2013. The El Chilillo is a magmatic injection deposit. It is a north-south oriented body with average 400 meters length, 150 meters width and 25 meters thick, with a lens-shaped body of massive magnetic ore, partially oxidized in and close to surfacing areas. Gang ores associated with the iron ore are pyrite, quartz and apatite. It is surrounded mainly by andesite and andesitic rocks

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above and below the body, and to a lower proportion by limestone that is also founded at lens-shaped internal bodies. The entire mineralized zone is crossed by monzonitic-composed dykes. At present, all environmental permits required have been obtained, relevant agreements with third parties are being negotiated, and Ternium is continuing to perform studies necessary to proceed with the exploitation of the mine. We expect that the start-up of the El Chilillo operations will not require significant additional investments. When fully operational, the El Chilillo mine is expected to be productive for up to three years. At the El Chilillo site, Las Encinas holds mining rights over 63 hectares. Las Encinas operations at that site stand on 21 hectares under a lease agreement expiring in 2015. El Chilillo is located in Pihuamo, Jalisco, Mexico, 35 kms away from El Encino. Iron ore extracted from El Chilillo is expected to be transported by truck to El Encino to be crushed before being transported to the Alzada pelletizing plant.

In the future, Las Encinas may continue pursuing the exploration or development of small to midsize deposits similar to El Chillillo, as a way to diversify its sources of iron ore and to make good use of its mining rights in the region.

Las Encinas holds mining rights over other areas scattered throughout Michoacán, Jalisco and Colima, Mexico. In the past five years, Las Encinas has conducted exploration activities mainly in Michoacán and Jalisco. As a result, Las Encinas launched a number of studies in Sierra del Alo, Jalisco, and identified sufficient iron ore resources to support the exploration of a new mining operation in that area. Ternium, however, has not made any decision in respect of the Sierra del Alo project. Any such decision may be subject, among other considerations, to Ternium s decision to expand its steel production capacity in Mexico and consequently increase its requirements for iron ore.

Exhausted mines

The El Encino open pit and underground mine was operated until 2011. The El Encino core reserves were exhausted and the mine s operations have been suspended. Ternium is currently performing the necessary studies to proceed with its permanent closure, but no date for such closure has been scheduled. The crushing and transfer facilities at El Encino are still in operation and will continue active to receive, process and transfer to the Alzada pelletizing plant iron ore that Las Encinas buys from time to time from other local sources in small quantities, and is also expected to process iron ore from El Chilillo s operations.

The Cerro Nahuatl open pit mine located in Colima, Mexico, operated until 2008. The Cerro Nahuatl core reserves were exhausted in 2011 and the mine s operation has been suspended. Ternium is currently performing the necessary studies to proceed with its permanent closure, but no date for such closure has been scheduled.

Consorcio Peña Colorada

Consorcio Peña Colorada produces iron ore pellets and magnetite concentrate. Consorcio Peña Colorada is a company owned 50% by Ternium and 50% by ArcelorMittal. Consorcio Peña Colorada operates an open pit mine as well as a concentrating facility and a two-line pelletizing facility. Consorcio Peña Colorada owns part of the property where its mine and processing facilities stand, and leases 1,200 hectares adjacent to mine that are used to deposit material removed as part of the regular short term and long term mining plan.

Peña Colorada has operated since 1974. Consorcio Peña Colorada holds mining rights over 39,813 hectares. The Peña Colorada mine is a complex polyphase iron ore deposit. Several magmatic and hydrothermal events produced iron mineralization, garnet-rich rocks (granatites) as skarns or skarnoids, and late dikes and faults that crosscut the mineralized bodies. The main mineralization events are a massive ore body, a disseminated ore body, a layered barren exoskarn/skarnoid, a polymictic breccia, mineralized conglomerates and late andesitic dikes.

The concentration plant is located at the mine in Minatitlán, Jalisco, Mexico, and the pelletizing plant is located near the Manzanillo seaport on the Pacific coast in Colima, Mexico, 50 kilometers from Minatitlán. Consorcio Peña Colorada s major processing facilities include a primary crusher, a dry cobbing plant, one autogenous mill, horizontal and vertical ball mills, several stages of magnetic separation and two pelletizing lines. The concentrate is sent as a pulp through a pipeline from the mine and mineral processing plant in Minatitlán to the pelletizing plant in Manzanillo. The Peña Colorada mine and the pelletizing plant receive electrical power from the CFE.

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Effective as of January 2013, Ternium and Consorcio Peña Colorada entered into a new agreement for the allocation of its production. Under the new arrangement, Consorcio Peña Colorada is required to sell half of the mine s production to Ternium. See Item 4. Information on the Company B. Business Overview Raw Materials, Energy and Other Inputs Mexico Iron Ore. Iron ore concentrate and pellets sold to Ternium are shipped by rail from the mine to Ternium s facilities in Mexico or exported.

Due to the reduction in the ferrous content of its ore deposits, Consorcio Peña Colorada is currently assessing the investments required to increase the processing capacity of its crushing or grinding facilities to sustain current pellet production levels.

Iron ore reserves

The table below details Ternium s estimated proven and probable iron ore reserves as of December 31, 2012. The classification of the iron ore reserve estimates as proven or probable is based on drill hole spacing and reflects the variability in the mineralization at the selected cut-off grade, the mining selectivity and the production rate and ability of the operation to blend the different ore types that may occur within each deposit. Reserves are reported as Run of Mine (ROM). Tonnage is reported on a wet metric tons basis.

	Iron ore proven and probable reserves as of December 31, 2012 (1)					
	Proven		Probable		Total	
	Million of Tons	% Fe	Million of Tons	% Fe	Million of Tons	% Fe
Las Encinas (2)	28	41.0			28	41
Peña Colorada (3)	127	24	133	23	260	24

(1) In Peña Colorada, proven iron ore reserve estimates are based on drill hole spacing ranging from 25m x 25m to 100m x 100m, and probable iron ore reserve estimates are based on drill hole spacing ranging from 50m x 50m to 300m x 300m. In Las Encinas, drill hole spacing may be more distanced.
(2) Includes exclusively the Aquila mine.
(3) Reported figures represent the total reserves at Peña Colorada mine. Ternium has a 50% interest in Consorcio Peña Colorada.

The table below provides additional information on iron ore production and average estimated mine life.

Operations/Projects	% Ownership	In Operation Since	2012 Run of Mine Production (Million tons)	2012 Saleable Production (Million tons)(1)	Estimated Mine Life (Years)(2)
Las Encinas (3)	100	1970	2.9	1.9	7
Consorcio Peña Colorada(4)	50	1974	8.4	4.5	18

(1) Saleable production is constituted of a mix of direct shipped ore (DSO), concentrate, pellet feed and pellet products which have an iron content of approximately 65% to 66%.
(2) Mine life is derived from the life of mine plans and corresponds to the duration of the mine production scheduled from ore reserve estimates only. The production varies for each operation during the mine life and as a result the mine life is not necessarily the total reserve tonnage divided by the 2012 production.

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(3) Includes exclusively the Aquila mine.
(4) Reported figures represent the total production of Consorcio Peña Colorada, in which Ternium has a 50% interest.

The estimates of proven and probable ore reserves at our mines and the estimates of the mine life included in this annual report have been prepared by Ternium s experienced engineers and geologists. Ternium has not commissioned an independent verification of the methods and procedures used to determine reserves, nor has it commissioned independent audits on iron ore reserve estimates.

The reserve calculations were prepared in compliance with the requirements of SEC Industry Guide 7, under which:

Reserves are the part of a mineral deposit that could be economically and legally extracted or produced at the time of the reserve determination.

Proven reserves are reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, working or drill holes; grade and/or quality are computed from the results of detailed sampling; and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.

Probable reserves are reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

The demonstration of economic viability is established through the application of a life of mine plan for each operation or project providing a positive net present value on a cash-forward looking basis. Economic viability is demonstrated using forecasts of operating and capital costs based on historical performance, with forward adjustments based on planned process improvements, changes in production volumes and in fixed and variable proportions of costs, and forecasted fluctuations in costs of raw material, supplies, energy and wages. Ore reserve estimates are updated annually in order to reflect new geological information and current mine plan and business strategies. Our reserve estimates are of in-place material after adjustments for mining depletion and mining losses and recoveries, with no adjustments made for metal losses due to processing. For a description of risks relating to reserves and reserve estimates, see Item 3D Risk Factors Risks to our mining activities Our reserve estimates may differ materially from mineral quantities that we may be able to actually recover, or our estimates of mine life may prove inaccurate; and market price fluctuations and changes in operating and capital costs may render certain ore reserves uneconomical to mine in the future or cause us to revise our reserve estimates.

Our mineral leases are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all ore reserves on the leased properties to be mined in accordance with current production schedules. Our ore reserves may include areas where some additional approvals remain outstanding but where, based on the technical investigations we carry out as part of our mine planning process and our knowledge and experience of the approvals process, we expect that such approvals will be obtained as part of the normal course of business and within the timeframe required by the current life of mine schedule.

Property, Plants and Equipment

The table below details Ternium s mining segment property, plant and equipment value as of December 31, 2012.

In millions of U.S. dollars	Property, Plant and Equipment (PPE)
Las Encinas	134.8
Consorcio Peña Colorada (1)	163.2

(1)

Consorcio Peña Colorada s financial statements are not consolidated into Ternium s. We account for our interest in Consorcio Peña Colorada under the equity method.

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Production process

Ternium specializes in manufacturing and processing finished steel products. In addition, Ternium extracts and processes iron ore.

Ternium s facilities use different technologies and have different levels of integration. The basic inputs for steel production are iron ore and energy. Iron ore is used in three different formats: fines and lumps, which are purchased in the marketplace, and pellets, which are partly purchased in the marketplace and partly produced by Ternium. Ternium s steel production processes consume energy mainly in the form of natural gas, coal and electricity.

Iron ore extraction and processing. The iron ore pellet production process begins with the sourcing of iron ore from Ternium s own mines in Mexico. The ore is extracted from open pit mines. Extraction consists of removing waste and ore from the surface with explosives and loading and transporting it by truck to the crushing facilities where it is resized to a specified size.

After crushing, the ore goes through several grinding and concentration stages. Grinding reduces the size and changes the shape of the ore while concentration, through magnetic drums, separates the iron from the sterile material to obtain an iron ore concentrate with high iron content. This process is carried out using water as an auxiliary element. Excess water is afterwards eliminated through a filtering process, 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 and shipped to the steel producing facilities.

Steel production. Ternium produces semi-finished steel in the form of thin slabs, slabs, billets and round bars through the electric arc furnace and the blast furnace methods.

Under the electric arc furnace method, which is used in Mexico and Colombia, the iron metal charge is heated with other elements to obtain molten steel. The molten steel is then cast, using the continuous casting method, into billets and thin slabs. The iron metal charge in the Norte and Manizales plants is steel scrap, and the iron metal charge in the Monterrey and Puebla plants is a mix of DRI and steel scrap. The DRI results from the conversion of pellets in the DRI modules. One of Monterrey s DRI plants includes Hytemp® technology, which permits the hot discharge of the DRI to the electric arc furnace, generating significant energy savings and improving productivity.

Under the blast furnace method, which is used in Argentina, iron ore pellets, lumps, sinter (a mixture of iron ore fines and limestone produced in our sinter plant) and coke (a solid residue obtained from the distillation of coal produced in our coking batteries) are mixed in the blast furnaces in a process that melts and reduces the iron ore, obtaining pig iron. The molten pig iron is then mixed with steel scrap and other products 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.

Steel processing. Semi-finished steel is then processed into finished products using hot-rolling, cold-rolling, coating, tubing, paneling, slitting and cut-to-length facilities among other processes. Ternium purchases semi-finished steel in the marketplace in the form of slabs, as its steel processing capacity in Mexico is higher than its steel-making capacity in the country. It may purchase hot-rolled and cold-rolled coils as well for further processing in its lines.

Thin-slabs, slabs and billets are processed in the hot-rolling mills in Mexico, Argentina and Colombia to obtain hot-rolled products using different technologies. In the case of flat products, hot-rolled coils are obtained from thin or conventional slabs. Thin slab hot-rolling, a technology Ternium uses only in Mexico, requires less energy than conventional slab hot-rolling, as it does not require a roughing section at the mill and does not need to be reheated from room temperature to reach rolling temperature. In the production of long products, which is carried out in Mexico and Colombia, billets are reheated and taken to rolling temperature. The softened steel is processed in the rolling trains to obtain wire rods and rebars

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as finished long products and, depending on its final use, rebars can be further processed into stirrups and other customized shapes in our service centers in Colombia and Panama.

Depending on its final use, the hot-rolled coils are then tempered and/or pickled, both in Mexico and Argentina, before being sent for sale as coils or cut into steel sheets. Alternatively, the hot-rolled coils may be sent to a cold-rolling mill where they are put under a deformation process at room temperature to reduce their thickness and obtain cold-rolled coils. Cold-rolled coils 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 physical characteristics. The tempered products can be sold as coils or sheets or further processed by adding coatings.

Cold-rolled coils can be further processed into tin plate at Siderar s facility in Argentina (by adding a thin layer of tin), into galvanized or electrogalvanized sheets at several of Ternium s facilities in Mexico, the United States and Guatemala and at Siderar s facility in Argentina (by adding a thin layer of zinc to the products through different processes) or into pre-painted products. Some of these products can be further processed into slit, cut-to-length and tailor-made products according to customers needs at Ternium s service centers, which are located in several countries. In addition, coated, cold-rolled and hot-rolled coils can be further processed into tubular products, such as welded pipes, insulated panels and architectural panels, among other products.

Sales and Marketing

Net Sales

Ternium is organized into two reportable segments: Steel and Mining. The Steel segment includes the sales of steel products and the mining segment includes the sales of iron ore products, which are primarily inter-company. The Steel segment comprises three operating segments: Mexico, the Southern Region and Other Markets. For further information on our reportable operating segments, see note 5 to our audited consolidated financial statements included elsewhere in this annual report. Ternium primarily sells its steel products in Latin America and the United States, where it can leverage its strategically located manufacturing facilities to provide specialized products, delivery services to its customers and reduced freight costs. In addition, it sells small quantities of iron ore to third parties, as it consumes internally most of the iron ore it produces.

Our total consolidated net sales of steel and mining products amounted to USD8.6 billion in 2012, USD9.1 billion in 2011 and USD7.3 billion in 2010. For further information on our net sales of steel and mining products, see Item 5. Operating and Financial Review and Prospects A. Results of Operations.

The prices of our products generally reflect international market prices for similar products. We adjust prices for our products periodically in response to changes in the import prices of foreign steel, export prices, and supply and demand. See Item 5. Operating and Financial Review and Prospects Overview. The actual sales prices that we obtain for our products are also subject to the specifications, sizes and quantity of the products ordered.

The following table shows Ternium s net sales by reportable operating segment, Steel and Mining, for the years indicated:

	For the year ended December 31,		
In millions of U.S. dollars	**2012**	**2011**	**2010**
Mexico	4,457.3	4,501.8	3,779.2
Southern Region	2,737.4	2,962.3	2,417.9
Other Markets	1,377.2	1,545.8	1,012.5
Total steel products net sales	8,572.0	9,009.9	7,209.5
Other products (1)	29.1	49.0	56.2
Total steel segment net sales	8,601.1	9,058.9	7,265.7
Total mining segment net sales(2)	190.7	213.2	201.9
Intersegment eliminations	(183.8)	(149.3)	(127.7)

Total Net Sales	8,608.1	9,122.8	7,339.9

(1) The item Other products primarily includes pig iron and pre-engineered metal buildings.
(2) Does not include sales from Consorcio Peña Colorada.

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The following table shows, where applicable, Ternium s shipment volumes by reportable operating segment, Steel and Mining, for the years indicated:

	For the year ended December 31,		
In thousands of tons	**2012**	**2011**	**2010**
Mexico	4,952.4	4,683.2	4,466.9
Southern Region	2,444.5	2,635.3	2,396.4
Other Markets	1,371.2	1,505.0	1,191.3
Total steel products sales volumes	8,768.2	8,823.6	8,054.6
Total mining segment sales volumes(1)	1,862.6	2,050.5	2,250.4

(1) Does not include sales from Consorcio Peña Colorada.

Steel

Mexico.

Sales to customers in Mexico accounted for 52.0% of Ternium s net sales of steel products during 2012, 50.0% during 2011 and 52.4% during 2010. See Item 5. Operating and Financial Review and Prospects A. Results of Operations Fiscal Year Ended December 31, 2012 compared to Fiscal Year Ended December 31, 2011 Net Sales and Fiscal Year Ended December 31, 2011 compared to Fiscal Year Ended December 31, 2010 Net Sales.

