Ternium S.A.
Form 20-F
June 30, 2010

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

FORM 20-F

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

or

þ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the fiscal year ended December 31, 2009

or

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

or

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

Commission file number: 001-32734

TERNIUM S.A.
(Exact Name of Registrant as Specified in its Charter)

N/A
(Translation of registrant s name into English)

Grand Duchy of Luxembourg
(Jurisdiction of incorporation or organization)

46a, Avenue John F. Kennedy 2nd floor
L-1855 Luxembourg
(Address of registrant s registered office)

Beatriz Rodriguez Salas
46A, Avenue John F. Kennedy 2 nd floor
L-1855 Luxembourg
Tel. +352 26 68 31 52, Fax. +352 26 68 31 53, e-mail: luxembourg@ternium.com
(Name, Telephone, E-Mail and/or Facsimile number and Address of Company Contact Person)

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

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

* Ordinary shares of Ternium S.A. are not listed for trading but only in connection

with the registration of American Depositary Shares which are evidenced by American Depositary Receipts.

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

None

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

None

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No þ

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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

Large accelerated filer þ Accelerated Filer o Non-accelerated filer o

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

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

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

Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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

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CERTAIN DEFINED TERMS

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

References to the Company refer exclusively to Ternium S.A., a Luxembourg joint stock corporation (*société anonyme holding*);

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

References to the Ternium companies are to the Company s manufacturing subsidiaries, namely Siderar S.A.I.C., an Argentine corporation (Siderar), and Ternium México, S.A. de C.V., a Mexican corporation (Ternium Mexico), and their respective subsidiaries;

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

References to Tenaris are to Tenaris S.A., a Luxembourg joint stock corporation (*société anonyme* holding) and a shareholder of the Company;

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

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

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

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

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

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PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Accounting Principles

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

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Currencies

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

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

Mexican pesos or MXN each refers to the Mexican peso;

Argentine pesos or ARP each refers to the Argentine peso;

On December 31, 2009, the noon buying rate between the Mexican peso and the U.S. dollar (as published by *Banco de México*, or the Mexican Bank) was MXN13.0659=USD1.0000 and the exchange rate between the Argentine peso and the U.S. dollar (as published by *Banco Central de la República Argentina*, or the Argentine Central Bank) was ARP3.8000=USD1.0000. Those rates may differ from the actual rates used in preparation of the Company s consolidated financial statements. We do not represent that any of these currencies could have been or could be converted into U.S. dollars or that U.S. dollars could have been or could be converted into any of these currencies.

Rounding; Comparability of Data

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

Our Internet Site is Not Part of this Annual Report

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

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This annual report and any other oral or written statements made by us to the public may contain forward-looking statements within the meaning of and subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. This annual report contains forward-looking statements, including with respect to certain of our plans and current goals and expectations relating to Ternium s future financial condition and performance.

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

We use words such as aim, will continue, will likely result, contemplate, seek to, future, objective, goal, pursue, anticipate, estimate, expect, project, intend, plan, believe and words and terms of similar substan forward-looking statements, but they are not the only way we identify such statements. All forward-looking statements are management s present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These factors, which could cause actual results to differ materially from those described in the forward-looking statements, include the risks related to our business discussed under Item 3. Key Information D. Risk Factors , among them, the following:

- the impact of the global economic crisis;
- uncertainties about the behaviour of steel consumers in the markets in which Ternium operates and sells its products;
- changes in the pricing environments in the countries in which Ternium operates;
- the impact in the markets in which Ternium operates of existing and new competitors, including competitors that offer less expensive products and services, desirable or innovative products, or have extensive resources or better financing, and whose presence may affect Ternium s customer mix, revenues and profitability;
- increases in the prices of raw materials, other inputs or energy or difficulties in acquiring raw materials or other inputs or energy supply cut-offs;
- the policies of, and the economic, political and social conditions in, the countries in which Ternium operates or other countries which have an impact on Ternium s business activities or investments;
- inflation or deflation and foreign exchange rates in the countries in which Ternium operates;
- volatility in interest rates;
- the performance of the financial markets globally and in the countries in which Ternium operates;
- changes in domestic and foreign laws, regulations and taxes;
- regional or general changes in asset valuations;
- our ability to successfully implement our business strategy or to grow through acquisitions, greenfield projects, joint ventures and other investments; and
- other factors or trends affecting the flat and long steel industry generally and our financial condition in particular.

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

condition and results of operations could differ materially from those that have been estimated. You should not place undue reliance on the forward-looking statements, which speak only as of the date of this annual report. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The selected consolidated financial data (or selected combined consolidated financial data, as applicable) set forth below have been derived from our audited consolidated financial statements (or combined consolidated financial statements, as applicable) for each of the years and at the dates indicated. Our consolidated financial statements were prepared in accordance with IFRS, and were audited by Price Waterhouse & Co. S.R.L., Argentina, an independent registered public accounting firm that is a member firm of PricewaterhouseCoopers.

