

Ternium S.A.  
Form 6-K  
March 27, 2014

**FORM 6 - K**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Report of Foreign Private Issuer**

**Pursuant to Rule 13a - 16 or 15d - 16 of**

**the Securities Exchange Act of 1934**

**As of 3/27/2014**

**Ternium S.A.**

(Translation of Registrant's name into English)

**Ternium S.A.**  
**29 Avenue de la Porte-Neuve**

**L-2227 Luxembourg**

**(352) 2668-3152**

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or 40-F.

Form 20-F  Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12G3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

**Not applicable**

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The attached material is being furnished to the Securities and Exchange Commission pursuant to Rule 13a-16 and Form 6-K under the Securities Exchange Act of 1934, as amended.

This report contains Ternium's notice of Annual General Meeting of Shareholders, the Shareholder Meeting Brochure and Proxy Statement and Ternium's 2013 Annual Report.

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TERNIUM S.A.

By: /s/ Arturo Sporleder

Name: Arturo Sporleder

Title: Secretary to the Board of Directors

Dated: March 27, 2014

Ternium S.A.  
29, Avenue de la  
Porte Neuve  
L-2227  
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Grand Duché de  
Luxembourg

00 352 26 68 31 52 500  
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[www.ternium.com](http://www.ternium.com)

RCS Luxembourg  
B 98 668

March 27, 2014

Dear Ternium Shareholders and ADR holders,

I am pleased to invite you to attend the Annual General Meeting of Shareholders of TERNIUM S.A. (the “Company”), to be held on Thursday, May 7, 2014, at 29, avenue de la Porte-Neuve, L-2227, Luxembourg, at 2:30 p.m. (Luxembourg time).

At the meeting, you will hear a report on the Company’s business, financial condition and results of operations and will be able to vote on various matters, including the approval of the Company’s financial statements, the election of the members of the board of directors and the appointment of the independent auditors.

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The Notice and Agenda for the meeting, the Shareholder Meeting Brochure and Proxy Statement and the Company's 2013 annual report (which includes the Company's consolidated financial statements as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011, together with the board of directors' and independent auditors' reports thereon, and the Company's annual accounts as at December 31, 2013, together with the independent auditor's report thereon), will be available on our website at <http://www.ternium.com/en/ir-home> beginning on March 27, 2014. Copies of such documents will also be available to ADR holders and shareholders registered in the Company's share register free of charge at the Company's registered office in Luxembourg, between 10:00 a.m. and 5:00 p.m., Luxembourg time, beginning on March 27, 2014. In addition, beginning on March 27, 2014, shareholders registered in the Company's share register may obtain electronic copies of such documents free of charge by sending an e-mail request to the following electronic address: [ir@ternium.com](mailto:ir@ternium.com).

Even if you only own a few shares or ADRs, I hope that you will exercise your right to vote at the meeting. You can vote your shares personally or by proxy. If you are a shareholder and choose to vote by proxy, you may obtain a proxy form free of charge at the Company's registered office in Luxembourg or, if you are a shareholder registered in the Company's share register, obtain an electronic copy of such proxy form by sending an e-mail request to the following electronic address: [ir@ternium.com](mailto:ir@ternium.com), in each case, beginning on March 27, 2014. If you are a holder of ADRs, please see the letter from The Bank of New York Mellon, the depositary bank, or contact your broker/custodian, for instructions on how to give voting instructions in respect of the shares underlying your ADRs.

Yours sincerely,

Paolo Rocca

Chairman

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**Re: TERNIUM S.A.**

To: Registered Holders of American Depositary Receipts (“ADRs”) for ordinary shares, USD 1.00 par value each (the “Shares”), of Ternium S.A. (the “Company”):

The Company has announced that its Annual General Meeting of Shareholders will be held on May 7, 2014 at 29, avenue de la Porte-Neuve, L-2227, Luxembourg, at 2:30 p.m. (Luxembourg time). **A copy of the Company’s Notice of Annual General Meeting of Shareholders, which includes the agenda for such meeting, is available on the Company’s website at <http://www.ternium.com/en/ir-home>.**

The enclosed dedicated proxy form is provided to allow you to give voting instructions in respect of the Shares represented by your ADRs. The Notice of the Annual General Meeting of Shareholders, the Shareholder Meeting Brochure and Proxy Statement and the Company’s 2013 annual report (which includes the Company’s consolidated financial statements as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011, together with the board of directors’ and the independent auditors’ reports thereon; and the Company’s annual accounts as at December 31, 2013, together with the independent auditors’ report thereon), are available on the Company’s website at <http://www.ternium.com/en/ir-home>. ADR holders may also obtain copies of such materials upon request at +1-800-555-2470 (toll free if you call from the United States). Copies of the Notice of the Annual General Meeting of Shareholders, the Shareholder Meeting Brochure and Proxy Statement and the Company’s 2013 annual report are also available to ADR holders free of charge at the Company’s registered office in Luxembourg, between 10:00 a.m. and 5:00 p.m., Luxembourg time.

Each holder of ADRs as of April 7, 2014 is entitled to instruct The Bank of New York Mellon, as Depositary (the “Depositary”), as to the exercise of the voting rights pertaining to the Shares represented by such holder’s ADRs. Any eligible holder of ADRs who desires to give voting instructions in respect of the Shares represented by such holder’s ADRs must complete, date and sign a proxy form and return it to The Bank of New York Mellon at Proxy Services, C/O Computershare, PO Box 43126, Providence, RI 02940-5138, **by 12:00 p.m., New York City time, on May 2, 2014**. If the Depositary receives properly completed instructions by 12:00 p.m., New York City time, on May 2, 2014, then it shall endeavor, insofar as practicable, to vote or cause to be voted the Shares underlying such ADRs in the manner prescribed by the instructions. However, if by 12:00 p.m., New York City time, on May 2, 2014, the Depositary receives no instructions from the holder of ADRs, or the instructions received by the Depositary 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 discretionary proxy to a person designated by the Company with respect to that**

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**amount of Shares underlying such ADRs to vote such Shares in favor of any proposals or recommendations of the Company (including any recommendation by the Company to vote such Shares 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 discretionary 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 ADRs.

Any holder of ADRs is entitled to revoke or revise any instructions previously given to the Depositary by filing with the Depositary a written revocation or duly executed instructions bearing a later date at any time prior to **12:00 p.m., New York City time, on May 2, 2014.** No instructions, revocations or revisions thereof will be accepted by the Depositary after that time.

In order to avoid the possibility of double vote, **the Company's ADR books will be closed for cancellations from April 7, 2014, until May 2, 2014.** However, holders of ADRs need not have their ADRs blocked for trading on the New York stock exchange.

**IF YOU WANT YOUR VOTE TO BE COUNTED, THE DEPOSITARY MUST RECEIVE YOUR VOTING INSTRUCTIONS PRIOR TO 12:00 P.M. (NEW YORK CITY TIME) ON May 2, 2014.**

**THE BANK OF NEW YORK MELLON**

*Depositary*

March 27, 2014

New York, New York

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SIGNATURE

Ternium S.A.  
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L-2227 Luxembourg  
Grand Duché de  
Luxembourg

00 352 26 68 31 52 500 tel

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RCS Luxembourg B 98 668

**Notice of the Annual General Meeting of Shareholders to be held in Luxembourg on May 7, 2014 at 2:30 p.m. (Luxembourg time).**

Notice is hereby given to shareholders of TERNIUM S.A. (the “Company”) that the Annual General Meeting of Shareholders of the Company will be held on May 7, 2014, at 29, avenue de la Porte-Neuve, L-2227, Luxembourg, at 2:30 p.m. (Luxembourg time) (the “Meeting”). At the Meeting, shareholders will vote on the items listed below.

**Agenda**

1. Consideration of the Board of Directors’ and independent auditor’s reports on the Company’s consolidated financial statements. Approval of the Company’s consolidated financial statements as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011.
2. Consideration of the independent auditor’s report on the Company’s annual accounts. Approval of the Company’s annual accounts as at December 31, 2013.



3. Allocation of results and approval of dividend payment.
  
4. Discharge to the members of the Board of Directors for the exercise of their mandate throughout the year ended December 31, 2013.
  
5. Election of the members of the Board of Directors.
  
6. Compensation of the members of the Board of Directors.
  
7. Appointment of the independent auditors for the fiscal year ending December 31, 2014 and approval of their fees.
  
8. Authorization to the Board of Directors to delegate the day-to-day management of the Company's business to one or more of its members.
  
9. Authorization to the Board of Directors to appoint one or more of its members as the Company's attorney-in-fact.

Pursuant to the Company's Articles of Association, resolutions at the Meeting will be passed by a simple majority of the votes cast, irrespective of the number of shares present or represented.

**Procedures for attending the Meeting**

Any shareholder registered in the Company's share register on May 2, 2014(the "Record Date"), shall be admitted to the Meeting. Such shareholders may attend the Meeting in person or vote by proxy. To vote by proxy, such shareholders must file a completed proxy form with the Company not later than 5:00 p.m. (Luxembourg time) on the Record Date, at the Company's registered office in Luxembourg, located at 29, avenue de la Porte-Neuve, L-2227, Luxembourg.

Any shareholder holding shares through fungible securities accounts wishing to attend the Meeting in person must present a certificate issued by the financial institution or professional depositary holding such shares, evidencing deposit of the shares and certifying the number of shares recorded in the relevant account as of the Record Date. Certificates certifying the number of shares recorded in the relevant account as of a date other than the Record Date will not be accepted and such shareholders will not be admitted to the Meeting. Certificates must be filed with the Company not later than 5:00 p.m. (Luxembourg time) on the Record Date, at the Company's registered office in Luxembourg.

Shareholders holding their shares through fungible securities accounts may also vote by proxy. To do so, they must present the above referred certificate, together with a completed proxy form. Such certificate and proxy form must be filed with the Company not later than 5:00 p.m. (Luxembourg time) on the Record Date, at the Company's registered office in Luxembourg.

Shareholders who wish to be represented and vote by proxy may obtain a proxy form free of charge at the Company's registered office in Luxembourg, between 10:00 a.m. and 5:00 p.m., Luxembourg time, beginning on March 27, 2014. In addition, beginning on March 27, 2014, shareholders can obtain an electronic copy of such proxy form free of charge by sending an e-mail request to the following electronic address: [ir@ternium.com](mailto:ir@ternium.com). All proxy forms must be received by the Company, properly completed and signed, at the Company's registered office in Luxembourg by not later than 5:00 p.m. (Luxembourg time) on the Record Date.

In the event of shares owned by a corporation or any other legal entity, individuals representing such entity who wish to attend the Meeting in person and vote at the Meeting on behalf of such entity, must present evidence of their authority to attend, and vote at, the Meeting by means of a proper document (such as a general or special power-of-attorney) issued by the relevant entity. A copy of such power of attorney or other proper document must be filed with the Company not later than 5:00 p.m. (Luxembourg time) on the Record Date, at the Company's registered office in Luxembourg. The original documentation evidencing the authority to attend, and vote at, the Meeting, or a notarized and legalized copy thereof, must be presented at the Meeting.

Shareholders and proxy holders attending the meeting in person will be required to identify themselves at the meeting with a valid official identification document (e.g., identity card, passport).

Those shareholders who have sold their shares between the Record Date and the date of the Meeting must not attend or be represented at any of the Meetings. In case of breach of such prohibition, criminal sanctions may apply.

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Holders of American Depositary Receipts (the “ADRs”) as of April 7, 2014, are entitled to instruct The Bank of New York Mellon, as Depositary, as to the exercise of the voting rights pertaining to the Company’s shares represented by such holder’s ADRs. Eligible holders of ADRs who desire to give voting instructions in respect of the shares represented by their ADRs must complete, date and sign a proxy form and return it to The Bank of New York Mellon Shareowner Services, P.O. Box 3549, S. Hackensack New Jersey 07606-9249, U.S.A. Attention: Proxy Processing, by **12:00 p.m., New York City time, on May 2, 2014**. Holders of ADRs maintaining non-certificated positions must follow voting instructions given by their broker or custodian bank, which may provide for earlier deadlines for submitting voting instructions.

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Copies of the Shareholder Meeting Brochure and Proxy Statement and the Company's 2013 annual report (which includes the Company's consolidated financial statements as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011, together with the board of directors' and independent auditors' reports thereon, and the Company's annual accounts as at December 31, 2013, together with the independent auditor's report thereon), will be available on our website at <http://www.ternium.com/en/ir-home> beginning on March 27, 2014. Copies of such documents will also be available free of charge to ADR holders and shareholders registered in the Company's share register at the Company's registered office in Luxembourg, between 10:00 a.m. and 5:00 p.m., Luxembourg time, beginning on March 27, 2014. In addition, beginning on March 27, 2014, shareholders registered in the Company's share register may obtain electronic copies of such documents free of charge by sending an e-mail request to the following electronic address: [ir@ternium.com](mailto:ir@ternium.com).

Arturo Sporleder

*Secretary to the Board of Directors*

March 27, 2014

Luxembourg

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Shareholder Meeting Brochure  
and Proxy Statement

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Ternium

**Shareholder Meeting Brochure and Proxy Statement**

**Annual General Meeting of Shareholders to be held in Luxembourg on May 7, 2014 at 2:30 p.m. (Luxembourg time)**

This Shareholder Meeting Brochure and Proxy Statement is furnished by TERNIUM S.A. (the “Company”) in connection with the Annual General Meeting of Shareholders of the Company to be held on May 7, 2014, at 29, avenue de la Porte-Neuve, L-2227 Luxembourg, at 2:30 p.m. (Luxembourg time) (the “Meeting”), for the purposes set forth in the accompanying Notice of the Annual General Meeting of Shareholders (the “Notice”).