Most of Ternium s Mexican customers are located near its plants. Flat steel non-coated products are mainly sold in Mexico to construction companies, industrial customers in the packaging, electric motors and service center industries, and distributors and auto parts manufacturers. The principal segments in the Mexican coated steel market are construction, manufacturing (air conditioning, lamps and furniture), appliances and auto parts. Ternium serves industrial customers, who require high-quality specifications, as well as commercial customers through service centers and warehouses. Rebar and wire rod markets in Mexico are characterized by a large number of orders of small volume, and competition is largely based on price. The customer base for bar and rod products in Mexico consists primarily of independent dealers and distributors, who in turn retail the products to their customers in the construction industry. Ternium markets its tubular products mainly through Mexican independent distributors, and the balance is sold directly to industrial customers.

Southern Region.

Sales to customers in the Southern Region, which encompasses sales in Argentina, Bolivia, Chile, Paraguay and Uruguay, accounted for 31.9% of Ternium s net sales of steel products during 2012, 32.7% during 2011 and 33.5% during 2010. See Item 5. Operating and Financial Review and Prospects A. Results of Operations Fiscal Year Ended December 31, 2012 compared to Fiscal Year Ended December 31, 2011 Net Sales and Fiscal Year Ended December 31, 2011 compared to Fiscal Year Ended December 31, 2010 Net Sales.

Ternium s sales are oriented toward the construction and agriculture sectors, the automotive industry, the packaging sector (for food, paints, sprays and petrochemicals), the tube and pipe sector (related to liquids and gas transportation and distribution networks), the capital goods sector and the home appliances sector.

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The customer base in the Southern Region consists primarily of independent small- and medium-sized companies and distributors, which in turn process or retail products to their customers in different market sectors. In addition, Ternium serves large industrial customers, such as the automotive industry, that require customized products that Ternium can produce through its service centers and finishing facilities.

Ternium s principal customers in the region are located near Siderar s production facilities in Argentina. We also sell a small portion of our production to customers in Bolivia, Chile, Paraguay and Uruguay.

Other Markets.

Sales to customers in other markets, including major shipment destinations such as Colombia, the United States and Central America, accounted for 16.1% of Ternium s consolidated net sales of steel products during 2012, 17.2% during 2011 and 14.0% during 2010. See Item 5. Operating and Financial Review and Prospects A. Results of Operations-Fiscal Year Ended December 31, 2012 compared to Fiscal Year Ended December 31, 2011 Net Sales and Fiscal Year Ended December 31, 2011 compared to Fiscal Year Ended December 31, 2010 Net Sales.

Customers in Colombia are served directly through Ferrasa s facilities and through Ternium Internacional s Bogota commercial office. Our main markets in Colombia are the construction industry and the energy related sectors. Ternium offers a variety of customized products through its various service centers in the country.

Customers in the United States are served directly through the Shreveport plant and through Ternium Internacional s Houston commercial office. The Gulf Coast and a large portion of the West Coast, in particular, are regions for which our Mexican facilities have distribution advantages. Our main markets in the United States are the construction industry and the energy related sectors.

Customers in Central America are served directly through Ternium Internacional Guatemala s facilities in Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica, and through Ferrasa s facilities in Panama. Our main market in Central America is the construction industry. Ternium offers a variety of customized products through its various service and distribution centers in the region.

Sales to customers in Other Markets in 2012 also include sales through the Ternium commercial network to Canada, Ecuador, China, the European Union, India and Pakistan.

Mining

Ternium s reported shipments of iron ore encompass shipments made by our Mexican subsidiary Las Encinas and by other Ternium consolidated subsidiaries. Shipments made by Las Encinas, representing a majority of our sales in the mining segment, are destined mainly for internal consumption within Ternium s steel segment, while shipments made by other consolidated subsidiaries are mainly destined for the export market. Consorcio Peña Colorada s financial statements are not consolidated into Ternium s audited consolidated financial statements included in this report. For the year ended December 31, 2012, we accounted for our interest in Consorcio Peña Colorada under the equity method. However, effective as of January 2013, Ternium will begin consolidating its 50% share in Consorcio Peña Colorada s assets and results of operation due to a new agreement between Ternium and Consorcio Peña Colorada under which Consorcio Peña Colorada is required to sell half of the mine s production to Ternium. See Item 5. Operating and Financial Review and Prospects A. Results of Operations Fiscal Year Ended December 31, 2012 compared to Fiscal Year Ended December 31, 2011 Net Sales and Fiscal Year Ended December 31, 2011 compared to Fiscal Year Ended December 31, 2010 Net Sales.

Marketing

Steel

Our marketing strategy in our steel segment is to continue increasing higher margin value-added products and services in Ternium s sales mix. We expect to increase Ternium s offerings of value-added products, such as cold-rolled sheets and

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coated and tailor-made products, and services, such as just-in-time deliveries and inventory management. In order to do so, Ternium will increase processing capacity, will continue to work with its customers to anticipate their needs and develop customized products for particular applications, and will maintain a strategic presence in several steel markets through its network of commercial offices. A principal component of Ternium s marketing strategy is establishing lasting and close relationships with customers. This allows Ternium to provide assistance to its customers in their use of steel products and to obtain downstream information that can be applied to future product development.

Ternium adapts its marketing strategy according to the different regions it serves. Its sales force specializes in different regional requirements, ranging from product specifications to transport logistics.

In order to increase Ternium s participation in regional markets and improve services provided to customers, Ternium manages its exports from countries where it has manufacturing facilities through Ternium Internacional s network of commercial offices. Ternium Internacional operates through strategically located subsidiaries, providing customers with support and services. Ternium Internacional has extensive experience promoting steel products. Its marketing expertise helps Ternium to expand its position in current markets and to develop new ones.

Mexico.

Several local and foreign steel producers direct part of their sales efforts to the Mexican market. Ternium s steel customers in Mexico are in the construction industry, the automotive industry, the energy sector and the home appliances sector, among other industries. In Mexico, we offer customized services through our network of service and distribution centers.

Through our service centers, located in northern and central Mexico, Ternium can cut, paint or roll-form its products to specific client requirements. Customized products include metallic roofing, auto parts and cut-to-length products used in the home appliance and construction industries. Ternium has several commercial offices in the country, which provide services such as logistics, stock management and customer assistance, as well as analysis of businesses opportunities in their respective markets.

Ternium Mexico has a department focused on the development of small- and medium-sized companies in Mexico under a program created by the Techint group for the development of its local customers and suppliers (Propymes). The objective of the program is to improve their competitiveness, to increase their exports and to allow them to substitute imports with local products. Approximately 190 companies are part of this program in Mexico, which provides support for industrial, training, and institutional requirements of the participating companies.

Ternium s experienced sales force specializes in the needs of each market sector and focuses on value-added products and services. In this competitive and end-user oriented market, the extensive use of well-known commercial brands allows customers to clearly recognize Ternium s products. Ternium seeks to increase its competitive advantage by providing value-added services, including the technical assistance related to steel use and production, and developing new steel products.

Southern Region.

Ternium s sales force in this region is oriented toward serving the specific needs of different market sectors, such as the construction industry, the automotive industry, the home appliances sector, the packaging sector (for food, paints, sprays and petrochemicals), the agricultural equipment and capital goods sector, the tube and pipe sector (related to liquids and gas transportation and distribution), and steel processors.

Through Siderar s service centers in Argentina, Ternium can cut, paint or roll-form its products to specific client requirements. Customized products include metallic roofing, auto parts, steel for agricultural machinery, different types of tin used to produce sprays and food containers and cut-to-length products used in the home appliance and construction industries.

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Ternium has commercial offices in Argentina and Uruguay. These offices provide services such as market development, analysis of businesses opportunities, and customer support in their respective countries. Propymes was implemented in Argentina in 2002, with the objective of promoting the local industry. Approximately 660 companies are part of this program, which provides support for industrial, training, commercial, financial and institutional requirements of the participating companies.

Other Markets.

Ternium s steel customers in Other Markets are mainly in the construction and energy-related industries in Colombia, the United States and Central America. Several steel producers participate in these markets. In Colombia and Central America, we offer customized services through our network of service and distribution centers.

Through Ternium s facilities and service centers located in Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama and southern United States, Ternium can cut, paint or roll-form its products to specific client requirements mainly in the construction industry.

Ternium has commercial offices in Colombia, Houston, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua and Panama. These offices provide services that enable Ternium to offer differentiated services in their respective countries.

A small share of Ternium s shipments is destined for steel markets outside the Americas. Sales to Europe, Asia and Africa are carried out mainly through Ternium Internacional s office in Spain. Ternium Internacional is focused on trading activities, including the development of commercial and marketing activities.

Mining

Ternium s mining activities are mainly aimed at securing the supply of iron ore for our steel-making facilities in Mexico. Surplus production of iron ore is commercialized to partially hedge the iron ore procurement requirements of Ternium s facilities in Argentina. We export iron ore through the Manzanillo port that is located on Mexico s Pacific coast, mainly to customers in the Chinese iron ore market.

Competition

Steel

The steel industry operates predominantly on a regional basis, with large industry participants selling the bulk of their steel production in their home countries or regions, where they have natural advantages and are able to more effectively market value-added products and provide additional customized services. Despite the limitations associated with transportation costs, as well as the restrictive effects of protective tariffs and other trade restrictions, international trade of steel has increased in the last decade with production shifting towards low-cost production regions. In addition, since 2002, several large steel manufacturers have merged with each other or acquired steel companies in other parts of the world. This wave of consolidation has resulted in a number of large, global producers with significant operations in several regions and/or continents, contributing to the increasing globalization of the steel industry. Considered as a whole, however, the steel industry still remains considerably fragmented, compared with market conditions characterizing certain of our suppliers and customers, *e.g.* iron ore suppliers and the automotive industry.

Steel consumption has historically been centered in developed economies, such as the United States, Western Europe and Japan. However, in recent years steel consumption in Asia, and in particular China, has increased significantly.

There has been a trend in recent years toward steel industry consolidation among Ternium s competitors. In addition, the Venezuelan government has reestablished itself as a steel producer with the nationalization of Sidor. Below is a summary of the most significant transactions:

June 2006: Mittal Steel and Arcelor merge to create ArcelorMittal, the world s largest steel company.

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March 2007: Votorantim acquires Colombia s Aceria Paz del Rio.

April 2007: Tata Steel completes the acquisition of Corus.

July 2007: Gerdau acquires Chaparral Steel.

August 2007: US Steel acquires Stelco.

March 2008 to May 2008: Severstal acquires Sparrows Point, WCI Steel and Esmark (subsequently, during 2011, it divests Sparrows Point, Warren and Wheeling).

October 2012: Nippon Steel and Sumitomo merge to form Nippon Steel & Sumitomo, the world s second largest steel company.

Despite this trend, the global steel market remains highly fragmented. In 2011, the five largest steel producers, ArcelorMittal, Hebei Group, Baosteel Group, POSCO and Wuhan Group, accounted for 18% of total worldwide steel production, compared to 15% for the five largest steel producers in 2000.

Steel prices in general have exhibited significant volatility in recent years. From 2000 to 2002, the industry, especially in North America, experienced fluctuating capacity utilization, low demand growth levels and other adverse conditions, which led to depressed steel prices, adversely impacting many steel producers profitability. Since 2003 steel prices strengthened worldwide, due to higher economic growth in most regions, particularly China and other developing countries, as well as higher raw material prices (for iron ore, ferroalloys and energy). During the first quarter of 2008, steel prices went up significantly due to higher demand for steel products and higher input costs resulting from constraints in the availability of raw materials. However, this trend reversed beginning in the second half of 2008 due to a global economic downturn, with prices and costs declining steeply. Since 2009, a number of events have contributed to continuously volatile steel price cycles, such as spikes and depressions in raw material prices, new steelmaking capacity additions (at a pace higher than steel demand growth), the idling and restart of steelmaking capacity, adverse economic conditions in Europe and a slowdown in China s economic growth.

Mexico.

Ternium has domestic competitors in the Mexican steel market and also faces competition from imports. According to Canacero, the Mexican chamber of the iron and steel industry, imports of hot-rolled, cold-rolled and galvanized steel products into Mexico accounted for approximately 35%, 30% and 31% of the Mexican market in 2012, 2011 and 2010, respectively, as steel consumption in Mexico is higher than the installed steel capacity in the country.

Our largest Mexican competitor in the flat products market is AHMSA, an integrated steel producer located in Monclova, Coahuila, which produces a wide variety of steel products. AHMSA focuses on low value added products such as plate and commercial quality hot-rolled and cold-rolled coils. Other significant domestic competitors are Lámina y Placa Comercial S.A. de C.V. (Grupo Villacero), a producer of galvanized coils and a distributor of steel products with operations throughout Mexico, and POSCO, a Korean steel company that produces galvanized coils in Mexico.

In the rebar market, Ternium s largest competitor is ArcelorMittal. To a lesser extent, Ternium also faces competition from Aceros San Luis and Deacero. In the low-carbon wire rod market, Ternium s main competitors are Deacero, ArcelorMittal and, to a lesser extent, Talleres y Aceros and Aceros San Luis.

In the small diameter welded pipe market, Ternium s main competitors are Tubería Laguna, Maquilacero and imports. Orders in this market are usually small and cover a wide range of product specifications.

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Southern Region.

Ternium s most significant market in the Southern Region is Argentina. Siderar is the main producer of flat rolled steel products in Argentina. Its main competition in the Argentine flat steel market are imports, mainly from Brazil. The main Brazilian producers of flat steel value-added products are Usiminas, Companhia Siderúrgica Nacional and ArcelorMittal. Ternium maintains a leading position in the flat steel markets of Paraguay and Uruguay and is present in the flat steel markets of Chile and Bolivia, where the location of Ternium s facilities in neighboring Argentina provides a logistical advantage to supply these markets *vis a vis* its foreign competitors.

Other Markets.

In addition to its sales in Mexico and the Southern Region, Ternium sells its products in other markets, of which the most significant are Colombia, the southern United States and Central America.

Our subsidiary Ferrasa is the main flat steel processor in Colombia and is also a long steel producer. Its main competitors in the Colombian steel market are Acerías de Colombia, Acerías Paz del Río and Diaco, and it also faces competition from imports.

Ternium has a very small participation in the U.S. steel market in comparison with U.S. domestic steel manufacturers and importers. It successfully competes in the Gulf Coast and a large portion of the West Coast where its facilities have logistical advantages.

Ternium maintains a leading position in the coated flat steel market of Central America, benefiting from the logistical advantages of its facilities located in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Mexico and Panama.

In addition, Ternium keeps an active presence in other regions in the Americas, including Ecuador and Peru, although it usually faces strong competition in these markets from steel producers located in Brazil.

Mining

The majority of iron ore supplies to the international seaborne market come from Australia and Brazil, from the major global miners Vale, Rio Tinto and BHP Billiton, as well as from iron ore junior companies in these countries. In Mexico, the main iron ore producers are AHMSA, ArcelorMittal and Ternium, which are, at the same time, major steel-making companies and iron ore consumers. There are also other small iron ore miners. Most of the iron ore produced in Mexico is consumed in local steel-making operations; only a small portion of iron ore is made available for sale in the Mexican or export market.

Capital Expenditure Program

The main objectives of Ternium s current capital expenditure program are to:

- increase steel production and processing capacity;
- increase product range;
- reduce production costs;
- replace equipment;
- improve product quality, equipment reliability and productivity;

comply with applicable environmental standards; and

provide enhanced customer services.

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Ternium s capital expenditures during 2012 amounted to USD1.0 billion. The current status of the most significant capital expenditure projects is described below.

Steel

Mexico. During 2012, Ternium s capital expenditures in the steel segment in the country amounted to USD645 million and were mostly related to the following projects:

Pesquería project: c*onstruction of new cold-rolling and galvanizing facilities in the vicinity of Monterrey City, Mexico*. The cold-rolling facilities include new pickling, cold-rolling, annealing and tempering lines. The required investment will be approximately USD700 million. The expected production capacity of the new cold-rolling facility is 1.5 million tons per year and production is expected to commence in 2013. In addition, Tenigal, a Mexican company established in November 2010 with Ternium and Nippon Steel holding 51% and 49% participations, respectively, is building a hot-dip galvanizing plant at the same site, which will manufacture high-grade and high-quality galvanized and galvannealed automotive steel sheets, including outer-panel and high-strength qualities. The required total investment will be approximately USD350 million and the expected production capacity of the new galvanizing facility is 400 thousand tons per year. Ternium expects to commence production in the third quarter of 2013. For more information on the Tenigal project, see note 29 to our audited consolidated financial statements included elsewhere in this annual report.