Ternium obtained control over Grupo Imsa, a Mexican steel processor, on July 26, 2007. Accordingly, the audited consolidated financial statements of Ternium as of December 31, 2009 and 2008, and for the years then ended, included in this annual report consolidate the results and other financial data of Grupo Imsa for the entire year, and the audited consolidated financial statements of Ternium as of December 31, 2007, and for the year then ended, included in this annual report consolidate the results and other financial data of Grupo Imsa beginning on July 26, 2007. As a result, Ternium s results and other financial data for the years ended December 31, 2009 and 2008 varied significantly from the results and other financial data for the year ended December 31, 2007, and the results and other financial data of each such year varied significantly from the results and other financial data for the years ended December 31, 2006 and 2005.

Ternium acquired Hylsamex, a Mexican steel producer, on August 22, 2005. Accordingly, the audited consolidated financial statements of Ternium as of December 31, 2009, 2008, 2007 and 2006, and for the years ended December 31, 2009, 2008, 2007 and 2006 consolidate the results and other financial statements of Hylsamex for such years, and the consolidated financial data of Ternium as of December 31, 2005, and for the year then ended, consolidate the results and other financial data of Hylsamex beginning on August 22, 2005. As a result, Ternium s results and other financial data for the years ended December 31, 2009, 2008, 2007 and 2006 varied significantly from the results and other financial data for the year ended December 31, 2005.

For a discussion of the currencies used in this annual report, exchange rates and accounting principles affecting the financial information contained in this annual report, see Presentation of Certain Financial and Other Information Accounting Principles and Currencies.

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In thousands of U.S. dollars	For the year ended December 31,				
(except number of shares and per share data)	**2009**	**2008**	**2007**	**2006**	**2005** (1)
Selected consolidated income statement data					
Continuing operations					
Net sales	4,958,983	8,464,885	5,633,366	4,484,918	2,690,450
Cost of sales	(4,110,370)	(6,128,027)	(4,287,671)	(3,107,629)	(1,787,848)
Gross profit	848,613	2,336,858	1,345,695	1,377,289	902,602
Selling, general and administrative expenses	(531,530)	(669,473)	(517,433)	(370,727)	(243,993)
Other operating (expenses) income, net	(20,700)	8,662	8,514	(4,739)	(57,338)
Operating income	296,383	1,676,047	836,776	1,001,823	601,271
Interest expense	(105,810)	(136,111)	(133,109)	(96,814)	(60,686)
Interest income	21,141	32,178	41,613	33,903	17,786
Interest income Sidor financial asset	135,952				
Other financial income (expenses), net	81,639	(693,192)	(38,498)	(40,432)	33,514
Equity in earnings of associated companies	1,110	1,851	434	671	153
Income before income tax expense	430,415	880,773	707,216	899,151	592,038
Income tax (expense) benefit					
Current and deferred income tax expense	(91,314)	(258,969)	(297,838)	(353,044)	(233,113)
Reversal of deferred statutory profit sharing		96,265			
Income from continuing operations	339,101	718,069	415,871	546,107	358,925
Discontinued operations					
Income from discontinued operations	428,023	157,095	579,925	444,468	715,900
Net income for the year (2)	767,124	875,164	995,796	990,575	1,074,825
Attributable to:					
Equity holders of the Company	717,400	715,418	784,490	795,424	706,418
Minority interest	49,724	159,746	211,306	195,151	368,407
	767,124	875,164	995,796	990,575	1,074,825
Depreciation and amortization	385,105	413,541	355,271	251,371	160,145
	2,004,743,442	2,004,743,442	2,004,743,442	1,936,833,060	1,209,476,609

Weighted average number of shares outstanding (4)					
Basic earnings per share (expressed in USD per share) for profit: (2) (3) (4)					
From continuing operations attributable to the equity holders of the Company	0.15	0.27	0.15	0.20	0.15
From discontinued operations attributable to the equity holders of the Company	0.21	0.09	0.24	0.21	0.43
For the year attributable to the equity holders of the Company	0.36	0.36	0.39	0.41	0.58
Dividends per share declared	0.05		0.05	0.05	

(1) Combined consolidated financial information on the basis of common control.

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

(3) Diluted earnings per share (expressed in USD per share), equals basic earnings per share in 2009, 2008, 2007 and 2006. In 2005, diluted earnings per share were USD0.54, including USD0.14 from continuing operations and USD0.39 from

discontinued operations. Diluted earnings per share have been calculated giving effect to the conversion of certain subordinated convertible loans.

(4) In October 2005, Usiminas exchanged its 5.3% equity interest in Siderar, its 16.6% equity interest in Amazonia and its 19.1% equity interest in Ylopa and other items for 227,608,254 new shares of the Company. Upon the consummation of this exchange, capital increased to USD1,396.6 million, represented by 1,396,551,886 shares of USD1.00 nominal value each. Pursuant to provisions contained in certain subordinated convertible loan agreements, on February 6, 2006, the Company exchanged such subordinated convertible loans (including interest accrued thereon through January 31, 2006) for Company shares at a conversion price of USD2 per share, resulting in the issuance of 302,962,261 new shares to a wholly-owned subsidiary of San