As of the date hereof, there are issued and outstanding 2,004,743,442 ordinary shares, USD 1.00 par value each, of the Company (the “Shares”), including Shares (the “Deposited Shares”) deposited with The Bank of New York Mellon (the “Depositary”) under the Deposit Agreement, dated as of January 31, 2006 (the “Deposit Agreement”), among the Company, the Depositary and owners and beneficial owners from time to time of American Depositary Receipts (the “ADRs”) issued thereunder. The Deposited Shares are represented by American Depositary Shares, which are evidenced by the ADRs (one ADR equals ten Deposited Shares). A subsidiary of the Company currently holds 41,666,666 Shares.

Each Share entitles the holder thereof to one vote at General Meeting of Shareholders of the Company. However, voting rights on the 41,666,666 Shares held by the Company’s subsidiary shall be suspended for so long as such Shares are so held.

Any shareholder registered in the Company’s share register on May 2, 2014 (the “Record Date”), shall be admitted to the Meeting. Such shareholders may attend the Meeting in person or vote by proxy. To vote by proxy, such shareholders must file a completed proxy form with the Company not later than 5:00 p.m. (Luxembourg time) on the Record Date, at the Company’s registered office in Luxembourg, located at 29, avenue de la Porte-Neuve, L-2227 Luxembourg.

Any shareholder holding shares through fungible securities accounts wishing to attend the Meeting in person must present a certificate issued by the financial institution or professional depositary holding such shares, evidencing deposit of the shares and certifying the number of shares recorded in the relevant account as of the Record Date. Certificates attesting the number of shares recorded in the relevant account as of a date other than the Record Date will not be accepted and such shareholders will not be admitted to the Meeting. Certificates must be filed with the Company not later than 5:00 p.m. (Luxembourg time) on the Record Date, at the Company’s registered office in Luxembourg.

Shareholders holding their shares through fungible securities accounts may also vote by proxy. To do so, they must present the above referred certificate, together with a completed proxy form. Such certificate and proxy form must be filed with the Company not later than 5:00 p.m. (Luxembourg time) on the Record Date, at the Company’s registered office in Luxembourg.

Shareholders who wish to be represented and vote by proxy may obtain a proxy form free of charge at the Company’s registered office in Luxembourg, between 10:00 a.m. and 5:00 p.m., Luxembourg time, beginning on March 27, 2014.

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In addition, beginning on March 27, 2014, shareholders can obtain an electronic copy of such proxy form free of charge by sending an e-mail request to the following electronic address: [ir@ternium.com](mailto:ir@ternium.com). All proxy forms must be received by the Company, properly completed and signed, at the Company's registered office in Luxembourg by not later than 5:00 p.m. (Luxembourg time) on the Record Date.

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In the event of shares owned by a corporation or any other legal entity, individuals representing such entity who wish to attend the Meeting in person and vote at the Meeting on behalf of such entity, must present evidence of their authority to attend, and vote at, the Meeting by means of a proper document (such as a general or special power-of-attorney) issued by the relevant entity. A copy of such power of attorney or other proper document must be filed with the Company not later than 5:00 p.m. (Luxembourg time) on the Record Date, at the Company's registered office in Luxembourg. The original documentation evidencing the authority to attend, and vote, at the Meeting, or a notarized and legalized copy thereof, must be presented at the Meeting.

Shareholders and their proxies attending the meeting in person will be required to identify themselves at the meeting with a valid official identification document (e.g., identity card, passport).

Those shareholders who have sold their shares between the Record Date and the date of the Meeting must not attend or be represented at any of the Meeting. In case of breach of such prohibition, criminal sanctions may apply.

Each holder of ADRs as of April 7, 2014, is entitled to instruct the Depositary as to the exercise of the voting rights pertaining to the Shares represented by such holder's ADRs. Any eligible holder of ADRs who desires to give voting instructions in respect of the Shares represented by such holder's ADRs must complete, date and sign a proxy form and return it to The Bank of New York Mellon Shareowner Services, P.O. Box 3549, S. Hackensack New Jersey 07606-9249, U.S.A. Attention: Proxy Processing, by **12:00 p.m., New York City time, on May 2, 2014**. If the Depositary receives properly completed instructions by **12:00 p.m., New York City time, on May 2, 2014**, then it shall endeavor, insofar as practicable, to vote or cause to be voted the shares underlying such ADRs in the manner prescribed by the instructions. However, if by **12:00 p.m., New York City time, on May 2, 2014**, the Depositary receives no instructions from the holder of ADRs, or the instructions received 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 discretionary proxy to a person designated by the Company with respect to that amount of Shares underlying such ADRs to vote such Shares in favor of any proposals or recommendations of the Company (including any recommendation by the Company to vote such Shares 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 discretionary 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 ADRs.

Any holder of ADRs is entitled to revoke or revise any instructions previously given to the Depositary by filing with the Depositary a written revocation or duly executed instructions bearing a later date at any time prior to **12:00 p.m., New York City time, on May 2, 2014**. No instructions, revocations or revisions thereof will be accepted by the Depositary after that time.

In order to avoid the possibility of double vote, the Company's ADR books will be closed for cancellations from April 7, 2014 until May 2, 2014. However, holders of ADRs will not have their ADRs blocked for trading on the New York stock exchange.

Holders of ADRs maintaining non-certificated positions must follow voting instructions outlined by their broker or custodian bank, which may provide for earlier deadlines for submitting voting instructions than that indicated above.

The Meeting will appoint a chairperson *pro tempore* to preside over the Meeting. The chairperson *pro tempore* will have broad authority to conduct the Meeting in an orderly and timely manner and to establish rules for shareholders

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who wish to address the Meeting; the chairperson may exercise broad discretion in recognizing shareholders who wish to speak and in determining the extent of discussion on each item of the agenda.

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Pursuant to the Company's Articles of Association and Luxembourg law, resolutions at the Meeting will be passed by a simple majority of the votes cast, irrespective of the number of Shares present or represented.

The Meeting is called to address and vote on the following agenda:

**1. Consideration of the Board of Directors' and independent auditor's reports on the Company's consolidated financial statements. Approval of the Company's consolidated financial statements as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011**

The Company's consolidated financial statements as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 (comprising the consolidated balance sheets of the Company and its subsidiaries and the related consolidated income statements, consolidated statements of changes in shareholders' equity, consolidated cash flow statements and the notes to such consolidated financial statements) and the reports from each of the Company's Board of Directors (the "Board") and the independent auditor on such consolidated financial statements are included in the Company's 2013 annual report, a copy of which will be available on Company's website at <http://www.ternium.com/en/ir-home> beginning on March 27, 2014. Copies of the Company's 2013 annual report are also available to ADR holders and shareholders registered in the Company's share register free of charge at the Company's registered office in Luxembourg, between 10:00 a.m. and 5:00 p.m., Luxembourg time, beginning on March 27, 2014. In addition, beginning on March 27, 2014, shareholders registered in the Company's share register may obtain an electronic copy of the Company's 2013 annual report free of charge by sending an e-mail request to the following electronic address: [ir@ternium.com](mailto:ir@ternium.com).

*Draft resolution proposed to be adopted: "to approve the Company's consolidated financial statements as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011."*

**2. Consideration of the independent auditor's report on the Company's annual accounts. Approval of the Company's annual accounts as at December 31, 2013**

The Company's annual accounts as at December 31, 2013 (comprising the balance sheet, the profit and loss account and the notes to such annual accounts) and the report from the independent auditor on such annual accounts are included in the Company's 2013 annual report, a copy of which will be available on our website at <http://www.ternium.com/en/ir-home> beginning on March 27, 2014. Copies of the Company's 2013 annual report are also available to ADR holders and shareholders registered in the Company's share register free of charge at the Company's registered office in Luxembourg, between 10:00 a.m. and 5:00 p.m., Luxembourg time, beginning on March 27, 2014. In addition, beginning on March 27, 2014, shareholders registered in the Company's share register may obtain an electronic copy of the Company's 2013 annual report free of charge by sending an e-mail request to the following electronic address: [ir@ternium.com](mailto:ir@ternium.com).

*Draft resolution proposed to be adopted: "to approve the Company's annual accounts as at December 31, 2013."*

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Ternium

### 3. Allocation of results and approval of dividend payment

The Board proposes that a dividend payable in U.S. dollars on May 16, 2014, in the amount of USD 0.075 per share issued and outstanding, be approved. Accordingly, if this dividend proposal is approved, the Company will make, or cause to be made, a dividend payment on May 16, 2014, in the amount of USD 0.075 per share issued and outstanding, or USD 0.75 per ADR issued and outstanding.

While the Company's annual accounts as at December 31, 2013 show a loss for 2013 of USD 6,946,877, the Company's consolidated financial statements as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 show net income for 2013 of USD 455,424,691. Considering the Company's retained earnings and other distributable reserves, the Company has distributable amounts which exceed the proposed dividend.

The aggregate amount of USD 150,355,758.15 to be distributed as dividend on May 16, 2014, is to be paid from the Company's retained earnings reserve. The loss of the year ended December 31, 2013, would be absorbed by the Company's retained earnings account.

Upon approval of this resolution, it is proposed that the Board be authorized to determine or amend, in its discretion, any of the terms and conditions (including payment date) of the dividend payment.

***Draft resolution proposed to be adopted:*** “(i) to approve a dividend, payable in U.S. dollars, on May 16, 2014, in the amount of USD 0.075 per share issued and outstanding, (ii) to authorize the Board of Directors to determine or amend, in its discretion, any of the terms and conditions (including payment date) of such dividend payment, (iii) that the aggregate amount of USD 150,355,758.15 to be distributed as dividend on May 16, 2014, be paid from the Company's retained earnings reserve, and (iv) that the loss of the year ended December 31, 2013, be absorbed by the Company's retained earnings account.”

### 4. Discharge to the members of the Board of Directors for the exercise of their mandate throughout the year ended December 31, 2013

In accordance with applicable Luxembourg law and regulations, it is proposed that, upon approval of the Company's annual accounts as at December 31, 2013, all who were members of the Board during the year 2013, be discharged from any liability in connection with the management of the Company's affairs during such year.

***Draft resolution proposed to be adopted:*** “to discharge all those who were members of the Board of Directors during the year ended December 31, 2013, from any liability in connection with the management of the Company's affairs during such year.”

### 5. Election of the members of the Board of Directors

The Company's Articles of Association provide for the annual election by the shareholders of a board of directors of not less than five and not more than fifteen members. Members of the Board have a term of office of one year, but may be reappointed.

Under the Company's Articles of Association and applicable U.S. laws and regulations, the Company is required to have an Audit Committee comprised solely of directors who are independent.

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Ternium

The current Board consists of nine Directors. Three members of the Board (Messrs. Ubaldo Aguirre, Adrian Lajous and Pedro Pablo Kuczynski) qualify as independent members under the Company's Articles of Association and applicable law and are members of the Audit Committee.

It is proposed that (i) the number of members of the Board be maintained at nine, and (ii) Messrs. Ubaldo Aguirre, Roberto Bonatti, Carlos Alberto Condorelli, Pedro Pablo Kuczynski, Adrian Lajous, Bruno Marchettini, Gianfelice Mario Rocca, Paolo Rocca and Daniel Agustin Novegil be re-elected as members of the Board.

Set forth below is summary biographical information of each of the candidates:

1) **Mr. Ubaldo José Aguirre.** Mr. Aguirre has served on the Board since 2006. He is a managing director of Aguirre y Gonzalez S.A., an Argentine financial services firm, and also serves as the chairman of the board of directors and a member of the audit committee of Holcim Argentina S.A., a subsidiary of Holcim, the Swiss cement producer. Since 2005, he also serves as the chairman of the board of directors of Permasur S.A., an Argentine winery, and of Editorial Sur S.A. Since 2000, he is a member of the board of directors of URS Argentina S.A., the Argentine subsidiary of URS, a U.S. corporation. He is a member of the Administrative Board of the Universidad Catolica Argentina. Mr. Aguirre formerly served as a director and the chairman of the audit committee of Siderar S.A.I.C. ("Siderar"), an Argentine publicly-listed company and a subsidiary of the Company. Mr. Aguirre began his career at the World Bank in Washington, D.C. In addition, in the past Mr. Aguirre was a member of the boards of each of Argentina's Central Bank—where he was responsible for that country's external borrowing program and financial negotiations—, *Banco de la Nación Argentina* and *Banco Nacional de Desarrollo*. He also served as the Republic of Argentina's financial representative for Europe in Geneva and negotiator on behalf of the Republic of Argentina with the Paris Club. Mr. Aguirre, aged 65, is an Argentine citizen.

2) **Mr. Roberto Bonatti.** Mr. Bonatti has served as a director of the Company since 2005. He is a grandson of Agostino Rocca, founder of the Techint group, a group of companies controlled by San Faustin S.A. ("San Faustin"). Throughout his career in the Techint group he has been involved specifically in the engineering and construction and corporate sectors. He was first employed by the Techint group in 1976, as deputy resident engineer in Venezuela. In 1984, he became a director of San Faustín, and since 2001 he has served as its president. In addition, Mr. Bonatti currently serves as president of Sadma Uruguay S.A. He is also a member of the board of directors of Tenaris S.A. ("Tenaris"), an affiliate of the Company. Mr. Bonatti, aged 64, is an Italian citizen.