Expansion of service center capacity. This project involves the installation of 6 slitting lines and 2 cut-to-lengh lines, and is expected to be completed in 2016 in three stages. The first stage, expected to be completed during 2013, involves the installation of a new slitting line in the Churubusco unit.

Expansion of pickling processing capacity. This project, completed during 2012, included the revamping of two pickling lines in the Churubusco unit. Annual processing capacity was expanded by approximately 300,000 tons to reach a total of 1.2 million tons.

Southern Region. During 2012, Ternium s capital expenditures in Argentina amounted to USD286 million. We carried out a basic capital expenditure plan to maintain our equipment s operating performance, continued with some projects and started new ones, of which the most significant were:

Repairs at Siderar s blast furnace #2. The facility is part of the San Nicolás unit of Siderar s operations. Siderar s blast furnace #2 was stopped for maintenance and repairs during most of the second half of 2012, January 2013 and February 2013, including an unplanned stoppage.

Progress in the construction of a new continuous caster in the steel shop. These facilities are part of the San Nicolás unit of Siderar s operations. The project, expected to be completed during the first quarter of 2014, is expected to increase slab annual production capacity by approximately half a million tons.

Progress in the construction of a vacuum degassing station in the steel shop. These facilities are part of the San Nicolás unit of Siderar s operations. This equipment will enable the production of interstitial-free steel for certain applications in the automotive industry. The project is expected to be completed during the second half of 2013.

Expansion of coke production capacity. These facilities are part of the San Nicolás unit of Siderar s operations. Works included repairs in one chimney, completed during 2011, repairs to coke oven batteries #3 and #4 to be completed during the first half of 2013, and to coke oven battery #2, to be completed in 2015. In addition, during 2012 we continued with the revamping and

expansion of the coke by-products processing plant, which is expected to be completed during the first half of 2014. Once these investments are completed, coke annual production capacity will increase by approximately 250,000 tons to 1.3 million tons.

Progress in the expansion of hot rolling mill capacity. This mill is part of the San Nicolás unit of Siderar s operations. During the first quarter 2012, we completed the installation of an additional coiler and made progress in the installation of a new exit. The new exit is expected to be completed during the second half of 2015 and to enable an increase in the mill s annual processing capacity of approximately 50,000 tons of slabs.

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Expansion of galvanizing capacity. These facilities are part of the Haedo unit of Siderar s operations. Works included the revamping and expansion of a hot-dip galvanizing mill, which was completed during 2012, resulting in an annual production capacity increase of approximately 40,000 tons, to 260,000 tons.

Other Markets. During 2012, Ternium s capital expenditures in facilities located in countries other than Mexico or Argentina amounted to USD39 million, and were mostly related to the following projects:

Expansion of galvanizing capacity. This facility is part of the Villa Nueva unit in Guatemala. The revamping of the line, completed during 2012, resulted in qualitative improvements in the products and an annual production capacity increase of approximately 20,000 tons, to 100,000 tons.

Installation of a new de-dusting system. The facility is part of the Manizales Acasa unit in Colombia. This de-bottlenecking investment is expected to enable higher production rates at the steel shop while ensuring that its emission levels comply with Colombia s environmental regulations when production is increased. The investment is expected to be completed during the first half 2013, enabling an annual steelmaking capacity increase of 40,000 tons to reach 200,000 tons.

Mining

During 2012, Ternium s capital expenditures in its mining segment were USD52 million.

Las Encinas completed works for the revamping of its grinding and concentration facilities in Alzada, a project that enables 5% higher processing capacity and the production of higher quality pellets, thereby reducing steelmaking costs.

In addition, Ternium completed its exploration activities in its concessions in Jalisco, in an area close to Las Encinas current processing facilities, and identified sufficient iron ore resources to enable the potential development of a new mining operation on those concessions. Ternium, however, has not made any decision in that respect. Any such decision will be subject, among other considerations, to Ternium s decision to expand its steel production capacity in Mexico and consequently its iron ore requirements.

Information Technology Investments

We spent USD36 million in information technology projects in 2012, mainly for the integration of our Mexican facilities into Ternium s core business administration system. A new IT system was implemented at two of our main facilities in Mexico that fully integrates product and processing route specifications among its plants. This effort will enable significant optimization in our processes and products, including increased opportunities for enhancing productivity, reducing cost and optimizing inventory volumes.

2013 Capital Expenditures

In 2013, Ternium intends to further develop its ongoing projects as described above. Our main ongoing projects consist of the new cold-rolling and galvanizing facilities under construction in the vicinity of Monterrey City, Mexico, and a new continuous caster and vacuum degassing station being constructed at our San Nicolás unit in the vicinity of Ramallo City, Argentina. We currently expect that our capital expenditures for 2013 for future and ongoing capital expenditure projects will amount to approximately USD800 million and that such amount will be financed with cash from operations and debt. Consistent with the objectives of our capital expenditure program, we also plan to conduct feasibility studies on, and eventually implement other projects.

Raw Materials, Energy and Other Inputs

The main inputs for Ternium s steelmaking facilities in Mexico are slabs, iron ore, steel scrap, electricity and natural gas; the main inputs for Siderar s integrated steel facilities in Argentina are iron ore and coal; and the main inputs for Ternium s facilities in Colombia are steel products, steel scrap and electricity. Below is a more complete description of the supply conditions for raw materials, energy and other inputs at Ternium s facilities in these countries. For a description of some of the risks associated with Ternium s access to raw materials, energy and other inputs, see Item 3. Key Information D.

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Risk Factors Risks Relating to the Steel Industry Price fluctuations or shortages in the supply of raw materials, slabs and energy could adversely affect Ternium s profitability.

Mexico

In Mexico, Ternium s manufacturing of finished steel products relies on the supply of crude steel from its steelmaking facilities, which are based on the mini-mill technology, and on the purchase of crude steel slabs from third parties. The mini-mill technology melts a variable combination of DRI and steel scrap to produce thin slabs, billets and round bars. Ternium s production process in Mexico requires extensive use of natural gas and electricity. Third-party slabs are the largest component of production costs; iron ore, scrap, electricity and natural gas costs are also significant.

Slabs. Ternium s Mexican subsidiaries have some non-integrated facilities that consume large quantities of slabs purchased from third-party steel suppliers. Currently, slabs are purchased both in Mexico (primarily from ArcelorMittal) and in the international markets. In addition, in the past Siderar supplied slabs from time to time to our Mexican operations, and upon completion of the new continuous caster in Siderar s San Nicolás unit, it will be able to supply slabs to our Mexican facilities. Slab consumption varies significantly from year to year in accordance with market conditions. Our Mexican subsidiaries purchased 2.8 million, 2.5 million and 2.6 million tons of slabs in 2012, 2011 and 2010, respectively. Slab purchase prices are market-based.

Iron ore. As described under Production Facilities and Processes Iron ore mining facilities above, Ternium s subsidiaries own interests in two mining companies in Mexico: 100% of the equity of Las Encinas and a 50% equity stake in Consorcio Peña Colorada. In 2012, Ternium s Mexican facilities sourced 100% of their iron ore requirements from these two companies. Under our new arrangement with Consorcio Peña Colorada, effective January 1, 2013, we are committed to off-take 50% of the annual production of the Peña Colorada mine. In 2012, approximately 99% of the iron ore production available to Ternium went to our own direct reduction plants and the remaining 1% was sold in the international markets. All of our iron ore exports during 2012 were made on a spot price basis. On average, we consume approximately 1.17 tons of iron ore to produce one ton of crude steel at our mini-mill facilities in Mexico.

Steel scrap. In 2012, approximately 76% of Ternium s scrap requirements were obtained in the Mexican market through its own steel scrap collecting and processing operations and approximately 24% was purchased in the United States. Scrap is purchased at market prices. On average, we consume approximately 0.33 tons of scrap to produce one ton of crude steel at our mini-mill facilities in Mexico.

Electricity. Electric arc furnaces consume large quantities of electricity. During 2012, 64% of Ternium Mexico s total consumption was supplied by the CFE, Mexico s state-owned electricity company. The remainder was mostly purchased under long-term contracts from two other suppliers with power plants in the Monterrey area, Iberdrola Energía Monterrey, S.A. de C.V., or Iberdrola, a subsidiary of a Spanish utility company, and Tractebel Energía de Monterrey, S. de R.L. de C.V., or Tractebel, a subsidiary of a U.S. utility company. We have a long-term contract with Iberdrola for approximately 111 MW power capacity and a long-term contract with Tractebel for approximately 65 MW power capacity. Electricity purchases under these contracts are made at prices linked to prevailing market conditions. On average, we consume approximately 0.67 MWH of electricity to produce one ton of crude steel at our mini-mill facilities in Mexico.

Natural gas. Natural gas is mainly used as a reducing agent for the production of DRI and for the reheating of slabs and billets before the hot-rolling process. In Mexico, Ternium purchases natural gas from Pemex, the Mexican state-owned oil and gas company that is Mexico s sole producer of natural gas, and from three distributors: Gas Industrial de Monterrey S.A. de C.V., or GIMSA, Compañía Mexicana de Gas S.A. de C.V., or CMG and Gas Natural Mexico S.A. de C.V., or GNM. Natural gas prices for Ternium Mexico are determined pursuant to the methodology approved by the *Comisión Reguladora de Energía* or Energy Regulatory Commission, or CRE. Those prices are related to the market prices of natural gas in south Texas, plus transportation and service costs depending on the location of the delivery points in Mexico. In addition, effective April 1, 2013, an extraordinary transportation cost of approximately USD0.68 per million btu has been

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authorized by CRE to account for the incremental transportation cost derived from higher liquefied natural gas imports into Mexico. Such extraordinary transportation cost will be in place for a maximum period of three years, unless CRE resolves in the meantime that current bottlenecks in Mexican s natural gas grid transportation capacity are resolved. On average, we consume approximately 9.4 million btu of natural gas to produce one ton of crude steel at our mini-mill facilities in Mexico.

For additional information regarding inputs affecting our operations in Mexico, see Item 3. Key Information D. Risk Factors Risks Relating to the Countries in Which We Operate Mexico.

Argentina

In Argentina, Siderar produces crude steel through the use of blast furnace technology. The principal raw materials used to produce steel are iron ore and coal. The manufacturing process also requires significant quantities of electricity and natural gas.

Iron ore. Iron ore is purchased under long-term agreements from suppliers in neighboring Brazil. Prices under these contracts are determined in accordance with market conditions. Our main suppliers of iron ore, in the form of lumps, pellets and sinter feed fines, are Vale and MMX. Our geographic location provides favorable access to high quality iron ore lump and fines produced in Brazil s iron ore mines in the Pantanal Region (Mato Grosso do Sul state) resulting in a cost advantage for Siderar. In addition, Siderar s steelmaking facility in Argentina receives iron ore pellets and fines from ports located on Brazil s ocean coast. We consume approximately 1.34 tons of iron ore to produce one ton of crude steel in Argentina.

Coking coal and related materials. Siderar obtains its coke through the distillation of coking coal and petroleum coke in its coke ovens. Siderar requires different types of coal to produce coke. Coking coal is purchased under short-term contracts and on the spot market from several major international suppliers based mainly in Australia and the United States. Prices under contracts are determined in accordance with market conditions. Petroleum coke is sourced domestically from oil companies such as Exxon Mobil and YPF. The volume purchased from each supplier mainly depends on the technical quality requirements of the blast furnace operations. We consume 0.47 tons of a mixture of coking coal and petroleum coke to produce one ton of crude steel in Argentina.

Electricity. Siderar consumes large quantities of electricity for its manufacturing activities, particularly in its San Nicolás and Ensenada facilities. Most of the electricity required by our San Nicolás facility is self-generated on site by a wholly-owned thermoelectric plant with an installed power capacity of 110 MW. This thermoelectric plant uses steam primarily generated from by-product gases obtained in the steelmaking process (blast furnace and coke oven gases) and also steam purchased under a long-term steam sales agreement, from a power plant located within the San Nicolás facility owned by Siderca S.A.I.C., a subsidiary of Tenaris. Additional fuel requirements for steam production are covered with natural gas purchased from different market vendors, and/or fuel oil bought at market prices. Siderar covers electricity shortfalls or sells excesses, as the case may be, at spot prices in the wholesale market. In order to cover its electricity requirements Siderar entered into electricity supply contracts with the Central Puerto and Genelba, utilities controlled by SADESA Group and Petrobras, respectively. Over the course of the last several years, demand for electricity in Argentina has increased substantially, resulting in shortages of electricity to residential and industrial users during periods of high demand. Accordingly, in 2008 certain Siderar facilities suffered interruptions in their electricity supply at peak hours. In recent years, however, overall power supply has increased, primarily through the construction of new thermal power plants, and consequently shortages of electricity are now mainly related to constraints in transport and distribution capacity rather than in power capacity. We consume approximately 0.10 MWH of electricity to produce one ton of crude steel in Argentina.

Natural gas. Siderar also consumes substantial volumes of natural gas, particularly to operate its blast furnace and power generation facilities in San Nicolás. Siderar purchases natural gas at market prices mainly from Pan American Energy, Total Austral, Pluspetrol, Tecpetrol S.A., a company controlled by San Faustin, and natural gas traders, including MetroEnergía, Albanesi, Energy Traders, Gas Patagonia, Alternativas Energéticas and Energy Consulting Services S.A., a company in which San Faustin holds significant but non-controlling interest. As is the case with electricity, natural gas

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demand has increased significantly in Argentina, and supply to industrial users (including Siderar) has often been restricted during the meridional winter due to supply shortages.

For its San Nicolás facility, Siderar has separate transportation and distribution agreements with Transportadora de Gas del Norte S.A., or TGN, and Litoral Gas, companies in which San Faustin holds significant but non-controlling interests. Siderar s firm transportation contracts with TGN expire in April 2028, whereas its distribution agreement with Litoral Gas expires in December 2013. For its other facilities Siderar s transport and distribution needs are covered by the corresponding regional distributors Camuzzi Gas Pampeana S.A., Gas Natural Ban S.A. and Metrogas S.A. We consume approximately 4.9 million btu of natural gas to produce one ton of crude steel in Argentina.

Other inputs. Siderar has on-site oxygen, nitrogen and argon separation plants in order to extract these gases for use in the steelmaking process. Siderar s separation plants are being managed by Air Liquide Argentina S.A., or Air Liquide. Siderar is a party to a long-term contract with Air Liquide for the supply of oxygen, nitrogen and argon. For further information on the contract with Air Liquide, see note 25 to our audited consolidated financial statements included elsewhere in this annual report.

Colombia

In Colombia, Ternium s manufacturing of finished steel products relies on two sources: (a) the production of steel in its steelmaking facilities, which are based on the Electric Arc Furnace (EAF) technology; and (b) on the purchase of steel products, both from our overseas subsidiaries and from third parties. The EAF technology melts steel scrap to produce steel billets, which are then rolled into various long products. Ternium s production process requires extensive use of electricity. Steel products are the largest component of production costs; scrap and electricity costs are also significant.

Steel products. Ternium s operations in Colombia include non-integrated facilities that process steel supplied by Ternium s overseas subsidiaries and steel purchased from third-party suppliers procured in the domestic and international markets. Our subsidiary purchased from third parties approximately 345,000 tons of steel products in 2012, 235,000 tons of steel products in 2011 and 64,000 tons of steel products from August 2010, the month in which we acquired Ferrasa, until year-end 2010.

Steel scrap. Scrap is the main raw material for producing steel in our steelmaking facilities in Colombia. Ternium sources 100% of its steel scrap needs from the local scrap market. We consume approximately 1.1 tons of scrap to produce one ton of crude steel in Colombia.

Electricity. Manizales is our main electricity consuming unit in Colombia, mainly due to its electric arc furnace-based steel production operations. Manizales purchases electricity from ISAGEN S.A. E.S.P., a Colombian power company, under a three-year supply contract expiring in April 2016. 70% of the electricity price is based on a fixed rate adjusted with the wholesale price index and 30% is based on prevailing prices. We consume approximately 0.56 MWH of electricity to produce one ton of crude steel in Colombia.

Product Quality Standards

Ternium develops its products and services with a philosophy of continuous improvement and seeks to excel in its internal quality control of its products and processes. Ternium s products are manufactured in accordance with proprietary standards and the requirements of customers, and within the specifications of recognized international standardization entities including the International Organization for Standardization, or ISO, the American Society for Testing and Materials, or ASTM, the European Standards, or EN, the Japanese Industrial Standards, or JIS, the Society of Automotive Engineers, or SAE, and the standards of the American Petroleum Institute, or API. Ternium also has product certifications based on international or local standards depending the markets attended.

Ternium established and implemented a Quality Management System, or QMS, and continuously improves its effectiveness in compliance with the requirements of the applicable ISO 9001:2008 and ISO / TS 16949:2009, intended for production of automotive supplies, and other specific requirements. Ternium s QMS operates with aligned strategies, objectives and criteria throughout Ternium s subsidiaries. To keep its ISO multisite certification, the QMS is audited annually by Lloyd s Register Quality Assurance.