3) **Mr. Carlos Alberto Condorelli.** Mr. Condorelli has served as a director of the Company since 2005. He is currently a member of the board of directors of Tenaris. He began his career within the Techint group in 1975 as an analyst in the accounting and administration department of Siderar. He has held several positions within Tenaris and other Techint group companies, including chief financial officer of Tenaris, finance and administration director of Tubos de Acero de México, S.A. ("Tamsa"), a subsidiary of Tenaris, and president of the board of directors of Empresa Distribuidora La Plata S.A., an Argentine utilities company. Mr. Condorelli, aged 63, is an Argentine citizen.

4) **Mr. Pedro Pablo Kuczynski.** Mr. Kuczynski has served as a member of the Board since 2007. He was Prime Minister of Peru in 2005-2006 and prior to that he was the Republic of Peru's Minister of Economy and Finance in 2001-2005 and the Republic of Peru's Minister of Energy and Mines in 1980-82. Until 2001, he was president of a private equity firm founded by him in 1992 after spending ten years as Chairman of First Boston International (today Credit Suisse) in New York. Since 2007, he is a senior advisor to the Rohatyn Group, a firm specializing in emerging markets. He ran a bauxite mining company affiliated with Alcoa between 1977 and 1980. He began his career at the World Bank in 1961 and in the 1970s headed its Policy Planning Division, Chief Economist for Latin America and

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Chief Economist of IFC. He was a member of the board of directors of Siderar from 1992 to 2001. He was born in Peru in 1938 and educated in Peru and at Oxford and Princeton. Mr. Kuczynski, aged 75, is a U.S. and Peruvian national.

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5) **Mr. Adrian Lajous.** Mr. Lajous has served as a director of the Company since 2006. Mr. Lajous currently serves as chairman of the Oxford Institute for Energy Studies, a fellow in the Center for Global Energy Policy at Columbia University, president of Petrométrica, S.C. and a non-executive director of Schlumberger, Ltd. and Trinity Industries Inc. Mr. Lajous began his career teaching economics at El Colegio de México and in 1977 was appointed director general for energy at Mexico's Ministry of Energy. Mr. Lajous joined Petróleos Mexicanos ("Pemex") in 1983, where he held a succession of key executive positions including executive coordinator for international trade, corporate director of planning, corporate director of operations and director of refining and marketing. From 1994 until 1999, he served as chief executive officer of Pemex and chairman of the boards of the Pemex Group of operating companies. Mr. Lajous, aged 70, is a Mexican citizen.

6) **Mr. Bruno Marchettini.** Mr. Marchettini has served on the Board since 2006. Mr. Marchettini is a senior advisor in technological matters for the Techint group. Mr. Marchettini is currently retired from executive positions and is presently engaged as a consultant by Siderar. Mr. Marchettini is a director of San Faustin. Mr. Marchettini, aged 72, is an Italian citizen.

7) **Mr. Gianfelice Mario Rocca.** Mr. Rocca has served as a director of the Company since 2006. He is a grandson of Agostino Rocca. He is the chairman of the board of directors of San Faustín, a member of the board of directors of Tenaris, the president of the Humanitas Group and the president of the board of directors of Tenova S.p.A. In June 2013 he was elected President of Assolombarda, the largest territorial association of entrepreneurs in Italy and part of Confindustria (an Italian employers' organization). In addition, he is a member of the EIT Governing Board (European Institute of Innovation and Technology) and sits on the board of directors or executive committees of several companies, including Allianz S.p.A, Brembo and Buzzi Unicem. He is a member of the Advisory Board of Allianz Group, of the Aspen Institute Executive Committee, of the Trilateral Commission and of the European Advisory Board of the Harvard Business School. Mr. Rocca, aged 66, is an Italian citizen.

8) **Mr. Paolo Rocca.** Mr. Rocca has served as chairman of the Board since 2005. He is a grandson of Agostino Rocca. He is also the chairman and chief executive officer of Tenaris. In addition, he is a member of the board of directors and vice president of San Faustin, the chairman of Tamsa and a director of Techint Financial Corporation N.V. Mr. Rocca, aged 61, is an Italian citizen.

9) **Mr. Daniel Agustin Novegil.** Mr. Novegil has served as a director and chief executive officer of the Company since 2005. He has more than 35 years of experience in the steelmaking industry. Mr. Novegil is the managing director of Siderar since 1993 and a member of Usiminas' Board of Directors since 2012. He is also member of the Board of Directors of the World Steel Association and former President of the Latin American Steel Association. He obtained a M.S. in Management from Stanford University in 1984 and, since 1999, he is a member of the Advisory Board of the Sloan Master's Program of the Stanford Graduate School of Business. Mr. Novegil, aged 61, is an Argentine citizen.

Each of Messrs. Aguirre, Kuczynski and Lajous will qualify as independent directors under the Company's articles of association.

Each elected director will hold office until the next Annual General Meeting of Shareholders, to be held on May 6, 2015.





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The Board met six times during 2013. On January 12, 2006, the Board created an Audit Committee pursuant to Article 11 of the Articles of Association of the Company. As permitted under applicable laws and regulations, the Board does not have any executive, nominating or compensation committee, or any committees exercising similar functions.

***Draft resolution proposed to be adopted:*** “to maintain the number of members of the Board of Directors at nine and to re-appoint Messrs. Ubaldo Aguirre, Roberto Bonatti, Carlos Alberto Condorelli, Pedro Pablo Kuczynski, Adrian Lajous, Bruno Marchettini, Gianfelice Mario Rocca, Paolo Rocca and Daniel Agustin Novegil to the Board of Directors, each to hold office until the next annual general meeting of shareholders that will be convened to decide on the 2014 accounts.”

#### **6. Compensation of the members of the Board of Directors**

It is proposed that each member of the Board receive an amount of USD 85,000.00 as compensation for his services during the fiscal year 2014, and that the Chairman of the Board receive, further, an additional fee of USD 295,000.00. It is further proposed that each of the members of the Board who are members of the Audit Committee receive an additional fee of USD 55,000.00, and that the Chairman of such committee receive, further, an additional fee of USD 10,000.00. In all cases, the proposed compensation would be net of any applicable Luxembourg social security charges.

***Draft resolution proposed to be adopted:*** “that each of the members of the Board of Directors receive an amount of USD 85,000.00 as compensation for his services during the fiscal year 2014, and that the Chairman of the Board of Directors receive, further, an additional fee of USD 295,000.00; and that each of the members of the Board of Directors who are members of the Audit Committee receive an additional fee of USD 55,000.00, and that the Chairman of such Audit Committee receive, further, an additional fee of USD 10,000.00. In all cases, the approved compensation will be net of any applicable Luxembourg social security charges.”

#### **7. Appointment of the independent auditors for the fiscal year ending December 31, 2014 and approval of their fees**

The Audit Committee has recommended the appointment of PricewaterhouseCoopers, Société coopérative, *Cabinet de révision agréé* (PricewaterhouseCoopers’ Luxembourg member firm) as the Company’s independent auditors for the fiscal year ending December 31, 2014, to be engaged until the next Annual General Meeting of Shareholders that will be convened to decide on the 2014 accounts.

In addition, the Audit Committee has recommended the approval of the independent auditors’ fees for audit, audit-related and other services to be rendered during the fiscal year ending December 31, 2014, broken-down into eight currencies (Argentine Pesos, Brazilian Reais, Colombian Pesos, Euro, Mexican Pesos, Swiss Francs, Uruguayan Pesos, and U.S. Dollars), up to a maximum amount for each currency equal to ARS 12,088,288.00; BRL 20,400.00; COP 290,283,986.00; EUR 563,901.00; MXN 11,311,720.00; CHF 27,500.00; UYU 1,828,095.00 and USD 204,900.00. Such fees would cover the audit of the Company’s consolidated financial statements and annual accounts, the audit of the Company’s internal controls over financial reporting as mandated by the Sarbanes-Oxley Act of 2002, other audit-related services, and other services rendered by the independent auditors. It is proposed that the Audit Committee be authorized to approve any increase or reallocation of the independent auditors’ fees as may be necessary, appropriate or desirable under the circumstances.

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***Draft resolution proposed to be adopted:*** “to (i) appoint PricewaterhouseCoopers, Société coopérative, Cabinet de révision agréé, as the Company’s independent auditors for the fiscal year ending December 31, 2014, to be engaged until the next annual general meeting of shareholders that will be convened to decide on the 2014 accounts; and (ii) approve the independent auditors’ fees for audit, audit-related and other services to be rendered during the fiscal year ending December 31, 2014, broken-down into eight currencies (Argentine Pesos, Brazilian Reais, Colombian Pesos, Euro, Mexican Pesos, Swiss Francs, Uruguayan Pesos, and U.S. Dollars), up to a maximum amount for each currency equal to ARS 12,088,288.00; BRL 20,400.00; COP 290,283,986.00; EUR 563,901.00; MXN 11,311,720.00; CHF 27,500.00; UYU 1,828,095.00 and USD 204,900.00, and to authorize the Audit Committee to approve any increase or reallocation of the independent auditors’ fees as may be necessary, appropriate or desirable under the circumstances.”

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**8. Authorization to the Board of Directors to delegate the day-to-day management of the Company's business to one or more of its members**

It is proposed that the Board be authorized to delegate the management of the Company's day-to-day business and the authority to represent and bind the Company with his sole signature in such day-to-day management to Mr. Daniel Agustin Novegil, and to appoint Mr. Novegil as chief executive officer (*administrateur délégué*) of the Company.

***Draft resolution proposed to be adopted:** "to authorize the Board of Directors to delegate the management of the Company's day-to-day business and the authority to represent and bind the Company with his sole signature in such day-to-day management to Mr. Daniel Agustin Novegil, and to appoint Mr. Novegil as Chief Executive Officer (Administrateur Délégué) of the Company."*

**9. Authorization to the Board of Directors to appoint one or more of its members as the Company's attorney-in-fact**

In order to provide for the necessary flexibility in the management of the Company's affairs, it is proposed to authorize the Board to appoint any or all members of the Board from time to time as the Company's attorney-in-fact, delegating to such directors any management powers (including, without limitation, any day-to-day management powers) to the extent the Board may deem appropriate in connection therewith, this authorization to be valid until expressly revoked by the Company's General Shareholders Meeting, it being understood, for the avoidance of doubt, that this authorization does not impair nor limit in any way the powers of the Board to appoint any non-members of the Board as attorneys-in-fact of the Company pursuant to the provisions of article 10.1(iii) of the Articles of Association of the Company.

***Draft resolution proposed to be adopted:** "to authorize the Board of Directors to appoint any or all members of the Board of Directors from time to time as the Company's attorney-in-fact, delegating to such directors any management powers (including, without limitation, any day-to-day management powers) to the extent the Board of Directors may deem appropriate in connection therewith, this authorization to be valid until expressly revoked by the Company's General Shareholders Meeting; it being understood, for the avoidance of doubt, that this authorization does not impair nor limit in any way the powers of the Board of Directors to appoint any non-members of the Board of Directors as attorneys-in-fact of the Company pursuant to the provisions of article 10.1(iii) of the Articles."*

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The Company anticipates that the next Annual General Meeting of Shareholders will be held on May 6, 2015. Any shareholder who intends to present a proposal to be considered at the next Annual General Meeting of Shareholders must submit the proposal in writing to the Company at the registered office of the Company, located at 29, avenue de la Porte-Neuve, L-2227 Luxembourg, Grand Duchy of Luxembourg, not later than 4:00 P.M. (Luxembourg time) on February 2, 2015, in order for such proposal to be considered for inclusion on the agenda for the 2014 Annual General Meeting of Shareholders. PricewaterhouseCoopers, *société coopérative*, *Cabinet de révision agréé*, are the Company's independent auditors. A representative of the independent auditors will be present at the Annual General Meeting of Shareholders.

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Arturo Sporleder

*Secretary to the Board of Directors*

March 27, 2014

Luxembourg

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## **Company Profile and Strategy**

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, hot-rolled flat products, 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. We aim to build close relationships with our customers and recognize that our success is closely linked with theirs.

Ternium has a deeply ingrained industrial culture. With 16,800 employees and an annual production capacity of 10.9 million tons of finished steel products and 4.0 million tons of iron ore pellets, 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 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 steel market.

Our proximity to local steel consuming markets 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 logistics costs, and our diversified steel production technology enables us to adapt to fluctuating input-cost conditions.

We operate with a broad and long-term perspective, and we regularly work towards improving the quality of life of our employees, their families and the local communities where we operate.