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Ternium Mexico s and Siderar s metallurgical testing laboratories are accredited for the performance of various technical tests in accordance with ISO/IEC 17025:2005 General Requirements for the Competence of Testing and Calibration Laboratories or equivalent standards.

Research and Development; Product Development

Product research and development activities at Ternium are conducted through a central Product Development Department in coordination with local teams that operate in several of our facilities. Applied research efforts are carried out in-house and in conjunction with universities and research centers, as well as through the participation in international consortia. Ternium also develops new products and processes in cooperation with its industrial customers, prioritizing an early involvement scheme. Research expenditures are recognized as expenses, and development costs are recorded as cost of sales. For more information on our accounting policy, see note 4 (e) (5) to our audited consolidated financial statements included elsewhere in this annual report.

In 2012, Ternium s product research and development activities focused on initiatives aimed at increasing market share, adding value to our products and reducing costs. During the year, Ternium completed the implementation of an IT system at two of its main facilities in Mexico that fully integrates product and processing route specifications among its plants. This effort will enable significant optimization in our processes and products, including increased opportunities for enhancing productivity, reducing cost and optimizing inventory volumes.

During 2012, Ternium s metal building systems division developed and introduced, among other products, a new steel floor deck in compliance with international standards and specifications for composite steel deck-slabs, aimed at increasing its market share in Mexico.

For the automotive industry, Ternium continued certifying products in Mexico and Argentina during 2012, related to newly-defined standards for recently launched car platforms. Ternium certified hot rolled, cold rolled and coated products for different applications, supporting an increase in its share in that market segment in Mexico and facilitating the certification process with prospective customers to be carried out during 2013. In addition, in 2012 Ternium initiated the certification process of its new Pesquería project, which is expected to start operations in the third quarter of 2013. For more information on the Pesquería project see Item 4. Information on the Company B. Business Overview Capital Expenditure Program Steel.

During 2012, Ternium successfully promoted new truck bodywork manufacturing technologies among its customers in Argentina, which resulted in an increased competitiveness of their products following the utilization of high-resistance steel grades for the manufacturing of truck bodies, entailing lighter structures with higher payload and lower incidence of fuel consumption.

For the U.S. and Mexican home appliances markets, Ternium continued developing new processes to manufacture coated steel products with improved and sophisticated aesthetics, aimed at increasing the attractiveness of its products and gaining share in the high-end market segment. Following the development of a new process to manufacture products with textured surfaces in 2011, during 2012 Ternium developed a new process to manufacture products with super high gloss and metallic colors. Similarly, Siderar launched several projects aimed at the development of innovative and exclusive products with improved characteristics for Southern Region customers seeking differentiation.

For tube and pipe manufacturers, Ternium developed over the past year new steel grades characterized by their high toughness at arctic temperatures, for applications in the oil and gas industry. In addition, it developed new steel grades for the manufacturing of high-resistance welded pipes, allowing Ternium to offer hot-rolled coils for use in natural gas and water pipelines required for infrastructure projects in Mexico.

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Ternium s medium-term product research and development plans are based on a continuing assessment of steel product performance and the emerging requirements of the industry, carried out in close collaboration with leading steel customers and research institutions. Based on customer needs, we improve, adapt and create new applications and define future technology requirements at our facilities.

During 2012, Ternium continued participating in leading research and development projects through international consortia and together with universities and research centers to further expand the required know-how for the development of new products. Consortia projects included the development of high-strength steel for applications in the pipe manufacturing and automotive industries, with the University of Pittsburgh, and the development of new coating technologies for applications in the automotive industry and of improvements in the galvanizing bath to optimize processes, with the International Zinc Association.

Projects developed with universities and research centers included the improvement of batch annealing processes, the improvement of interstitial-free steel grades with dent resistance or controlled aging properties and the improvement of welding techniques for galvanized steel.

In 2013, Ternium plans to develop new products for the automotive industry to expand its product range and increase its market share in Mexico. Of note among the products to be developed are quenchable hot and cold-rolled ultra-high-strength steel grades for hot-stamping processes.

For tube and pipe manufacturers, Ternium intends to expand its range of steel grades to capture an expected increase in the demand for hot rolled coils for the manufacturing of oil and gas products, combining sour service with higher mechanical properties. In addition, Ternium will continue to develop new high-performance steel grades for round bars required in certain oil and gas industry applications.

Siderar intends to assist Argentine manufacturers of mobile power substations and other heavy equipment to introduce new technologies during 2013. These technologies are expected to enable the development of more competitive products through the utilization of high-resistance steel grades, entailing lighter and lower cost structures.

During the year, Siderar will initiate the development of interstitial-free steel grades, based on automotive industry certification requirements, which will be able to be produced in its San Nicolás unit following the completion of the construction of a new vacuum degassing station and a new continuous caster.

Regulations

Environmental Regulation

Ternium s operations (including mining activities in Mexico) are subject to a broad range of environmental laws, regulations, permit requirements and decrees relating to the protection of human health and the environment, including laws and regulations relating to land use; air emissions; wastewater treatment and discharges; the use, handling and disposal of hazardous or toxic materials and the handling and disposal of solid wastes. Laws and regulations protecting the environment have become increasingly complex and more stringent and expensive to implement in recent years. International environmental requirements may vary. Ternium s corporate environmental policy commits each of its business units to comply with all applicable environmental laws and regulations and aims to achieve the highest standards of environmental performance as a basis to enhance sustainable development. Compliance with environmental laws and regulations, and monitoring regulatory changes, is addressed primarily at the regional level.

Ternium reports to the World Steel Association eleven sustainability indicators, among which carbon dioxide emissions data is being reported on an annual basis as part of the association s initiative to collect emissions data from member companies. We support the steel industry s ongoing effort to develop innovative solutions to reduce greenhouse gas (GHG) emissions over the life cycle of steel products. According to the Intergovernmental Panel on Climate Change (IPCC), the steel industry accounts for approximately 6% to 7% of total world GHG emissions. Our steel production facilities in Mexico have achieved GHG-specific emission levels that are close to the theoretical minimum. In Argentina, Siderar s GHG-specific emission levels are close to the industry average for blast furnace technology.

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The ultimate impact of complying with existing laws and regulations is not always clearly known or determinable since regulations under some of these laws have not yet been promulgated or are undergoing revision. In addition, new laws and regulations could emerge as a result of ongoing negotiations for new commitments on GHG emissions related to the second phase of Kyoto Protocol, which expires in 2020. The expenditures necessary to remain in compliance with these laws and regulations, including site or other remediation costs, or costs incurred from potential environmental liabilities, could have a material adverse effect on our financial condition and profitability. While we incur and will continue to incur expenditures to comply with applicable laws and regulations, there always remains a risk that environmental incidents or accidents may occur that may negatively affect our reputation or our operations.

Ternium has not been subject to any material penalty for any environmental violations in 2012, and we are not aware of any current material legal or administrative proceedings pending against Ternium with respect to environmental matters which could have an adverse material impact on Ternium s financial condition or results of operations.

Mining regulations in Mexico

Because our operations in Mexico include mining, we are also subject to Mexican regulations relating to mining and mining concessions. Under Mexican law, mineral resources belong to the Mexican nation and a concession from the Mexican federal government is required to explore for or exploit mineral reserves. Pursuant to the *Ley Minera*, or Mining Law, mining concessions may only be granted to Mexican individuals and to legal entities incorporated under Mexican law. Foreign investors may hold up to 100% of the shares of such entities.

A mining concession allows its holder to perform both exploration works (including identifying mineral deposits and quantifying and evaluating economically minable reserves) and exploitation works (including detaching and extracting mineral products from such deposits). Mining concessions are granted for a 50-year period from the date of their recording in the Public Mining Registry; following the expiration of the initial concession term, the concessions are renewable for an additional 50-year term in accordance with, and subject to, the procedures set forth in the Mining Law.

Mining concessions grant several specified rights to the concessionaire, including:

- the right to dispose freely of mineral products obtained as a result of the exploitation of the concession;
- the right to obtain the expropriation of, or an easement with respect to, the land where the exploration or exploitation will be conducted; and
- the use of water in the mine to facilitate extraction.

In addition, a concessionaire of a mining concession is obligated, among other things, to explore or exploit the relevant concession, to pay for any relevant mining rights, to comply with all environmental and safety standards, and to provide information to and permit inspections by the *Secretaría de Economía*. Mining concessions may be terminated if the obligations of the concessionaire are not satisfied.

A company that holds a concession must be registered with the Public Mining Registry. In addition, mining concessions and permits, assignments, transfers and encumbrances must be recorded with the Public Mining Registry to be enforceable. We believe that our material mining concessions are duly registered in the Public Mining Registry.

For information regarding amendments to the Mining Law and regulations in Mexico, see Item 3. Key Information D. Risk Factors Risks Relating to our Mining Activities Our mining activities depend on governmental concessions and on our ability to reach and maintain lease agreements (or other agreements for the use of land) with the owner of the real estate where the mines are located.

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Trade regulations

Intense global competition in the steel industry can lead many countries to increase duties or impose restrictions on steel product imports to protect their domestic industries from trades that are not made under market conditions or that are otherwise unfair. Such measures protect domestic producers from increased imports sold at dumped or subsidized prices.

During a period of intense competition in 2001, some regions to which Ternium exports its products, such as the United States and Europe, implemented these measures as well as other general measures known as safeguards. While safeguards were lifted in December 2003, antidumping and countervailing duties remain in place. At the same time, bilateral or regional free trade agreements have liberalized trade among some countries, providing for reduced or zero tariffs for many goods, including steel products.

Countries imposition of trade remedy measures and the entry into force of various free trade agreements can and have both benefited and adversely affected Ternium s home markets and export sales of steel products, as described below. See also Item 3. Key Information D. Risk Factors 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.

Mexico.

The Mexican government has imposed certain antidumping measures on steel import products that are similar to the ones produced by Ternium Mexico. The following antidumping measures are currently in effect:

Hot-rolled products: On March 28, 2000, the Mexican government imposed antidumping duties on the Russian Federation and Ukraine of 30.31% and 46.66%, respectively, on hot-rolled products. On March 25, 2005, the first sunset review was initiated by the Mexican authorities, and on March 17, 2006 a final resolution was issued, extending the antidumping duties for an additional five-year period. On March 16, 2010, a second sunset review was initiated; and on September 8, 2011, the final resolution was published by which new antidumping duties of 21% and 25% were set for Russia and Ukraine, respectively.

Furthermore, since September 2005, Mexico has imposed antidumping duties against Ukraine (60.1%), Romania (67.60%) and Russia (36.80%) on cut-to-length plates. A sunset review procedure was initiated on September 21, 2010. On March 12, 2012, the Mexican authorities published the final resolution of the sunset review, determining the continuation of the antidumping duties until September 2015.

Cold-rolled products: In June 1999, Mexico imposed antidumping duties on cold-rolled steel sheets from the Russian Federation and Kazakhstan. On December 12, 2005, as a result of the first sunset review, the Mexican authorities extended the antidumping duties for an additional five-year period until June 2009. On December 28, 2010, following the completion of the second sunset review procedure, the Mexican government published the final resolution setting antidumping duties on cold-rolled steel sheets from the Russian Federation at 15% and from Kazakhstan at 22%. On October 1, 2012, the Mexican government initiated an antidumping investigation on cold-rolled steel imports from South Korea. A preliminary resolution is expected to be published during May 2013.

Plate in coil: Since June 1996, an antidumping duty of 29.3% on imports from Russia has been imposed. In June 2003, the first sunset review resolution concluded that the application of the antidumping duty should continue. In June 2007, the Ministry of Economy issued the final resolution of the second sunset review, determining the continuation of the antidumping duties for an additional five-year period. On November 22, 2012, the Ministry of Economy issued the final resolution of the third sunset review, determining the continuation of the antidumping duties for an additional five-year period.

Reinforcing bars: Imports of reinforcing bars from Brazil are currently subject to an antidumping duty of 57.69% since 1995. In June 2006, the second sunset review resolution determined the continuation of antidumping duties. On August 9, 2010, a third sunset review was initiated, and on January 12, 2012, the Mexican authority determined the continuation of antidumping duty of 57.69% until August 2015. Imports of wire rod from Ukraine are currently subject to an antidumping duty of 30.52% since September 2000. In June 2006, the first sunset review resolution determined the continuation of antidumping duties for an additional five-year period. On September 7, 2010, a second sunset review was initiated, and on March 7, 2012, the Mexican government determined to increase the antidumping duty from 30.52% to 41% until September 2015.

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U.S. authorities have imposed a number of measures on steel import products from Mexico, thereby restricting Ternium s exports to that country. Below is a description of measures currently in effect:

Ternium Mexico s wire rod exports are subject to an antidumping duty of 17.94% pursuant to an antidumping duty order on carbon and certain alloy steel wire rod from Mexico. Following the most recent sunset review, such duty was extended for five more years, beginning in June 2008.

During 2007, the U.S. Department of Commerce, or DoC, initiated an antidumping investigation of light-walled rectangular pipe and tube, or LWRPT, from, among other countries, Mexico. On June 13, 2008, the DoC made a final determination of sales at less than fair value in the investigation of LWRPT from Mexico and, consequently, LWRPT from Mexico is subject to antidumping duties. On February 18, 2011, the DoC published the final results of the first administrative review by which Ternium Mexico s LWRPT exports are now subject to an antidumping duty of 6.13%.

Since 1992, pursuant to an antidumping duty order on circular welded non-alloy steel pipe or standard pipe from various countries, including Mexico, standard pipes manufactured by Hylsamex and Grupo Imsa were subject to antidumping duties. In 2007, such measures were extended for five more years. In August 2009, the DoC published the final results of a changed circumstances review, concluding that Ternium Mexico is the successor-in-interest to Hylsamex for purposes of determining antidumping duty liability. In accordance with the latest administrative review, the applicable duty for Ternium Mexico is 48.33%.

Mexico has signed trade agreements with several countries or trade blocs aimed at liberalizing trade between them:

NAFTA was signed among Canada, Mexico and the United States and came into effect on January 1, 1994. NAFTA provided for the progressive elimination over a ten-year period of duties on, among other things, steel products traded between or among Mexico, the United States and Canada. As a result, zero tariffs currently apply to steel products traded within NAFTA countries. Accordingly, Ternium has greater access to the U.S. and Canadian markets through Ternium Mexico, but also faces increased competition in Mexico from U.S. and Canadian steel imports. NAFTA provides that NAFTA member companies (including Mexican steel producers such as Ternium Mexico) can challenge trade restrictions imposed by other NAFTA countries before a binational dispute resolution panel.

The Mexican-European Free Trade Agreement, or MEFTA, became effective on July 1, 2000. MEFTA provides for the phase-out and eventual elimination of Mexican and European duties on all industrial goods, including finished steel products. The European Union, or EU, eliminated all import duties on Mexican industrial goods, including finished steel products, as of January 1, 2003, while Mexico eliminated all import duties on European industrial goods, including finished steel products, as of January 1, 2007. Accordingly, Ternium has increased access to EU markets under MEFTA through Ternium Mexico, but also could face increased competition in Mexico from EU steel imports.

In November 2003, Mexico and Argentina signed an Economic Complementation Agreement, or ACE 6, whereby reciprocal tariff preferences were granted. In 2006, Mexico and Argentina modified the ACE 6 Agreement, reducing to zero import duties on imports of certain steel products from the other country. Zero import duties included exports from Mexico to Argentina and from Argentina to Mexico for up to 90,000 tons per year of slabs, 60,000 tons per year of cold rolled coils and 30,000 tons per year of corrosion resistant coils, including hot dip galvanized and pre-painted sheets.

The Mexican government is also a party to trade agreements with Colombia, the European Free Trade Association an intergovernmental organization set up by Liechtenstein, Norway, Iceland and Switzerland Japan, Chile, Bolivia, Nicaragua, Costa Rica and Uruguay, among others. In addition, in 2012, Mexico joined the Trans-Pacific Partnership (TPP) negotiations, an initiative that includes Australia, Brunei Darussalam, Canada, Chile, United States, Malaysia, New Zealand, Peru, Singapore and Vietnam.

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On February 9, 2010, the Mexican Government issued a decree reducing the tariffs on several steel product groups. The tariff for finished products was set at 0% for 2012 (from 3% in 2011, 5% in 2010 and 7% in 2009). The tariff for semi-finished products was set at 0% in 2012 (from 3% in 2011 and 2010, and 5% in 2009) and the tariff for welded pipe products was set in a range from 0% to 5% since 2012 (from 7% in 2011 and 2010, and 10% in 2009). Three companies (including Ternium) and a labor union sought an injunction (*amparo*) against these government decisions in early 2012 when the tariffs went to 0%. The legal action taken by the companies was rejected by the courts, but the legal action taken by the labor union had a positive preliminary outcome. As a result, the government reestablished on August 1, 2012, a 3% tariff on some semi-finished, flat, long and pipe and tube steel products. A final decision on the issue is expected in the short-term. According to that decision, the tariff could remain at 3% or revert to 0%.

Argentina.

In the past, the Argentine government has imposed various antidumping measures on certain steel imports that compete directly with Ternium s sales in Argentina. The Argentine government has imposed antidumping measures on hot-rolled steel imports from Kazakhstan (39.91%), Romania (40.48%), the Slovak Republic (62.09%) and South Africa (55.26%), effective since April 2002. In October 2008, following completion of a sunset review initiated in May 2007, Argentine authorities decided to continue these measures until November 2013. A review of antidumping measures on imports of cold-rolled steel from South Africa, Korea, Ukraine and Kazakhstan, originally imposed in 2001, is being conducted.

Argentina has signed free trade agreements with several countries or trade blocs aimed at liberalizing trade between them.

In early 1991, the Argentine government reduced import tariffs and eliminated most non-tariff restrictions on trade as part of an effort to open the Argentine economy to foreign competition. In March 1991, Argentina, Brazil, Uruguay and Paraguay entered into the Treaty of Asunción, creating the *Mercado Común del Sur* (Common Market of the South), or Mercosur, a common market organization that aimed to bring about the free movement of goods, capital, services and people among its member states. The Treaty of Ouro Preto, signed in 2004, formalized a customs union among Mercosur s member states. Over time, Mercosur has eliminated or significantly reduced import duties, tariffs and other trade barriers among member states. In particular, zero tariffs have applied to steel products imported from other member states since January 1, 2000. The current tariff applicable to steel products imported from outside Mercosur ranges from 2% to 16%. However, certain exceptions are currently in place, the most important of which are:

- Some steel products imported into Brazil are subject to an additional 25% tariff, including certain hot-rolled products, certain circular wire rod, certain stainless steel products, certain tubes, silicon alloyed grain oriented products and galvanized wire. Although these exceptions are due in October 2013, Brazilian authorities could decide an extension until October 2014.

- Some steel products imported into Uruguay benefit from zero tariff, including cold-rolled sheets and galvanized flat steel products. This exception is due to expire on December 31, 2017.

In 2005, Mercosur entered into a trade agreement with Chile, pursuant to which all tariffs on steel products have been eliminated. In 1996, Mercosur signed a free trade agreement with Bolivia, pursuant to which all steel products began receiving a 100% tariff preference on January 1, 2006. In 2004, Mercosur and the *Comunidad Andina de Naciones* (Andean Community), or CAN, currently including Bolivia, Colombia, Ecuador and Peru, signed a free trade agreement aimed at reducing and eventually eliminating tariffs on steel products traded among member countries over a period of 8 to 12 years. Mercosur is also negotiating free-trade agreements with the EU, Mexico, India and South Africa. In January 1, 2013, Venezuela became a full member of Mercosur. Steel import tariffs between Venezuela and Mercosur, currently ranging from 0% to 3.8%, will be zero in 2018.

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In November 1993, Argentina and Mexico signed the ACE 6. See Item 4. Information on the Company B. Business Overview Regulations Trade Regulations Mexico.

Colombia.

Currently, there are no antidumping measures in effect in Colombia related to products marketed by Ternium. Colombia has signed free trade agreements with several countries or trade blocs aimed at liberalizing trade between them.

CAN is a trading bloc, currently including Bolivia, Colombia, Ecuador and Peru, established during 1993 and approved during 1994 for the purpose of promoting trade relations among its members and between CAN and the rest of the world. The treaty formalized a customs union among CAN s member states. Over time, CAN has eliminated or significantly reduced import duties, tariffs and other trade barriers among member states. In particular, zero tariffs have applied to steel products imported from other member states since January 1, 2000. The current tariff applicable to steel products imported from outside CAN is between 5% and 10% and, if such products are not produced in Colombia, the tariff is reduced to 0% until August 31, 2013. CAN and Mercosur have signed a free trade agreement. See Item 4. Information on the Company B. Business Overview Regulations Trade Regulations Argentina.

During June 1994, Colombia and Mexico signed a free trade agreement. See Item 4. Information on the Company B. Business Overview Regulations Trade Regulations Mexico.

On August 9, 2007, Colombia, El Salvador, Guatemala and Honduras established the *Triángulo Norte* (North Triangle), or TN, free trade agreement. Members of the TN signed multilateral agreements related to funds transfers and local and most favored nation statuses, and signed bilateral agreements aimed at reducing trade duties. Colombia s free trade agreement with Guatemala started on November 12, 2009; with El Salvador on February 1, 2010; and with Honduras on March 27, 2010. Under TN, zero tariffs apply to several steel products imported from other member states.

Colombia s free trade agreement with United States became effective in October 2011. Under this agreement, steel import tariffs from Colombia to the U.S. will remain at 0% and steel import tariffs from the U.S. to Colombia will decrease from a range of 5-10% in 2011 to 0% in one, five or ten years according to the product category. In particular, wire rods import tariffs will be zero beginning in 2012 and rebar import tariffs will decrease gradually, reaching zero in 2021.

Colombia has also signed free trade agreements with Chile and Canada in effect since May 2009 and August 2011, respectively, and has signed free trade agreements with the European Union and South Korea, which are not yet effective. Colombia is currently negotiating free trade agreements with Costa Rica, Panama, Israel and Japan.

Insurance

Our subsidiaries carry insurance policies covering property damage (including machinery breakdown and business interruption), general liability and other insurance such as, among others, automobile, marine cargo and life and workers compensation insurance. These insurance policies include coverage and contract amounts which are customary in the steel products industry and in line with legal and domestic market requirements. General liability coverage typically includes third party, employer, sudden and accidental seepage and pollution and product liabilities within limits up to USD100 million per occurrence.

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Disclosure Pursuant to Section 13(r) of the Exchange Act

The Iran Threat Reduction and Syria Human Rights Act of 2012, or ITRA, created a new subsection (r) in Section 13 of the Exchange Act, which requires a reporting issuer to provide disclosure if the issuer or any of its affiliates engaged in certain enumerated activities relating to Iran, including activities involving the Government of Iran. Ternium is providing the following disclosure pursuant to Section 13(r).

Tenaris

Tenaris is indirectly controlled by San Faustin and, accordingly, is deemed an affiliate of Ternium, as that term is defined in Exchange Act Rule 12b-2. In response to our inquiry, Tenaris provided the disclosure included below.

In January 2010, Tenaris Global Services S.A., or TGS, a Tenaris subsidiary, entered into an agreement with the National Iranian Drilling Company, or NIDC, a company controlled by the Government of Iran, for a total value of EUR9.4 million (approximately USD12.6 million). TGS made all deliveries and collected most of its account receivables under the NIDC agreement prior to 2012. In 2012, TGS collected an amount of EUR750 thousand (approximately USD1.0 million) for products delivered to NIDC in prior years. An outstanding balance of EUR172 thousand (approximately USD0.2 million) is still due to TGS. In addition, TGS has not yet fully performed its obligation to allow technical visits to Tenaris s mills by twenty NIDC experts at TGS s cost.

TGS is also a party to an April 2011 agreement with Global Procurement General Trading FZE, or Global FZE, a company incorporated in United Arab Emirates, for the provision of OCTG for an amount of AED 16.5 million (approximately USD4.5 million). TGS has been informed by Global FZE that the end users of the products delivered under this agreement are Oil Industries Engineering and Construction Group, or OIEC, and Pars Oil and Gas Company, or POGC, which are controlled by the Government of Iran. In 2012, TGS delivered products under the Global FZE agreement for a total value of AED16.3 million (approximately USD4.4 million), and collected a total amount of AED15.4 million (approximately USD4.2 million).

As of December 31, 2012, a balance of AED862 thousand (approximately USD0.2 million) was outstanding, and will only become due after the end of the warranty period.

In March 2011, TGS entered into an agreement for the provision of technical field service assistance to ENI Iran B.V. for its project in Darquain, Iran, for a value of EUR246 thousand (approximately USD0.3 million). As of December 31, 2012, the entire contract amount was still outstanding. Tenaris has been informed that ENI Iran operates the Darquain project pursuant to a service contract with the National Iranian Oil Company, or NIOC.

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In May 2011, Tenaris subsidiary Dalmine entered into an agreement with Edison International S.p.A., or Edison, an Italian company, for the supply of OCTG casing for a development project in Iran, for a value of EUR 926 thousand (approximately USD1.2 million). In 2012, Dalmine collected EUR1.1 million (approximately USD1.4 million) on account of material delivered to Edison during 2011. Dalmine has been informed that Edison operates such project under an exploration and development service contract with NIOC.

Except as otherwise stated above, there are no pending obligations of Tenaris or its subsidiaries under the agreements described above. While the Tenaris subsidiaries identified above intend to perform their pending obligations under existing agreements, neither Tenaris nor any of its subsidiaries has plans to make new sales of products or services to Iran.

Tenaris estimates that the sales of products and services to, or for use by, customers controlled by the Government of Iran in 2012 by its subsidiaries as indicated above generated a profit before tax of approximately USD0.8 million.

Tenaris believes that its activities concerning Iran do not violate any United States or foreign law, and has procedures in place to ensure that such activities comply with all applicable U.S. and foreign laws.

Tenova

Tenova S.p.A., or Tenova, an Italian supplier of equipment for the mining and the steel-making industry, is indirectly controlled by San Faustin and, accordingly, is deemed an affiliate of Ternium, as that term is defined in Exchange Act Rule 12b-2.

In response to our inquiry, Tenova informed us that:

During 2012, Tenova and its subsidiaries supplied certain products and performed certain services, in the context of the engineering and supply of equipment for the steel-making industry, to companies believed by Tenova to be subsidiaries of development agencies of the Government of Iran.

None of the activities performed is connected to the activities described in Sections 5(a) or (b) of the Iran Sanctions Act of 1996, Section 105A(b)(2) of the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 or has been performed in favor of persons whose property and interests in property are blocked pursuant to Executive Order 13224 (terrorists and terrorist supporters) or 13382 (weapons of mass destruction proliferators and supporters).

All of these sales and activities were authorized by the Comitato di Sicurezza Finanziaria CSF, an Italian governmental committee established pursuant to Italian Decree n. 369 of October 12, 2001 (as amended by Italian Law n. 431 of December 14, 2001) under the supervision of the Italian Ministry of Economy.

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Since several of Tenova s Iran-related contracts are still currently being executed, Tenova is required to perform all outstanding obligations under such contracts.

Any future contract between Tenova or its subsidiaries and customers controlled by the Government of Iran will continue to be made in compliance with all laws applicable to Tenova or its relevant subsidiaries.

Tenova informed us that its total sales revenue for 2012 with regard to the foregoing transactions amounted to USD 19.8 million, which represents 1.1% of its total sales revenue for 2012.

Tenova also estimated that its net profits from such transactions, after internal cost allocation and taxes, were in the range of USD 2.6 million.

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C. Organizational Structure

Below is a simplified diagram of Ternium s corporate structure as of March 31, 2013

On January 16, 2012, Ternium, together with its subsidiary Siderar, acquired a participation in the control group of Usiminas Brazil (for further information on the Usiminas transaction, see note 3 to our audited consolidated financial statements included elsewhere in this annual report). As of December 31, 2012, Usiminas ordinary shares represented 49.8% of its aggregate share capital and Usiminas preferred shares represented 50.2% of its aggregate share capital. The Company (through Ternium Investments) and Siderar (directly and through Prosid) hold 16.8% and 5.9%, respectively, of Usiminas ordinary shares (representing 8.4% and 3.0%, respectively, of Usiminas total share capital). The Company and Siderar (directly and through Prosid) do not hold preferred shares.

Subsidiaries

Ternium operates entirely through subsidiaries. For a complete list of its subsidiaries and a description of its investments in other companies, see note 2 to our audited consolidated financial statements included elsewhere in this annual report.

Ternium Mexico. Ternium Mexico was formed, as result of the merger of Grupo Imsa, Hylsamex and Hylsamex s major shareholder in March 2008. Ternium Mexico and its subsidiaries operate all of Ternium s mining and steel production activities in Mexico and the United States. Ternium Mexico and its subsidiaries produce steel products, including value-added finished steel products for use mainly in the construction and industrial sectors. Ternium Mexico has finished steel annual production capacity of approximately 7.5 million tons.

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Siderar. Siderar is the main integrated manufacturer of flat steel products in Argentina with total annual finished steel production capacity of approximately 2.6 million tons. The shareholders of Siderar as of March 31, 2013 are set out in the following table, together with the share percentage owned by each such shareholder as of that date:

Siderar Shareholders	Number	Percent
Ternium	2,752,808,188	60.94%
ANSeS	1,175,806,541	26.03%
Inversora Siderurgia Argentina S.A. (employees)	115,857,898	2.56%
Public	472,621,396	10.46%
Total shares issued and outstanding	4,517,094,023	100.00%

Ferrasa. Ferrasa is a flat steel products processor and distributor in Colombia and a scrap-based long steel manufacturer, with finished steel annual production capacity of approximately 400,000 tons. Ternium holds, since August 25, 2010, a 54% ownership interest in Ferrasa. The former controlling shareholders have an option to sell to Ternium, at any time, all or part of their remaining 46% interest in Ferrasa, and Ternium has an option to purchase all or part of that remaining interest from the former controlling shareholders, at any time beginning in August 25, 2012.

Tenigal. Tenigal is a company established in November 2010 for the manufacturing and sale of hot-dip galvanized and galvannealed steel sheets to serve the Mexican automobile market. Ternium and Nippon Steel hold 51% and 49% participations in Tenigal, respectively. The company started work for the construction of its facilities and expects to commence production of high-grade and high-quality galvanized and galvannealed automotive steel sheets, including outer-panel and high-strength qualities, in the third quarter 2013, with finished steel annual production capacity of approximately 400,000 tons.

Ternium Guatemala. Ternium Guatemala was formed as result of the merger of two subsidiaries of Grupo Imsa with assets located in Central America, Industria Galvanizadora S.A. and Industrias Monterrey S.A. Ternium Guatemala and its subsidiaries operate all of Ternium s steel processing activities in Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica. Ternium Guatemala and its subsidiaries produce hot-dip galvanized steel sheets and other value-added finished steel products for use mainly in the construction and industrial sectors. Ternium Guatemala has finished steel annual production capacity of 150,000 tons.

Ferrasa Panama. Ferrasa Panama is a small long steel products processor and distributor in Panama. Ternium holds, since August 25, 2010, a 54% ownership interest in Ferrasa Panama. The former controlling shareholders have an option to sell to Ternium, at any time, all or part of their remaining 46% interest in Ferrasa Panama, and Ternium has an option to purchase all or part of that remaining interest from the former controlling shareholders, at any time beginning in August 25, 2012.

Ternium Internacional. Ternium Internacional comprises a network of companies in Uruguay, Colombia, Ecuador, the Netherlands and the United States that, together with our offices in Panama and Spain, market and provide services in relation to the sales of Ternium s products to several markets other than Mexico and Argentina. The headquarters of the network are located in Uruguay. Office staff is dedicated to export sales and trading, technical assistance, commercial back office and credit analysis.

Ternium USA. Ternium USA operates Ternium s steel processing activities in the US. In its Shreveport, Louisiana unit, Ternium USA produces galvanized and color coated sheets and has an annual finished steel production capacity of 230,000 tons.

Other Investments

Usiminas. Usiminas is the largest flat steel producer in Brazil, with 9.5 million tons of crude steel capacity. It manufactures flat rolled steel, hot and cold rolled steel and coil, raw and crude steel, pig iron, heavy plates, galvanized sheets and slabs, and markets its products to the automobile, line pipe, civil construction, and electrical equipment manufacturing industries. Usiminas has iron ore mines in the Serra Azul region and industrial facilities in Ipatinga, Minas Gerais and in Cubatão, São

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Paulo, strategically located near the main consumers of steel in Brazil. In 2012, Usiminas produced 7.2 million tons of crude steel and had net sales of BRL12.7 billion.

Usiminas is a publicly-traded company listed on the São Paulo stock exchange, BM&FBOVESPA S.A Bolsa de Valores, Mercadorias e Futuros.