*Ternium S.A. (the “Company”) is a Luxembourg company and its American Depositary Securities, or ADSs, are listed on the New York Stock Exchange (NYSE: TX). We refer to Ternium S.A. and its consolidated subsidiaries as “we,” “our” or “Ternium.”*

*The financial and operational information contained in this annual report is based on Ternium’s operational data and on the Company’s consolidated financial statements, which were prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as issued by the International Accounting Standards Board, or IASB and adopted by the European Union (EU), or IFRS, and presented in U.S. dollars (\$) and metric tons.*



**Operating and Financial Highlights**

	2013 <sup>1</sup>	2012	2011 <sup>2</sup>	2010 <sup>2</sup>	2009 <sup>2</sup>
<b>STEEL SALES VOLUME (thousand tons)</b>					
Mexico	4,984.9	4,952.4	4,683.2	4,466.9	3,707.0
Southern Region	2,633.1	2,444.5	2,635.3	2,396.4	1,606.9
Other Markets	1,370.3	1,371.2	1,505.0	1,191.3	1,046.9
Total	8,988.4	8,768.2	8,823.6	8,054.6	6,360.8
<b>FINANCIAL INDICATORS (millions of \$)</b>					
Net sales	8,530.0	8,608.1	9,122.8	7,339.9	4,923.0
Operating income	1,109.4	920.6	1,255.7	1,043.6	288.6
EBITDA <sup>3</sup>	1,486.6	1,291.5	1,651.6	1,417.8	663.5
Income before income tax expense	942.3	452.1	965.4	1,185.7	428.5
Equity in (losses) earnings of non-consolidated companies	(31.6)	(346.8)	10.1	12.9	7.2
Discontinued operations <sup>4</sup>	-	-	-	-	428.0
Profit for the year attributable to:					
Equity holders of the Company	455.4	142.0	517.7	622.1	717.4
Non-controlling interest	137.5	48.9	135.1	157.4	49.7
Profit for the year	592.9	190.9	652.8	779.5	767.1
Capital expenditures	883.3	1,022.6	577.0	339.4	204.3
Free cash flow <sup>5</sup>	208.9	32.5	45.4	457.9	950.7
<b>BALANCE SHEET (millions of \$)</b>					
Total assets	10,372.6	10,867.0	10,743.1	11,099.9	10,301.9
Total financial debt	2,002.8	2,424.4	1,996.1	1,939.7	2,326.0
Net debt (cash) financial position	1,526.1	1,703.3	(443.6)	(688.0)	185.4
Total liabilities	4,034.6	4,432.1	3,954.5	4,139.1	4,040.6
Capital and reserves attributable to the Company's equity holders	5,340.0	5,369.2	5,711.5	5,833.2	5,296.3
Non-controlling interest	998.0	1,065.7	1,077.1	1,127.5	964.9
<b>STOCK DATA (\$ per share / ADS <sup>6</sup>)</b>					
Basic earnings per share	0.23	0.07	0.26	0.31	0.36
Basic earnings per ADS	2.32	0.72	2.63	3.10	3.58

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Proposed dividend per ADS	0.75	0.65	0.75	0.75	0.50
Weighted average number of shares outstanding <sup>7</sup> (thousand shares)	1,963,076.8	1,963,076.8	1,968,327.9	2,004,743.4	2,004,743.4

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Note: certain comparative amounts have been adjusted to reflect the retrospective application of the amended IAS 19 in connection with post-employment benefits.

<sup>1</sup> Starting on January 1, 2013, Peña Colorada and Exiros have been proportionally consolidated. Comparative amounts show them as investments in non-consolidated companies and their results are included within “Equity in (losses) earnings of non-consolidated companies” in the consolidated income statement. For further information on these changes see note 14 to our consolidated financial statements, included in this annual report.

<sup>2</sup> Ternium changed prospectively the functional currency of its Mexican subsidiaries to the U.S. dollar, effective as of January 1, 2012. For the periods ended December 31, 2011, 2010 and 2009 the functional currency for the Company's Mexican subsidiaries was the Mexican peso.

<sup>3</sup> EBITDA equals operating income adjusted to exclude depreciation and amortization, and impairment charges.

<sup>4</sup> Discontinued Operations include the results of Sidor (a Venezuelan subsidiary nationalized in April 2009) through the second quarter of 2009.

<sup>5</sup> Free cash flow equals net cash provided by operating activities less capital expenditures.

<sup>6</sup> Each ADS represents 10 shares.

<sup>7</sup> Shares outstanding were 1,963,076,776 as of December 31 of each of 2013, 2012 and 2011, and 2,004,743,442 as of December 31 of each of 2010 and 2009.

## Chairman's Letter

For Ternium, 2013 was a year that will be forever overshadowed by the tragic accident which occurred on 22 July at our Guerrero plant in Mexico. An explosion at the steel shop resulted in 11 fatalities and a company shaken to its foundations. We have done much to improve our safety record and, if we look at Ternium's safety indicators, we can see a steady improvement over the years. But an analysis of this unprecedented accident showed that we have much more to do, particularly in the evaluation of catastrophic risks that go beyond the level of individual tasks and cover broader areas of our production system.

We contracted a renowned expert consultancy in industrial safety to help us identify the causes of the accident, analyze our safety management system and advise us on how to improve what we are doing. As a result we have prepared an investment program focused on safety and environment which we are implementing throughout our industrial system. This tragedy has left the whole company united in its commitment to improving safety in the workplace and determined to work together to ensure that such an accident can never occur again. We remain deeply conscious of the suffering caused to the families of our employees and the community in Monterrey.

Turning to the rest of our operations, we had an EBITDA of \$1.5 billion on sales of \$8.5 billion, maintaining our industry-leading margins. A record number of shipments – 9.0 million tons – reflected the solid positioning we have established in our Latin American markets as well as our focus on serving customers in the industrial sector.

In Mexico, we increased shipments to automotive and industrial customers and our industrial facilities operated at a high level of capacity. In the second half of the year, we inaugurated our new industrial facility in Pesquería, Nuevo León, after completing construction on time and within the \$1.1 billion investment budget. This facility will strengthen our positioning in the high-end sector of the market and enable us to continue displacing imports in key industrial segments like the automotive sector.

To secure the supply of energy and improve the cost competitiveness of our facilities in Mexico, we are participating in a project, together with our affiliates Tenaris and Tecpetrol, for the construction and operation of a power generation plant in Pesquería, Nuevo León which will be fed by natural gas from the United States via a pipeline owned by Kinder Morgan. This plant is expected to begin operating in 2016 and meet 100% of our electric power requirements in the country.

In Argentina, the market evolved favorably during 2013 but now faces a more uncertain year reflecting a less favorable macroeconomic environment and a slowdown in Brazil. During the year, our facilities sustained a high level of capacity utilization and we completed the installation of a new continuous caster and a vacuum degassing facility, which will enable us to expand our range of high-value products, particularly for the automotive and home appliances

industries.

In Brazil, the ongoing industrial and management transformation in Usiminas has turned around the operating results of that company and put its financial situation in good order sooner than we expected. Ternium will continue to work with Usiminas to identify opportunities to strengthen the positioning of both companies as suppliers of high value products and services to the automotive and metallurgy industries in Latin America.

In Colombia, we continued to modernize our industrial facilities in Manizales, increasing production capacity and installing equipment to reduce dust and emissions. At the same time, we introduced a series of initiatives aimed at increasing employee awareness of their role in creating a safe working environment.

The steel industry worldwide continues to confront a situation of excess capacity, particularly in China. Direct exports of steel products from China to Latin America reached a record level of 6 million tons in 2013 with a similar level of indirect exports, even though Latin America is a major supplier of iron ore to China. We are working with the governments of the region to identify and limit unfair trade practices. At the same time, we are working to strengthen regional metallurgical industries through the supply of high quality steel products and technologies and through our support for small and medium enterprises in the steel industry value chain in the countries where we operate.

As an industrial company focused on long-term, sustainable growth, we play an active role in encouraging the development of our employees and the communities where we have our operations. Our training programs focus on the development of leadership, performance management and technical knowledge at all levels of the company and in 2013, our employees spent an average of 48 hours in training activities. We provide various forms of support for the development of technical education in our local communities and merit-based scholarships to provide opportunities for local students to further their studies. Through these activities we aim to strengthen the communities where we operate and provide opportunities for employees and local people to develop their potential.

In 2013, our earnings per ADS amounted to \$2.32. Our financial position is solid with a net debt equivalent to the last twelve months of EBITDA and a free cash flow for the year of \$209 million, after capital expenditures of \$883 million. We are proposing to restore the annual dividend to its previous level of \$0.75 per ADS.

During 2013, Ternium strengthened its position in Mexico through the completion of its investment in Pesquería and its commercial integration with end-user industrial customers. Throughout the company, we are working in various projects and initiatives to differentiate ourselves from our competitors and to sustain a position of leadership through industrial excellence, product development and customer service. I would like to thank our employees for their efforts and achievements during a difficult year. I would also like to thank our customers, suppliers and shareholders for their continuing support and confidence in our company.

Paolo Rocca

Chairman

## Business Review

In 2013, Ternium achieved a record shipments volume of 9.0 million tons. Shipments were relatively stable in Mexico year-over-year, despite weaker domestic demand for steel products, and increased in the Southern Region on the back of improved construction and industrial activity. Throughout 2013, Ternium was the leading supplier of flat steel products in Mexico and Argentina, and a leading supplier of steel products in Colombia and Central America.

Steel consumption in the Americas stagnated in 2013. With the exception of the Argentine and Brazilian markets, whose economies' growth rates increased year-over-year, the Americas most significant steel markets slowed down or retreated compared to 2012. Mexico, a market that accounted for 55.5% of total shipments during the year, showed a moderate slowdown in economic activity, and its steel market contracted 9.0% year-over-year in 2013, According To The Latin America Steel Association, on lower construction activity.

In 2013, Ternium inaugurated a new industrial center in Pesquería, Nuevo León, Mexico. The project was developed partly by Ternium México and partly by Tenigal, a company in which Ternium and Nippon Steel & Sumitomo Metal Corporation hold 51% and 49% participations, respectively. Through its two state-of-the-art main production lines, Ternium México's cold-rolling mill and Tenigal's hot-dipped galvanizing mill, this center will produce high-end steel mainly for the automotive industry, with annual processing capacity of 1.5 million tons of cold-rolled steel and 400,000 tons of galvanized steel. The ramp-up of these facilities is expected to be mostly completed during the first half of 2014. This steel complex, the most modern of its kind in Latin America, is a strategic steel project for our Mexican industrial system. The technologies introduced by Tenigal and the high quality requirements and standards of the new steel products set a milestone for Ternium's product research and development efforts.

Ternium's support program for small- and medium-sized enterprises (ProPymes) continued growing in 2013 in Mexico and Argentina and now includes approximately 890 companies. Throughout its more than 10 years of existence, ProPymes has helped create an industrial network including customers, suppliers, technical schools, universities, business schools and governments, that has contributed to the improvement of the industry's performance standards and to the reduction of investment barriers within our customers and suppliers.

Ternium's environmental projects during 2013 focused on the improvement of air emissions and wastewater treatment and disposal, and on the reduction or elimination of hazardous products from our manufacturing processes. Of note was the start-up during the year of a new de-dusting facility for our steel shop in Colombia, which improved the mill's environmental performance and enabled it to increase its steel production rates. In addition, during the year Ternium launched a capital expenditure program in order to bring its Guerrero unit in Mexico to meet the most stringent environmental and safety norms in the world. The Guerrero unit, one of the most important plants in Ternium's industrial system, has been certified as clean industry since 2000. The program is aimed at improving infrastructure, processes, internal organization and emissions control, and reinforcing safety training programs for our employees.

Techgen, a company in which Ternium has a 48% stake in partnership with Tenaris (22% stake) and Tecpetrol (30% stake), is launching a project to build a new natural gas-fired combined-cycle power plant in Mexico, expected to be completed in 2016. Ternium' supply agreements with Techgen will enable us to purchase 78% of the output of this 850 to 900 megawatts facility. In Argentina, in 2013 Siderar finished a new vacuum degassing station for the production of specialty steels, and advanced its project to increase its steel slab production capacity.

Usiminas continued its ongoing turnaround process, showing a remarkable improvement in 2013. Shipments to the domestic market reached a five-year record of 5.4 million tons. At the same time, EBITDA margin increased to 14%, enabling Usiminas to return to profitability. This increase in returns, coupled with a stringent capital expenditures control, enabled the company to significantly improve its financial position. As a result, Ternium saw an improvement in its equity in results of non-consolidated companies.

## Steel Segment

Ternium's shipments of steel products reached 9.0 million tons in 2013, a slight increase compared to the shipment levels achieved in the previous year. GDP in Latin America grew 2.6% in the year, slightly lower than the 3.0% expansion rate in 2012, while the U.S. economy grew 1.9% in 2013, a slowdown compared to the 2.8% expansion rate in 2012.

GDP performance - Latin America<sup>8</sup>

GDP performance - United States<sup>8</sup>

Apparent demand for finished steel grew 0.3% year-over-year in Latin America in 2013, decelerating from a 5.5% expansion rate in 2012. Construction and industrial activity improved in the main South American markets. In Mexico, the construction sector retreated while the industrial sector continued advancing, albeit at a slower pace. Apparent demand for finished steel decreased slightly in the United States, ending a period of solid expansion.

Apparent steel use - Latin America<sup>9</sup>

Apparent steel use - United States<sup>9</sup>

## Mexico

During 2013, Ternium was the leading supplier of flat steel products in Mexico. Shipments to this market remained relatively stable year-over-year at 5.0 million tons, representing 55.5% of Ternium's total steel shipments. Mexico's GDP increased 1.1% year-over-year in 2013, evidencing a slowdown in economic activity versus the prior year. Apparent steel use decreased 9.0% year-over-year to approximately 18.6 million tons in 2013 as the Mexican construction sector struggled during the year.

SIGNATURE



GDP performance – Mexico<sup>8</sup>

Apparent steel use – Mexico<sup>9</sup>

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<sup>8</sup> Source: International Monetary Fund, World Economic Outlook

<sup>9</sup> Source: World Steel Association, Latin American Steel Association Ternium Estimates

Construction activity in Mexico decreased 4.5% year-over-year in 2013, mostly reflecting a downturn in residential housing and infrastructure spending, partly attributable to an absence of government contracts. Activity in the automotive sector increased 1.7% year-over-year, continuing the growth trend observed in this industry in previous years albeit at a slower pace.

Construction – Mexico<sup>0</sup>

Motor vehicles production - Mexico <sup>11</sup>

Steel prices in the United States, which are generally a significant driver for steel prices in Mexico, decreased during the first half of 2013, continuing a downward trend seen over most of 2012, but subsequently reverted to an upward trend in the second half of the year. After a gradual de-stocking in the first half of the year, distributors began re-stocking over the boreal summer and ended 2013 with inventories at levels similar to those recorded at year-end of 2012. On the other hand, in 2013 steel import volumes in the United States were similar to those of the previous year.