On January 16, 2012, the Company s wholly-owned Luxembourg subsidiary Ternium Investments, together with Siderar (and Siderar s wholly-owned Uruguayan subsidiary Prosid), and TenarisConfab, joined Usiminas existing control group through the acquisition of a total of 139.7 million ordinary shares of Usiminas, representing 27.7% (with 22.7% corresponding to Ternium and the remainder 5% corresponding to TenarisConfab) of Usiminas voting capital. As a result, Usiminas control group, which holds, in the aggregate, 322.7 million ordinary shares representing approximately 63.9% of Usiminas voting capital, is now formed as follows: Nippon Group (comprising Nippon Steel & Sumitomo Metal Corporation, Mitsubishi and Metal One), which holds approximately 46.1% of the total shares held by the control group; Ternium/Tenaris Group (comprising Ternium Investments, Siderar, Prosid and TenarisConfab), which holds approximately 43.3% (with 35.6% corresponding to Ternium and the remainder 7.7% corresponding to Tenaris) of the total shares held by the control group; and Previdência Usiminas (Usiminas employee pension fund), which holds the remainder 10.6%.

The rights of the members of Usiminas control group are governed by a shareholders agreement. Under such agreement, so long as the Nippon Group and Ternium/Tenaris Group each hold at least 25% of the total shares held by the control group, the Nippon Group and the Ternium/Tenaris Group shall, in the aggregate, nominate a majority of the members of the Usiminas board of directors (*conselho de administração*), with each such group nominating an equal number of directors (*conselheiros de administração*). Usiminas shareholders agreement further provides that the Nippon Group and the Ternium/Tenaris Group shall nominate, by consensus, the chairman (*presidente)* of Usiminas board of directors and Usiminas chief executive officer (*diretor-presidente).* In addition, the Nippon Group and the Ternium/Tenaris Group have the right to nominate one member of Usiminas executive management board (*diretoria executiva)* each. Any remaining Usiminas executive management board seats are filled with candidates nominated by Usiminas chief executive officer, which nominations shall require the approval of both the Nippon Group and the Ternium/Tenaris Group.

Under the Usiminas shareholders agreement, the Nippon Group, the Ternium/Tenaris Group and Previdência Usiminas are required to vote, and cause the Usiminas directors nominated by them to vote, as a single, unified block. Any and all decisions to be adopted by the members of the control group at Usiminas shareholders meetings, or by the directors nominated by them at any Usiminas board or directors meetings, shall require the consensus of both the Nippon Group and the Ternium/Tenaris Group, with decisions on certain extraordinary matters requiring the unanimous consent of the Nippon Group, the Ternium/Tenaris Group and Previdência Usiminas.

The rights of Ternium Investments, Siderar (and Prosid) and TenarisConfab within the Ternium/Tenaris Group are governed under a separate shareholders agreement.

In early 2013, Companhia Siderúrgica Nacional, or CSN, and various entities affiliated with CSN filed a lawsuit in Brazil against Ternium Investments, Siderar and TenarisConfab, alleging that, under applicable Brazilian laws and rules, they were required to launch a tag-along tender offer to all minority holders of Usiminas ordinary shares. For further information related to this lawsuit, see Item 5. Operating and Financial Review and Prospects G. Recent Developments.

In connection with the investment in Usiminas, the Company performed an impairment test over such investment as of December 31, 2012, and subsequently wrote down the investment by USD275.3 million. For further information regarding the performance of our investment in Usiminas in 2012, see Item 5. Operating and Financial Review and Prospects A. Results of Operations Fiscal Year Ended December 31, 2012 compared to Fiscal Year Ended December 31, 2011 Overview.

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Exiros. Exiros, which we own 50%/50% with Tenaris, has offices located in various countries and is in charge of the procurement of a majority of our purchases of raw materials and other products or services. Exiros s objectives are to procure better purchase conditions and prices by exercising the improved bargaining power that results from combining the demand of products and services by both Ternium and Tenaris.

D. Property, Plants and Equipment

See B. Business Overview Production Facilities and Processes and B. Business Overview Capital Expenditure Program.

Item 4A. Unresolved Staff Comments

None

Item 5. Operating and Financial Review and Prospects

The following discussion and analysis of our financial condition and results of operations is based on, and should be read in conjunction with, our audited consolidated financial statements and the related notes included elsewhere in this annual report. This discussion and analysis presents our financial condition and results of operations on a consolidated basis. We prepare our consolidated financial statements in conformity with IFRS, which differ in certain significant respects from U.S. GAAP.

Certain information contained in this discussion and analysis is presented elsewhere in this annual report, including information with respect to our plans and strategies for our business, and includes forward-looking statements that involve risks and uncertainties. See Cautionary Statement Concerning Forward-Looking Statements. In evaluating this discussion and analysis, you should specifically consider the various risk factors identified in this annual report and others that could cause results to differ materially from those expressed in such forward-looking statements.

Overview

Ternium is a leading steel producer in Latin America. We manufacture and process a broad range of value-added steel products, including galvanized and electro-galvanized sheets, pre-painted sheets, tinplate, welded pipes, and hot-rolled and cold-rolled steel, as well as slit and cut-to-length offerings through our service centers. We also produce long steel products, such as bars and wire rod. Our customers range from large global companies to small businesses operating in the construction, automotive, home appliances, capital goods, container, food and energy industries. Ternium has production facilities located in Mexico, Argentina, Colombia, the southern United States and Guatemala, as well as a network of service and distribution centers in Latin America that provide it with a strong position from which to serve its core markets. In addition, Ternium participates in the control group of Usiminas, a leading steel company in the Brazilian flat steel market.

Ternium primarily sells its steel products in the regional markets of the Americas. Ternium provides specialized products and delivery services through its network of manufacturing facilities and service centers. We believe that Ternium is a leading supplier of flat steel products in Mexico and Argentina, a significant supplier of steel products in Colombia and in various other countries in South and Central America, and a competitive player in the international steel market for steel products. Through its network of commercial offices in several countries in Latin America, the United States and Spain, Ternium maintains an international presence that allows it to reach customers outside its local markets, achieve improved effectiveness in the supply of its products and in the procurement of semi-finished steel, and maintain a fluid commercial relationship with its customers by providing continuous services and assistance.

Ternium s revenues are affected by general global trends in the steel industry and more specifically by the economic conditions in the countries in which it has manufacturing operations and where its customers are located. Ternium s revenues are also impacted by events that affect the price and availability of raw materials, energy and other inputs needed for its operations. Furthermore, due to the highly cyclical nature of the steel industry, recent results may not be

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indicative of future performance, and historical results may not be comparable to future results. Investors should not rely on the results of a single period, particularly a period of peak prices, as an indication of Ternium s annual results or future performance. The variables and trends mentioned below could also affect the results of its investments in steel related companies. See Item 4. Information on the Company B. Business Overview Our Business Strategy.

Ternium s primary source of revenue is the sale of steel products. Management expects sales of steel products to continue to be Ternium s primary source of revenue. The global market for such steel products is highly competitive, with the primary competitive factors being price, cost, product quality and customer service. The majority of Ternium s sales are concentrated in the Americas. Specifically, Ternium s largest markets are Mexico, Argentina and Colombia, where its main manufacturing facilities are located.

Ternium s results are sensitive to economic activity and steel consumption. Ternium s results of operations, which primarily depend on economic conditions in Mexico and Argentina, are also influenced by economic conditions in international and regional markets such as NAFTA, Mercosur and the Andean Community. Historically, annual steel consumption in the countries where Ternium operates has varied at a rate that is linked to the annual change in each country s gross domestic product and per capita disposable income. The 2008 2009 global economic downturn resulted in an overall decreased demand for Ternium s products. For example, apparent consumption of finished steel products decreased in 2009 by 15% in Mexico and 33% in Argentina. This economic downturn had a pronounced negative effect on Ternium s business and results of operations in 2009. Subsequently, in 2010 2012, apparent steel consumption increased by 36% in Mexico, due mainly to the recovery of the industrial sector, and by 53% in Argentina, due to a broad recovery of economic activity. A protracted global recession or a depression would have a material adverse effect on the steel industry and Ternium.

Ternium s results are also sensitive to prices in the international steel markets. Steel prices are volatile and are sensitive to trends in cyclical industries, such as the construction, automotive, appliance and machinery industries, which are significant markets for Ternium s products. Steel prices in the international markets, which had been rising fast during the first half of 2008, fell sharply beginning in the second half of 2008 as a result of collapsing apparent demand and the resulting excess capacity in the industry. The fall in prices during this period adversely affected the results of steel producers generally, including Ternium, as a result of lower revenues and writedowns of finished steel products and raw material inventories. For example, in the second half of 2008 Ternium recorded a valuation allowance in an amount of USD200 million and in the first half of 2009 it recorded an additional valuation allowance in an amount of USD127.6 million. Beginning in the second half of 2009, steel prices in the international markets rebounded mainly as a result of the increase in the demand for steel in China and other emerging markets, and the subsidence of the worldwide de-stocking process. A protracted fall in steel prices would have a material adverse effect on Ternium s results, as could price volatility.

Trends in the steel industry may also have an impact on Ternium s results. In addition to economic conditions and prices, the steel industry is affected by other factors such as worldwide production capacity and fluctuations in steel imports/exports and tariffs. Historically, the steel industry has suffered, especially on downturn cycles, from substantial overcapacity. Currently, as a result of the 2008 2009 global downturn, the adverse economic conditions in Europe, a slowdown in China s economic growth and the increase in steel production capacity in recent years, there are signs of excess capacity in all steel markets. It is possible that the industry s excess capacity will result in depressed margins and industry weakness. Furthermore, there has been a trend in recent years toward steel industry consolidation among Ternium s competitors, and current smaller competitors in the steel market could become larger competitors in the future. Intense competition could cause Ternium to lose its share in certain markets and adversely affect its sales and revenue.

Ternium s production costs are sensitive to prices of raw materials, slabs and energy, which reflect supply and demand factors in the global steel industry. Ternium purchases substantial quantities of raw materials (including iron ore, coal, ferroalloys and scrap) and slabs for use in the production of its steel products. The availability and price of these and other inputs vary, sometimes significantly, according to general market and economic conditions. In addition to raw materials and slabs, natural gas and electricity are both important components of Ternium s cost structure. Ternium generally purchases these inputs at market or market based prices; accordingly, price fluctuations in these inputs, which may also vary according to general market and economic conditions, necessarily impact Ternium s production costs.

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Ternium s export revenues could be affected by trade restrictions and its domestic revenues could be affected by unfair competition from imports. During 2001, a period of strong oversupply, several antidumping measures were imposed in several countries in which Ternium operates (including Mexico and Argentina) to prevent foreign steel producers from dumping certain steel products in local markets. The recovery in global economic conditions during the 2003 2008 period helped normalize international steel trade conditions and, eventually, several countries reduced or eliminated protective measures established in prior years. However, a number of trade restrictions, both in Ternium s local and export markets, remain in place. In the face of a protracted period of oversupply, countries may reestablish antidumping duties and/or other safeguards to protect their domestic markets. Ternium s ability to profitably access the export markets may be adversely affected by trade restrictions, including antidumping duties and countervailing measures, in those markets. In addition, Ternium s ability to sell some steel products in its principal markets could be affected by unfair competition from imports of those steel products from certain countries, if applicable trade regulations were not in force.

Changes in prevailing exchange rates had a significant impact on Ternium s results in the past and, in the future, could impact results from subsidiaries with a functional currency other than the U.S. dollar. In accordance with IFRS, during the years ended December 31, 2011 and 2010, Ternium s subsidiaries in Mexico, Argentina and Colombia prepared financial statements in their local currencies and recorded foreign exchange results on their net non-local currency positions when their local currencies revaluated or devaluated to other currencies. However, effective as of January 1, 2012, the functional currency of our Mexican and Colombian subsidiaries changed to the U.S. dollar. Fluctuations in the local currencies against the U.S. dollar had, and in the case of the Argentine subsidiary, may also have in the future, an impact on Ternium s results. In 2011, net foreign exchange result was a loss of USD236.1 million, which was primarily due to the impact of the Mexican peso s 13% devaluation on Ternium Mexico s U.S. dollar denominated debt. This non-cash result when measured in U.S. dollars was offset by changes in Ternium s net equity position in the currency translation adjustment, or CTA, line, as the value of Ternium Mexico s U.S. dollar-denominated debt was not affected by foreign currency fluctuation when stated in U.S. dollar terms in Ternium s consolidated financial statements. In 2012, net foreign exchange result was a gain of USD11.4 million, which had no impact of the Mexican peso s fluctuation in the year on Ternium Mexico s U.S. dollar denominated debt, due to the mentioned change of the functional currency of our Mexican subsidiaries to U.S. dollars, effective as of January 1, 2012. For information on the change in the functional currency of the Mexican subsidiaries, see Overview Change in functional currency of Mexican subsidiaries.

Changes in prevailing exchange rates have had an impact on Ternium s comprehensive results in the past and could impact comprehensive results from subsidiaries and investments with a functional currency other than the U.S. dollar in the future. In accordance with IFRS, Ternium records currency translation adjustments in its consolidated statements of comprehensive income. These adjustments do not affect results but, instead, have an impact on net worth. Currency translation adjustments were a loss of USD425.4 million in 2012, a loss of USD433.6 million in 2011 and a gain of USD35.9 million in 2010. In 2012, these adjustments were mainly related to the effect of the Brazilian real devaluation on the U.S. dollar value of Ternium s investment in Usiminas and the Argentine peso devaluation on the U.S. dollar value of Siderar s assets; in 2011, they were mostly related to the effect of the Mexican peso devaluation on the U.S. dollar value of Ternium Mexico s assets, as the functional currency of our Mexican subsidiary was still the Mexican peso in 2011. For information on the change in the functional currency of the Mexican subsidiaries, see Overview Change in functional currency of Mexican subsidiaries.

Ternium s reported cash flows for 2010, 2011 and 2012 include non-recurring payments received in connection with the transfer of our interest in Sidor to Venezuela. On May 7, 2009, we completed the transfer of our entire 59.7% interest in Sidor to CVG. Ternium agreed to receive an aggregate amount of USD1.97 billion as compensation for its Sidor shares. Ternium received payments from CVG, including interest, totaling USD953.6 million, USD767.4 million, USD133.1 million and USD136.7 million in 2009, 2010, 2011 and 2012, respectively. With the last payment in October 2012, the pending dispute relating to the nationalization of Sidor was resolved. For more information on the Sidor nationalization process, see note 27 to our audited consolidated financial statements included elsewhere in this annual report.

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Reportable segments

Following the new internal organization and reporting used by our chief operating decision maker for making decisions, allocating resources and assessing performance, we determined to change our operating and reportable segments effective for the year ended December 31, 2012. See note 4 (w) to our audited consolidated financial statements included elsewhere in this annual report. Following this decision, our former flat steel segment and long steel segment have been combined into our new Steel operating segment, and we report our mining activities as a separate Mining operating segment. Our financial results for the years ended December 31, 2011 and 2010, as described under A. Results of Operations below, are presented on the basis of our new operating and reportable segments, Steel and Mining.

Critical accounting estimates. This discussion of our operating and financial review and prospects is based on our audited consolidated financial statements included elsewhere in this annual report, which have been prepared in accordance with IFRS. The use of IFRS has an impact on our critical accounting policies and estimates.

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management makes estimates and assumptions concerning the future. Actual results may differ significantly from these estimates under different assumptions or conditions.

The principal estimates and assumptions made by management that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

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

Also, when assessing the recoverability of tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. Although we believe our estimates are appropriate, significant differences in actual performance of the asset or group of assets may materially affect our asset values and results of operation.

Loss contingencies. Ternium is subject to various claims, lawsuits and other legal proceedings that arise in the ordinary course of business, including customer claims in which a third party is seeking reimbursement or indemnity. The Company s liability with respect to such claims, lawsuits and other legal proceedings cannot be estimated with certainty. Periodically, management reviews the status of each significant matter and assesses potential financial exposure. If the potential loss from the claim or proceeding is considered probable and the amount can be reasonably estimated, a liability is recorded. Management estimates the amount of such liability based on the information available and the assumptions and methods it has concluded are appropriate, in accordance with the provisions of IFRS. Accruals for such contingencies reflect a reasonable estimate of the losses to be incurred based on information available, including the relevant litigation or settlement strategy, as of the date of preparation of these financial statements. As additional information becomes available, management will reassess its evaluation of the pending claims, lawsuits and other proceedings and revise its estimates. The loss contingencies provision amounts to USD17.5 million and USD15.3 million as of December 31, 2012 and 2011, respectively.

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Allowance for obsolescence of supplies and spare parts and slow-moving inventory. Management assesses the recoverability of its inventories considering their selling prices or whether they are damaged or have become wholly or partly obsolete.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

The Company establishes an allowance for obsolete or slow-moving inventory in connection with finished goods and goods in process. The allowance for slow-moving inventory is recognized for finished goods and goods in process based on management s analysis of their aging. In connection with supplies and spare parts, the calculation is based on management s analysis of their aging, the capacity of such materials to be used based on their levels of preservation and maintenance, and their potential obsolescence due to technological change.

As of December 31, 2012 and 2011, the Company recorded no allowance for net realizable value and USD66.1 million and USD59.9 million, respectively, as allowance for obsolescence.

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

Useful lives and impairment of property, plant and equipment and other long-lived assets. In determining useful lives, management considered, among others, the following factors: age, operating condition and level of usage and maintenance. Management conducted visual inspections for the purpose of (i) determining whether the current conditions of such assets are consistent with normal conditions of assets of similar age; (ii) confirming that the operating conditions and levels of usage of such assets are adequate and consistent with their design; (iii) establishing obsolescence levels and (iv) estimating life expectancy, all of which were used in determining useful lives. Management believes, however, that it is possible that the periods of economic utilization of property, plant and equipment may be different than the useful lives so determined. Furthermore, management believes that this accounting policy involves a critical accounting estimate because it is subject to change from period to period as a result of variations in economic conditions and business performance.

Assets that are subject to amortization and investments in affiliates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

When assessing whether an impairment indicator may exist, the Company evaluates both internal and external sources of information, such as the following:

- whether significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;

- whether market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset s value in use and decrease the asset s recoverable amount materially;

- whether the carrying amount of the net assets of the entity is more than its market capitalization;

- whether evidence is available of obsolescence or physical damage of an asset;

- whether significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before

the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite;

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whether evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected;

whether it is becoming probable that the investee will enter bankruptcy or other financial reorganization, or is experiencing other financial difficulty;

whether observable data indicates that there is a measurable decrease in the estimated future cash flows of the investee since the initial recognition; and

whether the lender of the investee, for economic or legal reasons relating to the investee s financial difficulty, has granted a concession that the lender would not otherwise consider.

Except as described below with respect to the impairment of our investment in Usiminas in 2012, none of the Company s cash generating units (CGUs) were tested for impairment in 2012, 2011 or 2010 (other than on goodwill as described below), as no impairment indicators were identified. Based on the information currently available to us, as of the date of this annual report, the Company is not aware of any factors that would lead to the recognition of future impairment charges. Any such impairment charges could have a material adverse effect on Ternium s results of operations, financial condition and net worth.

In connection with the investment in Usiminas, the Company performed an impairment test over such investment as of December 31, 2012, and subsequently wrote down the investment by USD275.3 million, to USD1.6 billion. This charge was recorded in the fourth quarter of 2012. The impairment was mainly due to expectations of a weaker industrial environment in Brazil, where industrial production and consequently steel demand have been suffering downward adjustments. In addition, a higher degree of uncertainty regarding future prices of iron ore led to a reduction in Ternium s forecast of long term iron ore prices that affected cash flow expectations. For further information on the Usiminas investment, see note 3 to our audited consolidated financial statements included elsewhere in this annual report. Any further write down to Ternium s investment in Usiminas could have a material adverse effect on Ternium s results of operations, financial condition and net worth.

Goodwill impairment test. Assessment of the recoverability of the carrying value of goodwill requires significant judgment. Management evaluates goodwill allocated to the operating units for impairment on an annual basis or whenever there is an impairment indicator. Goodwill is tested at the level of the CGU. Impairment testing of the CGU is carried out and the value in use determined in accordance with the following accounting policy:

Assets that have an indefinite useful life (including goodwill) are not subject to amortization and are tested annually for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset s fair value less cost to sell and the value in use.

To carry out these tests, assets are grouped at the lowest levels for which there are separately identifiable cash flows (each, a CGU). When evaluating long-lived assets for potential impairment, the Company estimates the recoverable amount based on the value in use of the corresponding CGU. The value in use of each CGU is determined on the basis of the present value of net future cash flows which will be generated by the assets tested.

Determining the present value of future cash flows involves highly sensitive estimates and assumptions specific to the nature of each CGU s activities, including estimates and assumptions relating to amount and timing of projected future cash flows, expected changes in market prices, expected changes in the demand of Ternium products and services, selected discount rate and selected tax rate.

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Ternium uses cash flow projections for the next five years based on past performance and expectations of market development; thereafter, it uses a perpetuity rate. Application of the discounted cash flow (DCF) method to determine the value in use of a CGU begins with a forecast of all expected future net cash flows. Variables considered in forecasts include the gross domestic product (GDP) growth rates of the country under study and their correlation with steel demand, level of steel prices and estimated raw material costs as observed in industry reports.

Cash flows are discounted at post-tax rates that reflect specific country and currency risks associated with the cash flow projections. The discount rates used are based on Ternium s weighted average cost of capital (WACC), which is considered to be a good indicator of cost of capital. As of December 31, 2012 the discount rate used to test goodwill allocated to the Mexico CGUs (of Steel and Mining) for impairment was 10.0%.

As a result of the above factors, actual cash flows and values could vary significantly from the forecasted future cash flows and related values derived using discounting techniques. Based on the information currently available, however, Ternium believes that it is not reasonably possible that the variation would cause the carrying amount to exceed the recoverable amount of the CGUs. At December 31, 2012, 2011 and 2010, no impairment provisions were recorded in connection with assets that have an indefinite useful life (including goodwill). Any future impairment charge could have a material adverse effect on Ternium s results of operations, financial condition and net worth. For a discussion of the impairment of our investment in Usiminas, see Item 5. Operating and Financial Review and Prospects A. Results of Operations Fiscal Year Ended December 31, 2012 compared to Fiscal Year Ended December 31, 2011 Overview.

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

Allowances for doubtful accounts are adjusted periodically in accordance with the aging of overdue accounts. For this purpose, trade accounts receivable overdue by more than 90 days, and which are not covered by a credit collateral, guarantee or similar surety, are fully provisioned. As of December 31, 2012 and 2011, allowance for doubtful accounts totaled USD15.3 million and USD16.1 million, respectively.

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

A. Results of Operations

The following discussion and analysis of our financial condition and results of operations are based on our audited consolidated financial statements included elsewhere in this annual report. Accordingly, this discussion and analysis present our financial condition and results of operations on a consolidated basis. See Presentation of Certain Financial and Other Information Accounting Principles and notes 2 and 4 to our audited consolidated financial statements included elsewhere in this annual report. The following discussion should be read in conjunction with our audited consolidated financial statements and the related notes included elsewhere in this annual report.

Following the restructuring of our internal organization and reporting used by our chief operating decision maker for making decisions, allocating resources and assessing performance of Ternium and its subsidiaries, we determined to change our operating and reportable segments effective for the year ended December 31, 2012. See note 4 (w) to our audited consolidated financial statements included elsewhere in this annual report. Following this decision, our former flat steel segment and long steel segment have been combined into a new Steel operating segment, and we now report our

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mining activities as a separate Mining operating segment. Our results of operations presented below, including for the years ended December 31, 2011 and 2010, are on the basis of our new operating and reportable segments: Steel and Mining.

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In thousands of U.S. dollars (except number of shares and per share data)	For the year ended December 31, 2012	2011	2010	2009	2008
Selected consolidated income statement data					
Continuing operations					
Net sales	8,608,054	9,122,832	7,339,901	4,922,984	8,422,817
Cost of sales	(6,871,090)	(7,020,127)	(5,560,201)	(4,087,165)	(6,098,790)
Gross profit	1,736,964	2,102,706	1,779,700	835,819	2,324,027
Selling, general and administrative expenses	(809,181)	(839,362)	(738,304)	(526,615)	(663,843)
Other operating (expenses) income, net	(11,881)	(11,495)	2,162	(20,557)	8,700
Operating income	915,903	1,251,849	1,043,558	288,647	1,668,884
Interest expense	(144,439)	(100,712)	(72,953)	(105,754)	(136,111)
Interest income	19,226	39,981	87,323	157,021	32,174
Other financial income (expenses), net	7,866	(239,691)	114,867	81,336	(692,304)
Equity in (losses) earnings of non-consolidated companies	(346,833)	10,137	12,867	7,249	5,575
Income before income tax expense	451,722	961,563	1,185,662	428,499	878,218
Income tax expense, benefit					
Current and deferred income tax expense	(264,567)	(311,655)	(406,191)	(89,398)	(256,414)
Reversal of deferred statutory profit sharing					96,265
Income from continuing operations	187,154	649,907	779,470	339,101	718,069
Discontinued operations					
Income from discontinued operations				428,023	157,095
Profit for the year	187,154	649,907	779,470	767,124	875,164
Attributable to:					
Equity holders of the Company	139,235	513,540	622,076	717,400	715,418
Non-controlling interest	47,919	136,367	157,394	49,724	159,746
	187,154	649,907	779,470	767,124	875,164
Depreciation and amortization	370,855	395,989	374,201	374,815	404,808
Weighted average number of shares (1)	1,963,076,776	1,968,327,917	2,004,743,442	2,004,743,442	2,004,743,442
Basic earnings per share (expressed in USD per share) for profit: (2) (3)					
From continuing operations attributable to the equity holders of the Company	0.07	0.26	0.31	0.15	0.27
From discontinued operations attributable to the equity holders of the Company				0.21	0.09
For the year attributable to the equity holders of the Company	0.07	0.26	0.31	0.36	0.36
Dividends per share	0.065(4)	0.075	0.075	0.050	
Dividends per share (expressed in EUR)	0.051(4)	0.057	0.052	0.041	

(1) Of the 2,004,743,442 shares issued as of December 31, 2012, Ternium held 41,666,666 through its wholly-owned subsidiary Ternium International Inc. and such shares were not considered outstanding. For further information related to the repurchase of shares in 2011, see note 30 to our audited consolidated financial statements included elsewhere in this annual report.

(2) International Accounting Standard N° 1 (IAS 1) (Revised) requires that income for the year as shown in the income statement includes the portion attributable to non-controlling interest. Basic earnings per share, however, continue to be calculated on the basis of income attributable solely to the equity holders of the Company.

(3) Diluted earnings per share (expressed in USD per share), equals basic earnings per share.

(4) Reflects dividend proposal submitted to the shareholders meeting to be held on May 2, 2013.

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In thousands U.S. dollars (except number of shares and per share data)	2012	2011	At December 31, 2010	2009	2008
Selected consolidated balance sheet data					
Non-current assets	7,211,371	5,195,688	5,600,608	5,287,744	5,515,687
Property, plant and equipment, net	4,438,117	3,969,187	4,203,685	3,983,887	4,149,959
Other non-current assets (1)	2,773,254	1,226,501	1,396,923	1,303,857	1,365,728
Current assets	3,655,628	5,547,374	5,499,306	5,014,144	5,146,876
Cash and cash equivalents	560,307	2,158,044	1,779,294	2,093,800	1,065,319
Other current assets (2)	3,083,303	3,378,956	3,710,050	2,911,099	4,076,224
Non-current assets classified as held for sale	12,018	10,374	9,961	9,246	5,333
Total assets	10,866,999	10,743,062	11,099,914	10,301,888	10,662,563
Capital and reserves attributable to the Company s equity holders (3)	5,420,883	5,756,371	5,880,740	5,296,342	4,597,370
Non-controlling interest	1,074,763	1,084,827	1,135,361	964,897	964,094
Non-current liabilities	2,245,907	1,922,481	2,527,702	2,860,775	3,364,348
Borrowings	1,302,753	948,495	1,426,574	1,787,204	2,325,221
Deferred income tax	682,091	740,576	869,474	848,215	802,674
Other non-current liabilities	261,063	233,410	231,655	225,356	236,453
Current liabilities	2,125,446	1,979,383	1,556,110	1,179,874	1,736,751
Borrowings	1,121,610	1,047,641	513,083	538,832	940,667
Other current liabilities	1,003,836	931,742	1,043,028	641,042	796,084
Total liabilities	4,371,353	3,901,864	4,083,813	4,040,649	5,101,099
Total equity and liabilities	10,866,999	10,743,062	11,099,914	10,301,888	10,662,563
Number of shares (3)	1,963,076,776	1,963,076,776	2,004,743,442	2,004,743,442	2,004,743,442

(1) As of December 31, 2012, 2011, 2010, 2009 and 2008, includes goodwill mainly related to the acquisition of our Mexican subsidiaries for a total amount of USD663.8 million, USD663.8 million, USD750.1 million, USD708.6 million and USD683.7 million, respectively.

(2) As of December 31, 2012, 2011, 2010, 2009 and 2008, includes financial assets with maturity of more than three months for a total amount of USD160.8 million, USD281.7 million, USD848.4 million, USD46.8 million and USD90.0 million, respectively.

(3) The Company s share capital as of December 31, 2012, 2011, 2010, 2009 and 2008 was represented by 2,004,743,442 shares, par value USD1.00 per share, for a total amount of USD2.0 billion. Of the 2,004,743,442 shares, as of December 31, 2012 and 2011, Ternium held 41,666,666 through its wholly-owned subsidiary Ternium International Inc. For further information related to the repurchase of these shares in 2011, see note 30 to our audited consolidated financial statements included elsewhere in this annual report.

Fiscal Year Ended December 31, 2012 compared to Fiscal Year Ended December 31, 2011

Overview

Apparent steel use in Mexico increased 9.7% year-over-year in 2012 to approximately 20.1 million tons, as a result of an expansion in key steel consuming sectors such as construction and automotive. Mexico s GDP increased 3.9% year-over-year, reflecting a broad-based increase in activity. In Argentina, apparent steel use decreased 8.3% year-over-year in 2012 to approximately 4.9 million tons, in a period characterized by lower activity levels, particularly in the automotive and agricultural sectors, as the country s growth pace was reduced to a 1.3% year-over-year GDP expansion. In Colombia apparent steel use increased 6.6% year-over-year in 2012 to approximately 3.4 million tons, with the construction and industrial sectors exhibiting strong performance in 2012, and reflecting a broad-based increase in activity, as GDP grew 4.7% year-over-year.

Ternium s operating income in 2012 was USD915.9 million, USD335.9 million lower than in 2011, mainly as a result of a USD43 reduction in steel revenue per ton, partially offset by a slight decrease in steel operating cost per ton. Operating cost per ton is equal to cost of sales plus selling, general and administrative expenses, divided by shipments expressed in tons.

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In accordance with IFRS guidance, Ternium performed an impairment test of its investment in Usiminas and subsequently wrote down such investment by USD275.3 million. See - Overview - Useful lives and impairment of property, plant, equipment and other long lived assets . In 2012, Ternium s investment in Usiminas, which is accounted for under the equity method, contributed a total loss of USD363.9 million, reflected in net income, mainly as a result of the above mentioned impairment, a USD51.5 million depreciation related to the difference between the fair value and book value of fixed assets, and a USD37.1 million loss from net losses in the year. In addition, Ternium s investment in Usiminas contributed to a USD282.7 million currency translation adjustment loss recorded in the consolidated statements of comprehensive income, related to the devaluation of the Brazilian real. The book value of Usiminas, as reflected in Ternium s financial statements, decreased from USD2.2 billion as of January 16, 2012, to USD1.6 billion as of December 31, 2012. For further information on the Usiminas investment, see note 3 to our audited consolidated financial statements included elsewhere in this annual report. Any further write down to Ternium s investment in Usiminas could have a material adverse effect on Ternium s results, financial condition and net worth. See Item 3. Key Information D. Risk Factors Risks Relating to our Business.

Ternium s net income in 2012 was USD187.2 million, a decrease of USD462.8 million year-over-year, mainly due to a USD363.9 million loss related to our investment in Usiminas, partially offset by a USD183.1 million lower net financial expense and a consequently lower income tax expense. The change in net financial results was principally attributable to lower net foreign exchange non-cash losses following the change in the functional currency of Ternium s Mexican subsidiaries, effective as of January 1, 2012, as there was no impact of the Mexican peso fluctuation on Ternium s Mexican subsidiaries U.S. dollar denominated debt in 2012, partially offset by higher net interest expenses due to a higher net indebtedness in 2012.

Net Sales

Net sales were USD8.6 billion in 2012, 6% lower than net sales in 2011, reflecting a decrease in net sales across all regions. The following table shows Ternium s total consolidated net sales for 2012 and 2011:

	Net sales (million USD)		
	2012	**2011**	**Dif.**
Mexico	4,457.3	4,501.8	-1%
Southern Region	2,737.4	2,962.3	-8%
Other Markets	1,377.2	1,545.8	-11%
Total steel products consolidated net sales	8,572.0	9,009.9	-5%
Other products (1)	29.1	49.0	-41%
Total steel segment net sales	8,601.1	9,058.9	-5%
Total mining segment net sales	190.7	213.2	-11%
Intersegment eliminations	(183.8)	(149.3)	
Total consolidated net sales	8,608.1	9,122.8	-6%

(1) The item Other products primarily includes pig iron and pre-engineered metal buildings.