During 2013, Ternium continued running its integrated steelmaking facilities in Mexico at close to full capacity. We continued maximizing the use of direct reduced iron in the metallic mix of our steel shops (produced in our natural gas-based iron ore direct reduction units), which has been a cost efficient input compared to steel scrap given prevailing prices during the year. Our re-rolling facilities saw similar utilization rates in 2013 compared to those of the year prior. Notwithstanding this, our Guerrero unit's hot strip mill 1, idled for most of 2013, started operations by year-end in synch with the ramp-up of our cold rolling and hot-dip galvanizing mills recently built in Pesquería. The ramp-up of these facilities is progressing and is expected to be completed during the first half of 2014.

Ternium's capital expenditures in the steel segment in the country amounted to \$486 million in 2013. During the year, Ternium México finished the construction of the new cold-rolling mill in Pesquería, with annual processing capacity

of 1.5 million tons, and Tenigal finished the construction of the new hot-dip galvanizing mill in the same site, with annual processing capacity of 400,000 tons to serve the promising Mexican automotive industry. In addition, Ternium México finished the installation of a new slitting line in the Churubusco unit to increase its service center processing capacity.

Ternium is participating, together with its affiliates Tenaris and Tecpetrol, in Techgen's natural gas-fired combined cycle electric power plant project in the Pesquería area of the State of Nuevo León, Mexico. The plant is being constructed at an estimated cost of \$1 billion, and is expected to be operational by the end of 2016. The plant is expected to become a significant supplier of electricity to Ternium México's steel operations, as Ternium will acquire 78% of the plant's 850 to 900 megawatts power capacity.

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<sup>10</sup> Source: Mexican Statistics and Geography Institute

<sup>11</sup> Source: Mexican Automotive Industry Association

Ternium expects GDP growth rates in Mexico to accelerate this year as a result of higher infrastructure and construction spending and a positive performance of the U.S. economy. Apparent steel use is expected to grow with construction and the industry, mainly the metal products and automotive sectors, driving local demand for steel products. In this context, Ternium expects to increase shipments in the country, particularly to the industrial sector, profiting from its medium-term initiatives on product and customer development in synch with its recently inaugurated Pesquería industrial center.

### Southern Region

The Southern Region encompasses the steel markets of Argentina, Bolivia, Chile, Paraguay and Uruguay. During 2013, Ternium was the leading supplier of flat steel products in Argentina and a leading supplier of steel products in Paraguay and Uruguay. Shipments in the Southern Region increased 7.7% year-over-year in 2013 to 2.6 million tons, representing 29.3% of Ternium's total steel shipments.

Argentina's GDP growth rate increased in 2013, reflecting improved performance of the construction sector, a recovery of the agricultural sector and higher consumption. Apparent steel demand increased 2.8% year-over-year to approximately 5.1 million tons, with a 4.6% expansion of the construction sector and a 3.5% growth in the automotive sector, both of which had contracted in the previous year, resulting in an increase of Ternium's shipments to the country.

Construction – Argentina<sup>2</sup>

Motor vehicles production – Argentina<sup>3</sup>

Ternium's shipments to the Paraguayan market increased in 2013, as this country's economy recovered from the 2012 negative effects of adverse weather on its agricultural activities. Shipments to Uruguay also increased, while shipments to the Bolivian and Chilean markets decreased compared to shipment levels in the previous year. The economies of these countries expanded in 2013, with GDP growth rates of between 3.5% and 12.0% year-over-year.

In 2013, Ternium's Argentine subsidiary Siderar increased activity in its production facilities, particularly in those for the production of pig iron and steel, experiencing a solid recovery in utilization rates compared to those of the previous year (utilization rates had been affected by the idling of Siderar's blast furnace #2, for repairs, during most of the second half of 2012 through February 2013).

Ternium's capital expenditures in the region amounted to \$309 million in 2013. During the year, Siderar made progress in several projects, including the expansion of specialty steel production capacity, repairs at the coking and blast furnace areas, and the expansion and enhancements of the hot strip mill.

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<sup>12</sup> Source: Argentine Statistics Institute

<sup>13</sup> Source: Argentine Automotive Producers Association

Steel consumption is expected to decrease in Argentina in 2014, driven by the recent changes in Argentine macroeconomic conditions and a slowdown of the Brazilian economy. With Siderar's facilities working at high utilization rates since the first quarter 2013, a gradual ramp-up of the new capacity in our steel shop should enable a higher integration with our re-rolling facilities in Mexico (which rely on third-party slab purchases). Our capital expenditures in Argentina are expected to remain strong in the first half of 2014, as a result of the project to increase steelmaking capacity, including the previously mentioned investment in a new slab caster.

### Other Markets

Ternium's sales to the rest of the world are shown under "Other Markets", including major shipment destinations such as Colombia, the United States and Central America. During 2013, Ternium was a leading supplier of steel products in Colombia and Central America. In addition, Ternium continued serving customers in southern United States and in other countries throughout Latin America. Shipments to these markets remained relatively stable year-over-year in 2013 at 1.4 million tons, representing 15.2% of Ternium's total steel shipments.

Colombia's GDP continued growing at a solid pace in 2013, reflecting a broad-based increase in activity. Apparent steel use increased 1.1% year-over-year to approximately 3.5 million tons, following an expansion of the construction and industrial sectors. Although crude steel production rates at our Colombian facilities in 2013 were relatively flat year-over-year, Ternium's shipments in the country decreased slightly in 2013 as a result of lower processing of purchased steel.

The U.S. economy slowed down during 2013, with GDP growth of 1.9% and apparent steel use decreasing slightly year-over-year to approximately 95.6 million tons. Ternium's shipments to the country increased slightly year-over-year in 2013.

Ternium's shipments to Central America increased strongly in 2013 on the back of continued activity expansion in the region, with GDP growth rates estimates between 1.6% and 7.5% year-over-year. Shipments to the Peruvian and Ecuadorian markets decreased year-over-year in 2013, as Ternium prioritized shipments to other markets. Activity levels in these countries continued advancing in 2013.

Overall, in 2013 Ternium's subsidiaries in Colombia, Guatemala and the United States increased utilization rates at their finishing facilities compared to the rates achieved in 2012. Capital expenditures in the region amounted to \$21 million in 2013. Ternium's Colombian subsidiary, Ferrasa, completed during the year the installation of a new de-dusting system at its steel shop, which enables the facility to increase its steel production levels by approximately 25% while ensuring that its emission levels comply with Colombia's environmental regulations.

**Mining Segment**

Ternium's reported shipments of iron ore mainly include those made by our Mexican subsidiary Las Encinas and, starting in 2013, 50% of those made by Peña Colorada, a company owned 50% by Ternium and 50% by ArcelorMittal. Iron ore production in Las Encinas and Peña Colorada is destined mainly for internal consumption within Ternium's steel segment. In 2013, Ternium's mining segment reported shipments of 4.2 million tons of iron ore, a 128% increase compared to 2012 primarily attributed to the proportional consolidation of Peña Colorada, effective January 1, 2013<sup>1</sup>.

All of Ternium's mining operations are located in Mexico. Mining concessions were granted for a 50-year period. 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 Mexican mining laws and regulations.

### Las Encinas

The Las Encinas mining facilities, which also include a pelletizing plant located in the community of Alzada, in the state of Colima, have an annual pellet production capacity of 1.9 million tons. As of the end of 2013, Las Encinas was operating the Aquila iron ore mine, located in Michoacán, Mexico, and El Chilillo iron ore mine, a small body located in Jalisco, Mexico.

Las Encinas' saleable production reached 2.0 million tons in 2013, including pellets and concentrate surplus, slightly higher than the 1.9 million tons achieved in 2012. Iron ore reserves as of December 31, 2013 were 28 million tons with a 41% average ferrous content, similar to those recorded as of the end of 2012. Las Encinas' combined active mines life was estimated at 7 years as of the end of 2013, with no changes compared to that of year-end 2012. Las Encinas has been developing iron ore reserves out of its iron ore resources, to keep a relatively stable mine life ratio. These activities include the development of micro-mining operations to complement the mining volumes obtained from our larger-scale operations. Capital expenditures during the year reached \$10 million.

### Peña Colorada

The Peña Colorada mining facilities, which are located in Colima, Mexico, include a two-line pelletizing plant in the Manzanillo port and have an annual pellet production capacity of 4.1 million tons. ArcelorMittal and Ternium each receive 50% of total iron ore production, in accordance with the agreements in place. Peña Colorada operates the Peña Colorada iron ore mine, also located in Colima.

Peña Colorada's saleable production reached 3.9 million tons in 2013, lower than the 4.5 million tons achieved in 2012, mainly as a result of a decrease in the average ferrous content of the iron ore. Iron ore reserves as of December 31, 2013 were 251 million tons with 23% average ferrous content, slightly below the 259 million tons recorded as of year-end 2012, with an average ferrous content of 24%. Peña Colorada's combined active mines life was estimated at 18 years as of the end of 2013. Peña Colorada has been conducting exploration activities at areas nearby to the existing mine, to increase its iron ore resources. Ternium's share in Peña Colorada's capital expenditures during the year amounted to \$57 million.



### **Support Program for Small- and Medium-Sized Enterprises**

Ternium sponsors a small- and medium-sized enterprise (SME) support program called ProPymes, now in its eleventh year. The program is focused on helping SMEs in the steel industry's value chain grow. The program's ultimate goal is to enhance SMEs' competitiveness and to stimulate investments in the steel industry's value chain. To achieve this, ProPymes provides a variety of services including training, business advisory, institutional assistance, commercial support and financial aid. Through these means, ProPymes has helped create an industrial network that encourages SMEs professionalization and quest for excellence, based on knowledge sharing, reciprocal learning and exchange of experiences toward the achievement of industrial best practices. ProPymes currently assists approximately 890 SMEs in Mexico and Argentina.

Ternium supervises the execution of the ProPymes programs through two departments operating under local management supervision in Mexico and Argentina.

#### **Mexico**

ProPymes in Mexico selects participating SMEs according to their ability to increase their products' competitiveness as suppliers, along with their capability to add value to steel products and their potential to increase exports or substitute imports as customers. Approximately 220 Mexican SMEs participate in ProPymes.

ProPymes activities in Mexico during 2013 continued focusing on training and industrial assistance. Training programs aimed at strengthening management skills and at developing the expertise of SMEs employees in the management of quality and safety systems. Advisory support to participating SMEs in 2013 focused on industrial assistance, mainly in the implementation of quality and safety management systems, and on the development of business plans. In addition, a number of SMEs required financial advisory services to help them fund their capital expenditure programs for the technological upgrade or innovation of their production processes, or their research and development programs, aimed at process and product development.

While some training and advisory efforts were funded by ProPymes alone, several other initiatives entailed a shared funding effort among the relevant SME, ProPymes and a government-sponsored SMEs development program. Those endeavors included the government-sponsored High-Growth Company Support Program, managed by a local business school, intended to help high-growth companies achieve their growth potential, and the government-sponsored Leading Companies Program, managed by government-appointed leading companies including Ternium México through ProPymes, aimed at supporting training and advisory initiatives targeting SMEs.

In addition, with the objective of increasing local content in Mexico's industrial value chains, ProPymes participated and promoted the participation of SMEs in conferences and conventions, sponsored by the government or local industrial chambers, in order to identify and promote new companies that could be developed as industry suppliers.

In 2014, ProPymes intends to continue developing its institutional network, including a new agreement with Mexico's Entrepreneurship National Institute, with the goal of strengthening the government support to its SMEs development initiatives. In addition, the program intends to continue sponsoring training and advisory activities, and to expand the number of participating SMEs.

### **Argentina**

Approximately 670 Argentine SMEs, including customers and suppliers, participate in ProPymes. The program's activities achieved new records in several areas during 2013, particularly in fulfilling the requirements of a fast growing demand for SME personnel training. A new training program, aimed at supporting SME's long-term management development programs, was launched during 2013 and consisted of a two-year long part-time specialized course for selected SMEs middle managers and professionals. This program entails a lengthier and integral course compared to those previously offered to SMEs, with the first group of 30 employees expected to complete the program by year-end of 2014.

With the aim of supporting SME's long-term recruiting strategies, ProPymes has assisted SMEs in establishing internship programs with technical schools, to improve technical education, strengthen SMEs' institutional networks and ensure the availability of high-quality technicians in the medium-term. Under this program, in 2013 five technical schools received internship offers for approximately 70 students.

In addition, ProPymes continued expanding its offer of in-company training activities as well as those organized in conjunction with local institutions. These programs, which comprise SME employees in every category, target a broad range of business requirements as well as family enterprise related challenges. A new number of participants record for ProPymes' training programs was achieved in 2013, showing a 15% increase over last year's already record-breaking number.

The program's consulting area, one of ProPymes' pillars, reached a new record of diagnostic reports and assistances performed, including for the use of automation technology, for the development of health and safety protocols, for the development of tools for training and human resources management, for the implementation of management control systems, and for the development of competitive financing alternatives.

During 2013, ProPymes continued supporting the agricultural machinery industry by stimulating innovation and competitiveness, and strengthening the value chain's institutional networks. For these purposes, ProPymes organized a new edition of the Ternium Expoagro Prize to Agricultural Machinery, as it has done since 2008, with those recognized developments being exhibited in local and international agricultural exhibitions.

In 2014, ProPymes intends to strengthen its assistance to SMEs' long-term recruitment and human resources development programs. In addition, it intends to fulfill the growing SMEs demand for training and consultancy services, with emphasis on specialized industrial assistance.

### **Product Research and 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.

In 2013, Ternium's product research and development efforts focused mainly on initiatives aimed at supporting customer requirements for products to be manufactured at our new industrial center in Pesquería and on increasing market share in the automotive and industrial steel markets. The Pesquería center sets a new milestone in Ternium's research and development efforts. The steel complex is currently the most modern of its kind in Latin America, and requires a new set of product research and development activities targeting applications for advanced steels with high quality standards.

During the year Ternium also completed the implementation of a new IT system in Mexico that fully integrates product and processing route specifications among its Mexican plants. These efforts, initiated in 2012, enabled significant optimization of processes and products that resulted in improvements in productivity and costs, and decreases in inventory volumes.

### **Industrial Products**

During 2013, Ternium continued the certification process of its new Pesquería facilities with car manufacturers operating in Mexico. The ongoing certification process is expected to be substantially finalized during the first half of 2014. For an array of applications in the automotive steel market, Ternium and the Italian *Centro Sviluppo Materiali* (Materials Development Center) launched the development of new heat-treatable steel grades. In addition, Ternium and the Mexican *Universidad Autónoma de Nuevo León* (a Mexican university) analyzed the formability performance on different products.

During the year, Siderar continued assisting its customers and fostering the introduction of new technologies to help them increase their product competitiveness. Following the introduction of new truck bodywork manufacturing technologies in 2012, in 2013 Siderar helped its customers develop manufacturing technologies for agricultural machinery, consisting of lighter structures with lower incidence of fuel consumption, through the usage of high-resistance steel grades.

### **Construction Products**

During 2013, Ternium's metal building systems division developed, among other products, a new trussed purling for wide bays with a 16% reduction in weight per meter compared to same performance systems available, expected to result in an increased market share in Mexico.

Throughout 2013, Ternium continued with its strategy of anticipating the Montreal protocol's requirements regarding the use of non-chlorofluorocarbon (CFC) foaming agents, by developing new construction products with zero ozone depleting potential for roofing and cladding applications. In addition, in a context of increased demand for green building solutions, Ternium continued positioning its steel roofing systems and its building envelopes systems, designed with high thermal insulation properties.

### **Applied Research**

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 institutions. Based on customer needs, we improve, adapt and create new applications and define future technology requirements at our facilities.

During 2013, 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.

### **Prospective Developments**

In 2014, Ternium plans to participate in the development of metallurgic studies for oil and gas steel grades, aimed at improving its product portfolio for tube and pipe manufacturers. The project, which is expected to be developed in

conjunction with the Tenaris Research Center and the University of Pittsburgh, entails the evaluation and assessment of certain steel grades intended for use in sour service conditions.

In order to increase its participation in the electrical steel markets, Ternium intends to develop ultra-low carbon steel grades with silicon content, which enhances steel magnetic properties. The project, which is expected to be developed in conjunction with the Mexican *Centro de Investigación y Estudios Avanzados* (Advanced Research and Studies Center) will focus on examining different alloying compositions and developing processing routes adapted to Ternium's facilities.

Following the commissioning of a new steel vacuum degassing station in Argentina, a new range of ultra-low carbon steel grades and new steel products with excellent cleanliness will be developed for automotive and household industries applications. In addition, Ternium intends to develop coated steel products suitable for hot stamping applications for the automotive industry. The project, also to be developed in conjunction with the Mexican Advanced Materials Research Center and other research centers, aims at enhancing the product's performance during forming operations as well as the corrosion resistance of the final product.

Siderar will continue assisting its customers and fostering the introduction of new manufacturing technologies to help them increase their product competitiveness. Developments during 2014 will focus on the processing of steels for the manufacturing of electric motors and on the varnishing of tinplate for canning industry applications.

### **Human Resources and Communities**

Ternium had approximately 16,800 employees as of December 31, 2013. This figure includes new personnel incorporated to run the recently inaugurated Pesquería industrial center. The new complex, located close to our main facilities in the state of Nuevo León, Mexico, was staffed to a large extent with experienced personnel from other Ternium México facilities, subsequently trained in the operating requirements of the new plants.

During 2013, the company continued its medium-term personnel recruitment plans in the different regions, leaning mainly on the program for recent graduated professionals, a program that has contributed a majority of our current management and technologist positions. In addition, a number of students from different Latin American universities carried out internships during the year in different areas of the organization. The purpose of these internships is to offer students and the universities a professional experience within an actual business environment, and to serve as a tool to identify talent and to promote acquaintance between the company and its potential employees.

During 2013, Ternium continued investing in training with diverse programs aimed at satisfying the specific needs of the different business areas. The activities of note were related mostly to safety, particularly those focused on improving risk identification capabilities in the incident prevention process, developed with the purpose of supporting the company's safety management tools. These activities were supplemented by several initiatives intended to raise employee awareness and stress the importance of a safe working environment and behavior. In addition, during the year Ternium launched the first stage of a new training program for leaders, aimed at strengthening the performance of middle management in their communication with, and their identification of the growth potential of their personnel.

Throughout the year, the company continued its established training programs for young professionals, intended to create a unique managerial profile that combines the ability to integrate into a regional culture with a global approach to business. Several in-company post-graduate as well as customized courses were designed and implemented focused on performance and technical knowledge. These courses enable employees to learn the latest concepts and tools in their relevant fields, and to encourage them to achieve the highest possible levels of productivity and operating efficiency. Ternium continued obtaining support and contributions to different joint industry and university programs, including the endowed Chair sponsoring at certain universities and the funding of scholarship and fellowship grants to talented undergraduate and graduate students of engineering and applied sciences in selected countries, including Colombia for the first time in 2013. Throughout the year, the company also hosted various courses for graduate and undergraduate students and fostered conferences on technical subjects related to the steel industry.

During 2013, Siderar continued a 2012 program designed to strengthen an industrial culture, commitment and teamwork among its workers, resulting in a positive change that is expected to consolidate during the current year.

Among the initiatives aimed at ensuring the quality of life of its employees, in and out of the workplace, of note during 2013 was the company's extension of its flexible labor schedule program, supported by technological tools for teleworking. In addition, the company continued with its sports and fitness fostering programs, clinical examination and disease prevention campaigns, scholarship and leisure programs for the employees' children, loan programs for home improvement and special situations, and a special program designed for Siderar's employees willing to complete basic education, resulting in a noticeable increase in the rate of employees holding full basic education.



## Community Relations

With an eye toward prioritizing our long-term relationships in the communities where we operate, Ternium's social programs in 2013 continued seeking to strengthen its communities and to deepen its insertion in them, working together with local institutions to identify priorities and develop projects in the areas of education, health and sports, social integration and culture.

On education-related initiatives, since its implementation in 2011 in some technical schools of the state of Nuevo León, Mexico, more than 940 students, over 100 of whom ended up joining Ternium's workforce, completed by mid-2013 a technical module designed to teach the skills required by the steel industry. In addition, during the year, Ternium furthered its support to a local technical school seeking to improve infrastructure and equipment, and to upgrade management, administrative and teaching skills, aimed at achieving a better training and improved labor and safety attitudes among technical students.

In the Ramallo and Ensenada industrial areas of Argentina, Siderar continued supporting a program aimed at strengthening technical schools. This endeavor, initiated in 2006, involved the Argentine government, Siderar, and five technical schools near Siderar's facilities and resulted in a noticeable reduction of the profile gap between that of students completing basic education and that required by the industrial market. Under this program, Siderar continued improving the schools' infrastructure during 2013, provided scholarships at its workshops and at the operating areas of its industrial centers, and carried on technical training programs in the schools. In addition, beginning in 2013, nine other industrial companies joined these schools' scholarship program.

In 2013, Ternium continued financing programs aimed at the improvement of basic education. In Mexico, Ternium supported basic schools in Monterrey and shop academies in Pihuamo, Aquila and Alzada. Likewise, in Argentina, the company supported basic schools located in Ensenada and San Nicolás through a Unesco program targeting some public institutions. In addition, the company obtained financial support and contributions for the funding of scholarships to high achievement students from the broader communities in different countries.

On health-care related initiatives during 2013, the company organized new health fairs in different cities aimed at increasing the community's awareness and basic understanding of how to prevent and take care of various health issues. In addition, Ternium continued supporting a basic health care unit in Aquila, Mexico. In Argentina, following the remodeling and enhancement in recent years of the main regional hospital and two medical care units in the Ramallo industrial area, Siderar procured funding for a hospital remodeling in the Ensenada industrial area and contributed with an institution's program in San Nicolás for the acquisition of medical equipment.

In sports and cultural-related activities, Ternium continued organizing, among other activities, its annual local marathons and cinema festivals in Colima and Monterrey, Mexico, and in San Nicolás, Argentina, achieving a new record of participants.

**Environment, Health and Safety**

Ternium reaffirms environmental protection and the individual's health and safety as a paramount value, holding its personnel responsible for the observance of this value and encouraging the promotion and sharing of related policies with the company's value chain and with the communities where it operates. Ternium's environment, health and safety policies abide by the World Steel Association's policy statement and its principles for excellence in safety and occupational health, and by the ISO 14000 environmental management international standard directives.

Ternium participates in the World Steel Association (worldsteel) forums. These forums, which are focused on sustainable development, environment, safety and occupational health, develop consistent measurements, statistics and databases of selected variables aiming to enable steelmaking companies to benchmark performance, share state-of-the-art best practices and ultimately set industrial process improvement plans. These forums include the Climate Change Policy, Life Cycle Assessment, CO2 Data Collection Program, Water Management, Sustainability Reporting, and Safety and Occupational Health Committee groups and their working subgroups.

Ternium's operations in Mexico revalidated their clean industry certificates under the Mexican Government's National Environmental Voluntary Program, including its steel and in-use mining facilities. In Argentina, Siderar revalidated the ISO 14001 certificates, where applicable, for its local facilities. By the end of 2013, Ternium launched a four-year program aimed at reaching ISO 14001 certifications for all of its facilities.

#### **Accident at Ternium's Guerrero unit**

On July 22, 2013, an explosion occurred at Ternium México's Guerrero Plant during routine maintenance work at the DRI intake of an electric arc furnace. The explosion caused eleven fatalities.

According to the report published by the General Prosecutor of the Nuevo León Court (GPNLC), the accident originated in the accumulation of process gas in a hopper, due to a flaw in the blocking system. The blast took place in an area of the hopper where the process gas, which is utilized for the transport of the raw material, was stored. GPNLC stated that the accident was caused by non-compliance with safety procedures and a deficient assessment by the intervening crews.

Following this tragic event, Ternium retained Dupont, a renowned authority in industrial safety, to conduct an independent investigation and evaluate opportunity areas in Ternium's safety systems. Based on this evaluation, we are currently in the process of developing elements to reinforce our management systems with a focus on process safety and mechanical integrity, and are concurrently developing the corresponding training programs for their full implementation.



### **New environmental and safety investment plan at Ternium's Guerrero unit**

On August 30, 2013, Ternium launched a thorough investment plan encompassing industrial safety, environmental sustainability, maintenance and facility overhaul at its Guerrero unit.

Investments in the different areas are designed to enhance safety and environmental measures in order to bring the Guerrero plant up to meet the most stringent norms and standards in the world. The industrial safety measures contained in this plan include expanding monitoring systems, installing additional detectors inside each industrial space, reinforcing venting systems and outlining new signage and evacuation routes. Additional modifications will be introduced in the mill's internal organization, in the scrap and slag plots and mineral and transfer yards.

Investments on environmental renovation and sustainability will be focused on enhancing controls over steel shop emissions and on the construction of a new acid regenerating facility. Ternium also launched a training plan for its employees aimed at reinforcing their knowledge on risk analysis, risk revision on complete processes, emergency and rescue situations as well as internal mobility and transit circuits.

### **Ternium's safety indicators in 2013**

Average injury rates at Ternium's facilities improved after the renewal of our health and safety programs in 2010; however, our injury rates in 2013 were adversely affected by the tragic accident at the Guerrero unit. Our average injuries frequency rate<sup>14</sup> (IFR) and lost-time injuries frequency rate<sup>15</sup> (LTIFR) were 3.3 and 1.1, respectively, in 2013. These measurements cover all of Ternium's facilities other than Ferrasa in Colombia (excluded only for comparability purposes), and include both our personnel and the personnel of third-party contractors operating in our facilities.

Ternium's health and safety policies began to be implemented in Ferrasa soon after its acquisition in August 2010, with consistent improvements in its safety ratios since then.

\* Does not include Ferrasa

### **Emissions Control**

During 2013, we continued investing in the expansion of by-product processing capacity in our coking batteries in Argentina. In addition, we commissioned in Colombia a new secondary de-dusting system and finished the revamping of a primary de-dusting system at the Ferrasa steel shop, which resulted in improved emission standards. These activities are part of an ongoing program that monitors and reviews our facilities, aimed at maximizing the efficient use of energy resources, the re-use of by-products and the appropriate treatment and disposal of wastes, air emissions and wastewater.

### Greenhouse Gas Emissions

The accompanying chart shows Ternium's estimated emission of carbon dioxide (CO<sub>2</sub>) per ton of liquid steel produced, as reported to worldsteel. We support the steel industry's ongoing efforts to develop innovative solutions to reduce greenhouse gas (GHG) emissions over the lifecycle of steel products. According to the Intergovernmental Panel on Climate Change (IPCC), the steel industry accounts for approximately 6-7% of total world GHG emissions.

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<sup>14</sup> Injuries frequency rate refers to total quantity of injuries per million of hours worked.

<sup>15</sup> Lost time injuries frequency rate refers to quantity of day-loss injuries per million of hours worked.

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.