Cost of sales

Cost of sales was USD6.9 billion in 2012, a decrease of USD149.0 million, or 2%, compared to 2011. The decrease was due to a USD195.7 million, or 3%, decrease in raw material and consumables used, mainly reflecting a reduction in raw material costs and lower sales volumes, partially offset by a USD46.6 million increase in other costs, including a USD55.3 million increase in maintenance expenses, a USD21.2 million increase in labor costs, a USD13.0 million decrease in depreciation of property, plant and equipment and amortization of intangible assets, and a USD9.6 million decrease in services and fees expenses.

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Selling, general and administrative expenses

Selling, general and administrative (SG&A) expenses in 2012 were USD809.2 million, or 9.4% of net sales, a decrease of USD30.2 million compared to 2011, mainly due to a USD12.1 million decrease in depreciation of property, plant and equipment and amortization of intangible assets, a USD10.7 million decrease in maintenance expenses, a USD6.5 million decrease in freight and transportation expenses and a USD6.1 million decrease in tax expenses (other than income tax), partially offset by a USD6.9 million increase in labor expenses.

Operating income

Operating income in 2012 was USD915.9 million, or 11% of net sales, compared to operating income of USD1.3 billion, or 14% of net sales, in 2011. The following table shows Ternium s operating income by segment for 2012 and 2011:

In millions of U.S. dollars	Steel segment		Mining segment		Intersegment eliminations		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Net Sales	8,601.1	9,058.9	190.7	213.2	(183.8)	(149.3)	8,608.1	9,122.8
Cost of sales	(6,914.7)	(7,000.7)	(132.4)	(164.3)	175.9	144.9	(6,871.1)	(7,020.1)
SG&A expenses	(804.7)	(833.4)	(4.5)	(5.9)			(809.2)	(839.4)
Other operating (expenses) income, net	(12.3)	(10.8)	0.4	(0.7)			(11.9)	(11.5)
Operating income	**869.5**	**1,214.1**	**54.2**	**42.3**	**(7.9)**	**(4.5)**	**915.9**	**1,251.8**

Steel reporting segment

The steel segment s operating income was USD869.5 million in 2012, a decrease of USD344.6 million compared to 2011, reflecting lower sales partially offset by slightly lower operating cost.

Sales of steel products in 2012 decreased 5% compared to 2011, reflecting a USD43 or 4% decrease in revenue per ton mainly due to lower steel prices in Mexico, and a 55,000 ton or 1% decrease in total shipments mainly as a result of lower sales volume in the Southern Region and Other Markets, partially offset by higher shipments in Mexico.

	Net Sales (million USD)			Shipments (thousand tons)			Revenue / ton (USD/ton)		
	2012	**2011**	**Dif.**	**2012**	**2011**	**Dif.**	**2012**	**2011**	**Dif.**
Mexico	4,457.3	4,501.8	-1%	4,952.4	4,683.2	6%	900	961	-6%
Southern Region	2,737.4	2,962.3	-8%	2,444.5	2,635.3	-7%	1,120	1,124	0%
Other Markets	1,377.2	1,545.8	-11%	1,371.2	1,505.0	-9%	1,004	1,027	-2%
Total steel products	**8,572.0**	**9,009.9**	**-5%**	**8,768.2**	**8,823.6**	**-1%**	**978**	**1,021**	**-4%**
Other products [(1)]	29.1	49.0	-41%						
Total steel segment	**8,601.1**	**9,058.9**	**-5%**						

(1) Primarily includes pig iron and pre-engineered metal buildings.

Operating cost decreased 1%, reflecting a 1% decrease in total shipments and a relatively stable operating cost per ton as higher maintenance expenses and labor costs were partially offset by lower raw material costs, a decrease in depreciation of property, plant and equipment and amortization of intangible assets, and a decrease in services and fees expenses.

Mining reporting segment

The mining segment s operating income was USD54.2 million in 2012, an increase of USD12.0 million compared to 2011, reflecting lower operating costs, partially offset by lower sales.

Sales of mining products in 2012 decreased 11% compared to 2011, mainly due to lower iron ore export volumes.

	Net Sales (million USD)			Shipments (thousand tons)			Revenue / ton (USD/ton)		
	2012	2011	Dif.	2012	2011	Dif.	2012	2011	Dif.
Mining segment	190.7	213.2	-11%	1,862.6	2,050.5	-9%	102	104	-2%

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Operating cost decreased 20%, reflecting a 9% decrease in shipments and a 12% decrease in operating cost per ton. The decrease in cost per ton in 2012 was mainly the result of a lower participation of the iron ore trading activities in the sales mix, partially offset by higher production costs (including higher purchases of third parties ore for processing, and higher freight costs and mining fees).

Net financial results

Net financial results were a USD117.3 million loss in 2012, compared to a USD300.4 million loss in 2011.

In 2012, Ternium s net interest expense totaled a USD125.2 million loss, an increase of USD64.5 million from the net interest expense in 2011, mainly reflecting higher net indebtedness and weighted average cost of debt.

Net foreign exchange result was a gain of USD11.4 million in 2012, compared to a loss of USD236.1 million in 2011. The 2011 loss was primarily due to the impact of the Mexican peso s 13.1% devaluation on Ternium s Mexican subsidiaries U.S. dollar denominated debt. The 2011 non-cash result was offset by changes in Ternium s net equity position in the currency translation adjustments line, as the value of Ternium Mexico s U.S. dollar denominated debt was not altered by the Mexican peso s fluctuation when stated in U.S. dollars in Ternium s consolidated financial statements. These losses did not recur in 2012 as Ternium s Mexican subsidiaries adopted the U.S. dollar as their functional currency on January 1, 2012.

Change in fair value of financial instruments included in net financial results in 2012 was an USD11.0 million gain, compared with an USD8.0 million gain in 2011. These results were mainly related to certain derivative instruments entered into by Ternium to cover currency and interest rate exposure in its subsidiaries and to results from the fair value of financial investments.

Equity in results of non-consolidated companies

Equity in results of non-consolidated companies was a loss of USD346.8 million in 2012, compared to a gain of USD10.1 million in 2011. Equity in results of non-consolidated companies in 2012 included a USD363.9 million loss related to Ternium s investment in Usiminas partially offset by a USD14.1 million gain related to Ternium s participation in Consorcio Peña Colorada. Such loss included the previously mentioned USD275.3 million impairment, a USD51.5 million depreciation of the difference between the fair value and book value of net assets and a USD37.1 million loss from Usiminas net losses in the year.

Income tax expense

Income tax expense in 2012 was USD264.6 million, or 59% of income before income tax expense, compared with an income tax expense of USD311.7 million in 2011, or 32% of income before income tax expense. The effective tax rate in 2012 increased mainly as a result of losses related to the Company s investment in Usiminas, as most of such losses did not generate tax credits.

Net income attributable to non-controlling interests

Net income attributable to non-controlling interests in 2012 was USD47.9 million, compared to USD136.4 million in 2011, mainly due to a lower result attributable to non-controlling interest in Siderar, partially offset by a higher result attributable to non-controlling interest in Ternium Mexico.

Fiscal Year Ended December 31, 2011 compared to Fiscal Year Ended December 31, 2010

Overview

In 2011, apparent steel use increased 6.0% year-over-year in Mexico to 18.3 million tons. GDP grew 3.9% in the year, consolidating the 2010 recovery. Mexico showed a broad-based increase in activity in 2011, featuring an expansion

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in key steel consuming sectors such as construction and automotive. The steel market of Argentina showed a 15.5% year-over-year increase in apparent steel use during 2011, to 5.3 million tons. The economic activity in the country continued to grow during 2011, with an 8.9% GDP expansion. Construction activity consolidated its growth pace and the automotive sector which significantly expanded in 2010, showed healthy growth rates in 2011. In Colombia, apparent steel use increased 15.0% year-over-year in 2011 to 3.2 million tons, reflecting a good performance of the construction and industrial sectors (with the exception of the automotive industry). GDP grew 5.9% in the year.

Ternium s operating income in 2011 was USD1.3 billion, compared to USD1.0 billion in 2010. This USD208.3 million year-over-year increase mainly reflects a 769,000 ton increase in steel shipments and a USD126 higher steel revenue per ton, partially offset by a USD109 higher steel operating cost per ton, which increased mainly due to higher raw material costs. Ternium s net income was USD649.9 million, a decrease of USD129.6 million year-over-year mainly due to a USD429.7 million lower net financial result, partially offset by the above mentioned USD208.3 million increase in operating income and a USD94.5 million lower income tax expense. The year-over-year change in net financial results included a USD359.5 million net foreign exchange loss primarily due to the impact of the Mexican peso s 13.1% depreciation on Ternium s Mexican subsidiary s U.S. dollar denominated debt in 2011, compared with a 5.4% Mexican peso appreciation in 2010, and a USD49.6 million lower interest income on the Sidor financial asset in 2011. For more information on the Sidor nationalization process, see note 27 to our audited consolidated financial statements included elsewhere in this annual report.

Net Sales

Net sales were USD9.1 billion in 2011, 24% higher than net sales in 2010, reflecting an increase in steel sales in all regions and Ternium s increased participation in the Colombian steel market. The following table shows Ternium s total consolidated net sales for 2011 and 2010:

	Net sales (million USD)		
	2011	**2010**	**Dif.**
Mexico	4,501.8	3,779.2	19%
Southern Region	2,962.3	2,417.9	23%
Other Markets	1,545.8	1,012.5	53%
Total steel products consolidated net sales	9,009.9	7,209.5	25%
Other products (1)	49.0	56.2	13%
Total steel segment net sales	9,058.9	7,265.7	25%
Total mining segment net sales	213.2	201.9	6%
Intersegment eliminations	(149.3)	(127.7)	
Total consolidated net sales	9,122.8	7,339.9	24%

Cost of sales

Cost of sales was USD7.0 billion in 2011, an increase of USD1.5 billion, or 26%, compared to 2010. This was due to a USD1.3 billion, or 30%, increase in raw material costs and consumables used, reflecting a 10% increase in sales volumes and higher raw material and purchased slab costs, and a USD151.1 million, or 12%, increase in other costs, including an USD84.1 million increase in labor, a USD43.1 million increase in services and maintenance expenses (reflecting higher activity levels and labor costs) and a USD27.0 million increase in depreciation of property, plant and equipment.

Selling, general and administrative expenses

SG&A expenses in 2011 were USD839.4 million, or 9% of net sales, compared with USD738.3 million, or 10% of net sales, in 2010. The USD101.1 million increase in SG&A was mainly due to a USD37.4 million increase in freight expenses, USD35.3 million increase in labor costs and USD30.6 million increase in taxes, related to increased activity levels and the consolidation of Ferrasa from August 25, 2010.

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Operating income

Operating income in 2011 was USD1.3 billion, or 14% of net sales, compared to operating income of USD1.0 billion, or 14% of net sales, in 2010. The following table shows Ternium s operating income by segment for 2011 and 2010:

In millions of U.S. dollars	Steel segment		Mining segment		Intersegment eliminations		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Net Sales	9,058.9	7,265.7	213.2	201.9	(149.3)	(127.7)	9,122.8	7,339.9
Cost of sales	(7,000.7)	(5,517.2)	(164.3)	(170.7)	144.9	127.7	(7,020.1)	(5,560.2)
SG&A expenses	(833.4)	(734.1)	(5.9)	(4.2)			(839.4)	(738.3)
Other operating (expenses) income, net	(10.8)	4.7	(0.7)	(2.5)			(11.5)	2.2
Operating income	**1,214.1**	**1,019.0**	**42.3**	**24.5**	**(4.5)**		**1,251.8**	**1,043.6**

Steel reporting segment

The steel segment s operating income was USD1.2 billion in 2011, an increase of USD195.1 million compared to 2010, reflecting higher sales partially offset by higher operating cost.

Sales of steel products in 2011 increased 25% compared to 2010, reflecting a 769,000 ton or 10% increase in shipments, mainly due to higher demand for steel products and Ternium s increased participation in the Colombian steel market, and a USD126 or 14% increase in revenue per ton shipped, mainly due to higher steel prices in Ternium s main steel markets.

	Net Sales (million USD)			Shipments (thousand tons)			Revenue / ton (USD/ton)		
	2011	2010	Dif.	2011	2010	Dif.	2011	2010	Dif.
Mexico	4,501.8	3,779.2	19%	4,683.2	4,466.9	5%	961	846	14%
Southern Region	2,962.3	2,417.9	23%	2,635.3	2,396.4	10%	1,124	1,009	11%
Other Markets	1,545.8	1,012.5	53%	1,505.0	1,191.3	26%	1,027	850	21%
Total steel products	**9,009.9**	**7,209.5**	**25%**	**8,823.6**	**8,054.6**	**10%**	**1,021**	**895**	**14%**
Other products [(1)]	49.0	56.2	13%						
Total steel segment	**9,058.9**	**7,265.7**	**25%**						

(1) Primarily includes pig iron and pre-engineered metal buildings.

Operating costs increased 25%, reflecting a 10% increase in shipments and a 14% increase in operating cost per ton mainly from higher raw material and purchased slab costs, as well as higher labor costs, services expenses and depreciation of property, plant and equipment.

Mining reporting segment

The mining segment s operating income was USD42.3 million in 2011, an increase of USD17.8 million compared to 2010, reflecting higher sales and lower operating costs.

Iron ore sales in 2011 increased 6% compared to 2010, reflecting a 16% increase in revenue per ton, partially offset by a 9% decrease in shipments, mainly due to lower exports of iron ore.

	Net Sales (million USD)			Shipments (thousand tons)			Revenue / ton (USD/ton)		
	2011	2010	Dif.	2011	2010	Dif.	2011	2010	Dif.
Mining segment	213.2	201.9	6%	2,050.5	2,250.4	-9%	104	90	16%

Operating costs decreased 3%, reflecting a 9% decrease in shipments, partially offset by a 7% increase in operating cost per ton. The increase in cost per ton in 2011 was mainly the result of higher production costs (including higher mining fees, energy costs and higher purchases of third

parties ore for processing), partially offset by a lower participation of iron ore trading activities in the sales mix.

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Net financial results

Net financial results were a USD300.4 million loss in 2011, compared with a USD129.2 million gain in 2010.

In 2011, Ternium s net interest expense totaled USD60.7 million, higher than the USD14.4 million in 2010, mainly reflecting higher net indebtedness and average interest rates.

Interest income on the Sidor financial asset was USD11.4 million in 2011, compared to USD61.0 million in 2010. These results are attributable to the Sidor financial asset in connection with the transfer of Sidor shares on May 7, 2009. The decrease reflects the reduction in the notional amount of the Sidor financial asset over time.

Net foreign exchange result was a loss of USD236.1 million in 2011, compared to a gain of USD123.4 million in 2010. The loss in 2011 was primarily due to the impact of the Mexican peso s 13.1% depreciation on Ternium s Mexican subsidiary s U.S. dollar denominated debt. During 2011 and 2010, Ternium Mexico prepared its financial statements in Mexican pesos and registered foreign exchange results on its net non-Mexican pesos positions when the Mexican peso revaluated or devaluated relative to other currencies. See - Overview - Prevailing exchange rates have had an impact on Ternium s results in the past and could impact results again in the future.

Equity in results of non-consolidated companies

Equity in results of non-consolidated companies was a USD10.1 million gain in 2011, compared to a USD12.9 million gain in 2010. Equity in results of non-consolidated companies was related mainly to Ternium s participation in Consorcio Peña Colorada.

Income tax expense

Income tax expense in 2011 was USD311.7 million, or 32% of income before income tax expense, compared with an income tax expense of USD406.2 million in 2010, or 34% of income before income tax expense.

Net income attributable to non-controlling interest

Net income attributable to non-controlling interest in 2011 was USD136.4 million, compared to USD157.4 million in 2010, mainly due to a lower result attributable to non-controlling interest in Siderar and Ternium Mexico.

Foreign Currency Fluctuations

See Item 11. Quantitative and Qualitative Disclosures About Market Risk Foreign Exchange Exposure Risk.

Governmental Economic, Fiscal, Monetary or Political Policies or Factors

See Item 3. Key Information D. Risk Factors Risks Relating to the Countries in Which We Operate.

B. Liquidity and Capital Resources

We obtain funds from our operations, as well as from short-term and long-term borrowings from financial institutions. These funds are primarily used to finance our working capital and capital expenditures requirements, and our acquisitions (for further information on capital expenditures, see Item 4. Information on the Company B. Business Overview Capital Expenditure Program). In addition, during 2010, 2011 and 2012, we had total cash inflows of USD1.0 billion in connection with compensation payments for the nationalization of our participation in Sidor. For more information on the