## Corporate Governance

### The Company

The Company is a public limited liability company (*société anonyme*) organized under the laws of the Grand-Duchy of Luxembourg. Its object and purpose, as set forth in Article 2 of its articles of association, is the taking of interests, in any form, in corporations or other business entities, and the administration, management, control and development thereof. The Company is registered under the number B98 668 in Luxembourg's *Registre du Commerce et des Sociétés*.

### Shares; Shareholders' Meetings

The Company's authorized share capital is fixed by the Company's articles of association, as amended from time to time, with the approval of shareholders at an extraordinary general shareholders' meeting. The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of \$1.00 per share. The general extraordinary meeting of shareholders held on June 2, 2010, renewed the validity of the Company's authorized share capital until July 15, 2015. As of December 31, 2013, there were 2,004,743,442 shares issued and outstanding.

The Company's articles of association authorize the board of directors or any delegate(s) duly appointed by the board of directors, to issue shares within the limits of its authorized share capital against contributions in cash, contributions in kind or by way of incorporation of available reserves, at such times and on such terms and conditions as the board of directors or its delegates may determine. The extraordinary general meeting of shareholders held on June 2, 2010 renewed this authorization through July 15, 2015.

Under Luxembourg law, the Company's existing shareholders have a pre-emptive right to subscribe for any new shares issued for cash. The Company's shareholders have authorized the board of directors to waive, suppress or limit such pre-emptive subscription rights and related procedures to the extent it deems such waiver, suppression or limitation advisable for any issue or issues of shares within the authorized share capital. However, our articles of association provide that, if and from the date the Company's shares are listed on a regulated market (and only for as long as they are so listed), any issuance of shares for cash within the limits of the authorized share capital shall be subject to the pre-emptive subscription rights of the then-existing shareholders, except in the following cases (in which cases no pre-emptive rights shall apply):

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

§ any issuance of shares against a contribution other than in cash;



- § any issuance of shares upon conversion of convertible bonds or other instruments convertible into shares; provided, however, that the pre-emptive subscription rights of the then existing shareholders shall apply by provision of the Company's articles of association in connection with any issuance of convertible bonds or other instruments convertible into shares for cash; and
  
- § any issuance of shares (including by way of free shares or at a discount), up to an amount of 1.5% of the issued share capital of the Company, to directors, officers, agents or employees of the Company, its direct or indirect subsidiaries, or its Affiliates (as such term is defined in the Company's articles of association), including without limitation the direct issue of shares upon the exercise of options, rights convertible into shares, or similar instruments convertible or exchangeable into shares issued for the purpose of, or in relation to, compensation or incentive of any such persons.

Our articles of association provide that our annual ordinary general shareholders' meetings must take place in Luxembourg on the first Wednesday of every May at 2:30 p.m., Luxembourg time. At these meetings, our annual financial statements are approved and the members of our board of directors are elected. No attendance quorum is required at annual ordinary general shareholders' meetings and resolutions are adopted by a simple majority vote of the shares represented at the meeting. There are no limitations currently imposed by Luxembourg law on the rights of non-resident shareholders to hold or vote the Company's shares.

On May 2, 2013, the annual general meeting of shareholders of Ternium S.A. authorized the board of directors to delegate the management of the Company's day-to-day business and the authority to represent and bind the Company with his sole signature in such day-to-day management to Mr. Daniel Agustin Novegil, and to appoint Mr. Novegil as chief executive officer (*administrateur délégué*) of the Company. Following the adjournment of such annual general meeting, the board of directors resolved to delegate such management and representation authority to Mr. Novegil and to reappoint Mr. Novegil as chief executive officer (*administrateur délégué*) of the Company.

### **American Depositary Shares (ADSs)**

Each ADS represents ten shares. Holders of ADSs only have those rights that are expressly granted to them in the deposit agreement dated January 31, 2006, among the Company, The Bank of New York Mellon (formerly The Bank of New York), as depositary, and all owners and beneficial owners from time to time of ADRs of the Company. ADS holders may not attend or directly exercise voting rights in shareholders' meetings, but may instruct the depositary how to exercise the voting rights for the shares which underlie their ADSs. Holders of ADSs maintaining non-certificated positions must follow instructions given by their broker or custodian bank.

### **Share and ADS Repurchases**

The Company may repurchase its own shares in the cases and subject to the conditions set by the Luxembourg law of August 10, 1915, as amended. The ordinary general shareholders' meeting held on June 2, 2010 authorized the Company and the Company's subsidiaries to acquire shares of the Company, including shares represented by American Depositary Shares, or ADSs, at such times and on such other terms and conditions as may be determined by the board of directors of the Company or the board of directors or other governing body of the relevant Company subsidiary, provided that, among other conditions, the maximum number of shares, including shares represented by ADSs, acquired pursuant to the authorization may not exceed 10% of the Company's issued and outstanding shares or, in the case of acquisitions made through a stock exchange in which the shares or ADSs are traded, such lower amount as may not be exceeded pursuant to any applicable laws or regulations of such market, and that the purchase price per ADS to be paid in cash may not exceed 125% (excluding transaction costs and expenses), nor may it be lower than 75% (excluding transaction costs and expenses), in each case of the average of the closing prices of the ADSs in the New York Stock Exchange during the five trading days in which transactions in the ADSs were recorded in the New York Stock Exchange preceding (but excluding) the day on which the ADSs are purchased. In the case of purchases of shares other than in the form of ADSs, the maximum and minimum per share purchase prices shall be equal to the prices that would have applied in case of an ADS purchase pursuant to the formula above *divided* by the number of underlying shares represented by an ADS at the time of the relevant purchase.

As of the date of this report, Ternium held 41,666,666 of its own shares. Those shares were purchased from Usiminas on February 15, 2011, concurrently with the closing of an underwritten public offering by Usiminas of Ternium ADSs.

**Board of Directors**

The Company's articles of association provide for a board of directors consisting of a minimum of five members (when the shares of the Company are listed on a regulated market, as they currently are) and a maximum of fifteen. The board of directors is vested with the broadest powers to act on behalf of the Company and accomplish or authorize all acts and transactions of management and disposition that are within its corporate purpose and are not specifically reserved in the articles of association or by applicable law to the general shareholders' meeting.

The board of directors is required to meet as often as required by the interests of the Company and at least four times per year. In 2013, the Company's board of directors met six times. A majority of the members of the board of directors in office present or represented at each board of directors' meeting constitutes a quorum, and resolutions may be adopted by the vote of a majority of the directors present or represented. In case of a tie, the chairman is entitled to cast the deciding vote.

Directors are elected at the annual ordinary general shareholders' meeting to serve one-year renewable terms, as determined by the general shareholders' meeting. The general shareholders' meeting may dismiss all or any one member of the board of directors at any time, with or without cause, by resolution passed by a simple majority vote. The Company's current board of directors is composed of nine directors, three of whom are independent directors.

#### **Audit Committee**

The board of directors has an audit committee consisting of three independent directors. The members of the audit committee are not eligible to participate in any incentive compensation plan for employees of the Company or any of its subsidiaries. Under the Company's articles of association and the audit committee charter, the audit committee:

- § assists the board of directors in fulfilling its oversight responsibilities relating to the integrity of the financial statements of the Company, including periodically reporting to the board of directors on its activity and the adequacy of the Company's systems of internal control over financial reporting;
- § is responsible for making recommendations for the appointment, compensation, retention and oversight of, and assessment of the independence of the Company's independent auditors;
- § reviews material transactions between the Company or its subsidiaries with related parties (other than transactions that were reviewed and approved by the independent members of the board of directors or other governing body of any subsidiary of the Company) to determine whether their terms are consistent with market conditions or are otherwise fair to the Company and its subsidiaries; and
- § performs such other duties imposed by applicable laws and regulations of the regulated market or markets in which the shares of the Company are listed, as well as any other duty entrusted to it by the board of directors.

The audit committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and has direct access to the Company's internal and external auditors as well as the Company's management and employees

and, subject to applicable laws, its subsidiaries.

**Auditors**

The Company's articles of association require the appointment of at least one independent auditor chosen from among the members of the Luxembourg Institute of Independent Auditors. Auditors are appointed by the general shareholders' meeting, on the audit committee's recommendation, through a resolution passed by a simple majority vote. Shareholders may determine the number and the term of the office of the auditors at the ordinary general shareholders' meeting, provided however that an auditor's term shall not exceed one year and that any auditor may be reappointed or dismissed by the general shareholders' meeting at any time, with or without cause. As part of their duties, the auditors report directly to the audit committee.

PricewaterhouseCoopers, *Société coopérative* (formerly PricewaterhouseCoopers S.à r.l.), *Cabinet de révision agréé*, was appointed as the Company's independent auditor for the fiscal year ended December 31, 2013, at the ordinary general shareholders' meeting held on May 2, 2013.

**Board of Directors and Senior Management**

Board of Directors

**Chairman**

Paolo Rocca

Ubaldo Aguirre (\*)

Roberto Bonatti

Carlos Condorelli

Pedro Pablo Kuczynski (\*)

Adrián Lajous (\*)

Bruno Marchettini

Daniel Novegil

Gianfelice Rocca

**Secretary**

Arturo Sporleder

(\*) Audit Committee Members

**Senior Management**

**Chief Executive Officer**

SIGNATURE

Daniel Novegil

**Chief Financial Officer**

Pablo Brizzio

**Mexico Area Manager**

Máximo Vedoya

**Siderar Executive Vice President**

Martín Berardi

**International Area Manager**

Héctor Obeso Zunzunegui

**Planning and Operations General Director**

Oscar Montero

**Engineering and Environment Director**

Luis Andreozzi

**Human Resources Director**

Rodrigo Piña

**Chief Information Officer**

Roberto Demidchuck

SIGNATURE



**Quality and Product Director**

Rubén Herrera

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**Investor Information**

**Investor Relations Director**

Sebastián Martí

[smarti@ternium.com](mailto:smarti@ternium.com)

U.S. toll free: 866 890 0443

**IR Inquiries**

TERNIUM Investor Relations

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**Luxembourg Office**

29 Avenue de la Porte-Neuve

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Luxembourg

Phone: +352 2668 3153

Fax: +352 2659 8349

**Stock Information**

New York Stock Exchange (TX)

CUSIP Number: 880890108

**ADS Depositary Bank**

BNY Mellon

Depositary Receipts

P.O. Box 43006

Providence, RI 02940-3006

Toll free number for US calls: +1 888 BNY  
ADRS

International calls: +1 201 680 6825

[shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com)

**Internet**

[www.ternium.com](http://www.ternium.com)

## Management's Discussion and Analysis of Financial Condition and Results of Operations

The review of Ternium's financial condition and results of operations is based on, and should be read in conjunction with, the Company's consolidated financial statements as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 (including the notes thereto), which are included elsewhere in this annual report.

The financial and operational information contained in this annual report is based on the operational data and consolidated financial statements of the Company, which were prepared in accordance with IFRS and IFRIC interpretations as issued by IASB and adopted by the EU, and presented in U.S. dollars (\$) and metric tons.

### Overview

Apparent steel use in Mexico decreased 9.0% year-over-year to approximately 18.6 million tons in 2013, mainly as a consequence of a struggling construction sector. Mexico's GDP increased 1.1% year-over-year, evidencing a slowdown in economic activity versus the prior year. In Argentina, apparent steel use increased 2.8% year-over-year to approximately 5.1 million tons, following an activity recovery in the construction, agricultural and automotive sectors. In Colombia, apparent steel use increased 1.1% year-over-year to approximately 3.5 million tons in 2013. GDP continued expanding at a solid pace, with positive performance at each of the different steel consuming sectors.

Ternium's operating income in 2013 was \$1.1 billion, 21% higher than in 2012 mainly due to higher operating margin and a 220,000 ton increase in steel shipments, as well as higher iron ore shipments to third parties as a result of the proportional consolidation in 2013 of Peña Colorada's mining operations. Operating margin in 2013 increased principally due to a lower operating cost per ton<sup>16</sup>, which resulted mainly from a lower cost of purchased slabs and raw materials, partially offset by lower steel revenue per ton in Mexico and Other Markets.

Ternium's net income in 2013 was \$592.9 million, \$402.0 million higher than net income in 2012, mainly due to a \$328.6 million better result related to the investment in Usiminas, which in 2012 included a \$275.3 million impairment charge, and a \$188.8 million higher operating income, partially offset by higher net financial and income tax expenses.

### Net Sales

Net sales in 2013 were \$8.5 billion, 1% lower than net sales in 2012, mainly as a result of lower steel products sales in Mexico and Other Markets, partially offset by higher steel products sales in the Southern Region and higher iron ore sales to third parties. For a discussion on the drivers of the increase or decrease of sales in each region, see "Business Review."

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<sup>16</sup> Operating cost per ton is equal to cost of sales plus selling, general and administrative expenses, divided by steel shipments.

The following table shows Ternium's total consolidated net sales for 2013 and 2012:

Mexico	4,230.1	4,457.3	-5%
Southern Region	2,944.7	2,737.4	8%
Other Markets	1,251.2	1,377.2	-9%
Total steel products net sales	8,426.0	8,572.0	-2%
Other products <sup>17</sup>	33.9	29.2	16%

Intersegment eliminations	(316.4)	(183.8)	72%
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### Cost of sales

Cost of sales was \$6.6 billion in 2013, a decrease of \$266.1 million compared to 2012. This was principally due to a \$371.4 million, or 7%, decrease in raw material and consumables used, mainly reflecting a decrease in raw material and purchased slabs costs, partially offset by a 3% increase in steel shipment volumes and higher energy costs; and a \$105.3 million increase in other costs, including a \$56.1 million increase in labor cost and a \$52.7 million increase in maintenance expenses.

### Selling, general and administrative expenses

Selling, general and administrative expenses in 2013 were \$843.3 million, or 9.9% of net sales, an increase of \$34.1 million compared to 2012, mainly including higher taxes and contributions (other than income tax), labor expenses and freight and transportation expenses, partially offset by lower services and fees expenses.

### Operating income

Operating income in 2013 was \$1.1 billion, or 13.0% of net sales, compared to operating income of \$920.6 million, or 10.7% of net sales, in 2012. The following table shows Ternium's operating income by segment for 2013 and 2012:

	Steel segment		Mining segment		Intersegment eliminations		Total	
Net Sales	8,459.9	8,601.1	386.5	190.7	(316.4)	(183.8)	8,530.0	8,608.1
Cost of sales	(6,645.2)	(6,909.5)	(268.3)	(132.8)	313.2	175.9	(6,600.3)	(6,866.4)
SG&A expenses	(820.3)	(804.7)	(23.0)	(4.5)	-	-	(843.3)	(809.2)
Other operating income, net	23.1	(12.3)	(0.1)	0.4	-	-	23.0	(11.9)

**Steel reporting segment**

The steel segment's operating income was \$1.0 billion in 2013, an increase of \$142.8 million compared to 2012, reflecting lower operating cost partially offset by lower net sales.

Net sales of steel products in 2013 decreased 2% compared to 2012, reflecting a \$40 decrease in revenue per ton, mainly due to lower steel prices in Mexico and Other Markets. Shipments increased 220,000 tons compared to 2012, or 3%, mainly due to higher sales volume in the Southern Region and Mexico.

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<sup>17</sup> The item "Other products" primarily includes pig iron and pre-engineered metal buildings.

	Net Sales (\$ million)			Shipments (thousand tons)			Revenue / ton (\$/ton)		
Mexico	4,230.1	4,457.3	-5%	4,984.9	4,952.4	1%	849	900	-6%
Southern Region	2,944.7	2,737.4	8%	2,633.1	2,444.5	8%	1,118	1,120	0%
Other Markets	1,251.2	1,377.2	-9%	1,370.3	1,371.2	0%	913	1,004	-9%
Total steel products	8,426.0	8,572.0	-2%	8,988.4	8,768.2	3%	937	978	-4%
Other products <sup>17</sup>	33.9	29.2	16%						

Operating cost decreased 3%, due to a 6% decrease in operating cost per ton, partially offset by a 3% increase in shipment volumes. The decrease in operating cost per ton was mainly due to lower raw material and purchased slabs costs, partially offset by higher energy costs, maintenance expenses and labor cost.

### Mining reporting segment

Net sales of mining products in 2013 were 103% higher than in 2012. Shipments were 4.2 million tons, 128% higher than in 2012, and revenue per ton was \$91, 11% lower than in 2012. The year-over-year differences were mainly due to the change in accounting treatment of Peña Colorada, which began to be proportionally consolidated effective January 1, 2013.

### Mining segment

Net Sales (\$ million)	386.5	190.7	103%
Shipments (thousand tons)	4,243.0	1,862.6	128%
Revenue per ton (\$/ton)	91	102	-11%

The mining segment's operating income was \$95.1 million in 2013, an increase of \$41.3 million compared to 2012 mainly reflecting the proportional consolidation of Peña Colorada's mining operations in 2013.

### EBITDA<sup>3</sup>

EBITDA in 2013 was \$1.5 billion, or 17.4% of net sales, compared with \$1.3 billion, or 15.0% of net sales, in 2012.

### Net financial results

Net financial results were a \$135.5 million loss in 2013, compared with a \$121.6 million loss in 2012. During 2013, Ternium's net interest results totaled a loss of \$106.3 million, \$18.9 million lower than in 2012, reflecting lower indebtedness and weighted average interest rates.

**Equity in results of non-consolidated companies**

Equity in results of non-consolidated companies was a loss of \$31.6 million in 2013, compared to a loss of \$346.8 million in 2012, which included a write-down of Ternium's investment in Usiminas of \$275.3 million.



**Income tax expense**

Income tax expense in 2013 was \$349.4 million, or 37% of income before income tax, compared with an income tax expense of \$261.2 million in 2012, or 58% of income before income tax. Income tax expense in 2013 included a deferred income tax charge of \$24.0 million related to the introduction of a new withholding tax on dividend distributions in Argentina and other charges mostly related to the effects of the 2014 Mexican tax reform package. The effective tax rate for 2012 was impacted by losses stemming from the investment in Usiminas (including the above mentioned write-down) that were recorded in 2012 and reduced Ternium's taxable income in that year.

**Net income attributable to non-controlling interest**

Net income attributable to non-controlling interest in 2013 was \$137.5 million, compared to \$48.9 million in 2012, mainly due to a higher result attributable to non-controlling interest in Siderar.

**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, as well as our acquisitions. We hold money market investments, time deposits and variable-rate or fixed-rate securities from investment grade issuers. During 2013 we decreased our financial indebtedness, from \$2.4 billion at the end of 2012 to \$2.0 billion at the end of 2013.

Management believes that funds from operations will be sufficient to satisfy our current working capital needs and service our debt in the foreseeable future. Ternium has not negotiated additional committed credit facilities. However, Ternium has negotiated non-committed credit facilities and management believes it has adequate access to the credit markets. Management also believes that our liquidity and capital resources give us adequate flexibility to manage our planned capital spending programs and to address short-term changes in business conditions.

The following table shows the changes in our cash and cash equivalents, excluding funds placed in trust, for each of the periods indicated below:

In \$ thousands	<b>For the year ended December 31,</b>	
Net cash provided by operating activities	1,092,174	1,055,092
Net cash used in investing activities	(883,708)	(2,994,747)
Net cash (used in) provided by financing activities	(465,147)	348,200
(Decrease) in cash and cash equivalents	(256,681)	(1,591,454)
Effect of exchange rate changes	(8,635)	(6,283)
Initial cash of Peña Colorada and Exiros <sup>1</sup>	12,227	-

Cash and cash equivalents at the beginning of the year	560,307	2,158,044
<b>Cash and cash equivalents at the end of the year</b>	<b>307,218</b>	<b>560,307</b>

During 2013, Ternium's primary source of funding was cash provided by operating activities and cash on hand. Cash and cash equivalents as of December 31, 2013 were \$307.2 million, a \$253.1 million decrease from \$560.3 million at the end of the previous year. The decrease is mainly attributable to net cash used in investing activities of \$883.7 million and net cash used in financing activities of \$465.1 million, partially offset by net cash provided by operating activities of \$1.1 billion.

In addition to cash and cash equivalents, as of December 31, 2013, we held other investments with maturity of more than three months for a total amount of \$169.5 million, increasing \$1.8 million compared to December 31, 2012.

**Operating activities**

Net cash provided by operating activities was \$1.1 billion in 2013 similar to that of 2012, including a decrease in working capital of \$114.6 million in 2013 and of \$23.5 million in 2012.

The decrease in working capital during 2013 was the result of an aggregate \$137.1 million decrease in trade and other receivables and an aggregate \$93.3 million increase in accounts payable and other liabilities, partially offset by a \$115.8 million increase in inventories, as shown in the following table:

	<b>Change in inventory Dec'13 / Dec'12</b>		
	(\$ million)		
Finished goods	(3.6)	(48.9)	(52.5)
Goods in process	21.8	64.3	86.0
Raw materials, supplies and allowances	107.1	(24.7)	82.3
<b>Total</b>	<b>125.2</b>	<b>(9.4)</b>	<b>115.8</b>

**Investing activities**

Net cash used in investing activities in 2013 was \$883.7 million, compared to net cash used in investing activities of \$3.0 billion in 2012. This change was primarily attributable to the following:

- a decrease in net cash used in acquisitions of businesses of \$2.2 billion (net cash in 2012 had been impacted significantly by the acquisition of an equity participation in Usiminas); and
- a decrease of \$139.3 million in capital expenditures (from \$1.0 billion in 2012 to \$883.3 million in 2013); partially offset by
- a decrease of \$136.7 million in the proceeds from the Sidor financial asset arising from the nationalization of that company, as the payments received in 2012 cancelled the outstanding amount; and
- an increase in other investments of \$1.8 million, consisting mainly of financial investments with maturity of more than three months, compared to a decrease in other investments of \$127.9 million in 2012, for a net year-over-year change of \$129.7 million.

### **Financing activities**

Net cash used in financing activities was \$465.1 million in 2013, compared to net cash provided by financing activities of \$348.2 million in 2012. This change was primarily attributable to the following:

- a net repayment of borrowings of \$270.8 million in 2013, compared to net proceeds from borrowings of \$469.7 million in 2012, for a net year-over-year change of \$740.5 million; and
- an increase of \$50.8 million in dividends paid in cash by subsidiary companies (from \$15.9 million in 2012 to \$66.7 million in 2013).

### **Principal sources of funding**

#### **Funding policy**

Management's policy is to maintain a high degree of flexibility in operating and investment activities by maintaining adequate liquidity levels and ensuring access to readily available sources of financing. While Ternium currently does not have committed credit facilities available for borrowing, management believes that it could have access to external borrowing in case of any shortfalls or specific needs. We obtain financing primarily in U.S. dollars, Argentine pesos and Colombian pesos. Whenever feasible, management bases its financing decisions, including the election of currency, term and type of the facility, on the intended use of proceeds for the proposed financing and on costs. For further information on our financial risk management please see note 32 to our consolidated financial statements, included in this annual report.

## Financial liabilities

Our financial liabilities consist of loans with financial institutions and some pre-accorded overdraft transactions. As of December 31, 2013, these facilities were mainly denominated in U.S. dollars (77.0% of total financial liabilities), Argentine pesos (15.7% of total financial liabilities) and Colombian pesos (6.2% of total financial liabilities). Total financial debt (inclusive of principal and interest accrued thereon) decreased by \$421.5 million in the year, from \$2.4 billion as of December 31, 2012, to \$2.0 billion as of December 31, 2013, mainly due to the repayment of principal and interest on borrowings related to prior acquisitions and the decrease in short term borrowings, partially offset by the proceeds from Ternium México's new \$800.0 million syndicated loan. As of December 2013, current borrowings were 39.8% of total borrowings, none of which corresponded to borrowings with related parties.

Ternium's nominal weighted average interest rate for 2013, which also includes the effect of derivative financial instruments, was 4.89%. This rate was calculated using the rates set for each instrument in its corresponding currency and weighted using the U.S. dollar-equivalent outstanding principal amount of each instrument as of December 31, 2013.

## Most significant borrowings

Our most significant borrowings as of December 31, 2013, were those incurred under two Ternium México's syndicated loan facilities (a 2013 loan intended to improve the company debt profile and a 2007 loan related to the Grupo Imsa transaction in July 2007) and under Tenigal's syndicated loan facility, in order to finance the construction of its recently inaugurated hot-dipped galvanizing mill in Pesquería, Mexico.

### \$ Million

Date	Borrower	Type	Original principal amount	Outstanding principal amount as of December 31, 2013	Maturity
July 2007	Ternium México	Syndicated loan	3,485.0	301.5 <sup>18</sup>	July 2014
November 2013	Ternium México	Syndicated loan	800.0	800.0	November 2018
2012/2013	Tenigal	Syndicated loan	200.0	200.0	July 2022

The main covenants in our syndicated loan agreements are limitations on liens and encumbrances, limitations on the sale or other dispositions of certain material assets and compliance with financial ratios (*e.g.*, leverage ratio and interest coverage ratio).

As of December 31, 2013, we were in compliance with all covenants under our loan agreements. For further information on our derivative financial instruments and borrowings please see notes 23 and 24 to our consolidated financial statements included in this annual report.

<sup>18</sup> On February 1, 2008, we completed the sale of our interests in Steelscape, Inc., ASC Profiles Inc., Varco Pruden Buildings Inc. and Metl-Span LLC to BlueScope Steel North America Corporation, a subsidiary of BlueScope Steel Limited, for a total consideration of \$727 million. On February 28, 2008, we applied \$700.0 million of the proceeds of such sale to partially prepay loans under the syndicated loan agreement. On April 6, 2011, Ternium México refinanced \$800 million of the final installment, extending its maturity from July 2012 to July 2014. Of the refinanced amount, during 2013 Ternium México paid two semi-annual installments and prepaid \$100.0 million.

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**TERNIUM S.A.**

**Consolidated Financial Statements**

**as of December 31, 2013 and 2012 and**

**for the years ended on December 31, 2013, 2012 and 2011**

29 Avenue de la Porte-Neuve, 3<sup>rd</sup> floor

L – 2227

R.C.S. Luxembourg: B 98 668

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2013 and 2012

and for the years ended December 31, 2013, 2012 and 2011

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

**Ternium S.A.**

We have audited the accompanying consolidated statements of financial position of Ternium S.A. and its subsidiaries as of 31 December 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended 31 December 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ternium S.A. and its subsidiaries at 31 December 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended 31 December 2013 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and in conformity with International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers, Société coopérative

Luxembourg, 19 February 2014

Represented by

SIGNATURE

Mervyn R. Martins

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TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2013 and 2012

and for the years ended December 31, 2013, 2012 and 2011

(All amounts in USD thousands)

**Consolidated Income Statements**

Net sales	<b>5</b>	8,530,012	8,608,054	9,122,832
Cost of sales	<b>6</b>	(6,600,292)	(6,866,379)	(7,016,322)
Selling, general and administrative expenses	<b>7</b>	(843,311)	(809,181)	(839,362)
Other operating income (expenses), net				