Faustín on February 9, 2006. As provided in a certain corporate reorganization agreement, on February 9, 2006, after the settlement of the Company s initial public offering, a wholly-owned subsidiary of San Faustín contributed all of its assets and liabilities to the Company in exchange for 959,482,775 newly-issued shares of the Company, which contribution included, among other items, the San Faustín subsidiary s right to receive 302,962,261 new shares of the Company in connection with the conversion of the subordinated convertible loans described above, and 374,272,579 existing shares of the Company then held by such San Faustín subsidiary that were cancelled upon receipt by the Company. In connection with the over-allotment option granted to the underwriters of the Company s initial public, the Company issued 22,981,360 new shares. Upon consummation of the

transactions discussed above, as of December 31, 2006, the capital of the Company was increased to USD2,004.7 million, represented by 2,004,743,442 shares, each having a nominal value of USD1.00. For fiscal years 2009, 2008, 2007, 2006 and 2005, the weighted average of shares outstanding totaled 2,004,743,442, 2,004,743,442, 2,004,743,442, 1,936,833,060 and 1,209,476,609 shares, respectively.

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In thousands U.S. dollars	At December 31,				
(except number of shares and per share data)	**2009**	**2008**	**2007**	**2006**	**2005** (1)
Selected consolidated balance sheet data					
Non-current assets	5,250,135	5,491,408	8,553,123	6,029,383	6,029,823
Property, plant and equipment, net	4,040,415	4,212,313	6,776,630	5,335,030	5,377,831
Other non-current assets (2)	1,209,720	1,279,095	1,776,493	694,353	651,992
Current assets	5,042,538	5,179,839	5,095,959	2,628,870	2,518,958
Cash and cash equivalents	2,095,798	1,065,552	1,125,830	643,291	765,506
Other current assets	2,937,494	4,108,954	3,200,987	1,978,537	1,750,292
Non-current assets classified as held for sale	9,246	5,333	769,142	7,042	3,160
Total assets	10,292,673	10,671,247	13,649,082	8,658,253	8,548,781
Capital and reserves attributable to the Company s equity holders (3)	5,296,342	4,597,370	4,452,680	3,757,558	1,842,454
Minority interest	964,897	964,094	1,805,243	1,626,119	1,633,881
Non-current liabilities	2,872,667	3,374,964	5,401,549	1,867,892	3,683,755
Borrowings	1,787,204	2,325,867	3,676,072	546,601	2,396,807
Deferred income tax	857,297	810,160	1,327,768	982,091	1,047,038
Other non-current liabilities	228,166	238,937	397,709	339,200	239,910
Current liabilities	1,158,767	1,734,819	1,989,610	1,406,684	1,388,691
Borrowings	539,525	941,460	406,239	507,241	510,820
Other current liabilities	619,242	793,359	1,369,608	899,443	877,871
Liabilities directly associated with non-current assets classified as held for sale			213,763		
Total liabilities	4,031,434	5,109,783	7,391,159	3,274,576	5,072,446
Total equity and liabilities	10,292,673	10,671,247	13,649,082	8,658,253	8,548,781
Number of shares outstanding (4)	2,004,743,442	2,004,743,442	2,004,743,442	2,004,743,442	1,396,551,886

(1) Combined consolidated financial information on the basis of common control.

(2) As of December 31, 2009, 2008, 2007, 2006 and 2005, includes goodwill related to the acquisition of our

Mexican subsidiaries for a total amount of USD708.6, USD683.7, USD850.7, USD397.9 million and USD399.7 million, respectively.

(3) The Company s common stock as of December 31, 2009, 2008, 2007, 2006 and 2005 was represented by 2,004,743,442, 2,004,743,442, 2,004,743,442, 2,004,743,442 and 1,396,551,886 shares, par value USD1.00 per share, for a total amount of USD2,004.7 million, USD2,004.7 million, USD2,004.7 million, USD2,004.7 million and USD1,396.6 million.

(4) After the completion of the Company s initial public offering, the conversion of certain subordinated convertible loans, the exercise of the over-allotment option granted to the underwriters of the initial public offering and the consummation of the transactions contemplated in a corporate reorganization agreement, as of December 31, 2006, the capital was

increased to USD2,004.7 million, represented by 2,004,743,442 shares, each having a nominal value of USD1.00.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

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D. Risk Factors

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

Risks Relating to the Steel Industry

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

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

If global macroeconomic conditions deteriorate, the outlook for steel producers would be affected. In particular, a recession or depression in the developed economies, such as the one experienced by the United States and Europe in 2008 and 2009, or slower growth or recessionary conditions in emerging economies that are substantial consumers of steel (such as China and India, as well as emerging Asian markets, the Middle East, Latin America and the Commonwealth of Independent States regions) would exact a heavy toll on the steel industry. Financial weakness among substantial consumers of steel products, such as the automotive industry and the construction industry, or the bankruptcy of any large companies in such industries, would exacerbate a negative trend in market conditions.

Although demand, production levels and prices in certain segments and markets have recovered and stabilized to a certain degree, the extent, timing and duration of the recovery and potential return to pre-crisis levels remains uncertain. It is difficult to predict the duration or severity of a new global economic downturn, or to what extent it will affect us. A continued or renewed recession, or the public perception that a recession is continuing, or an unsustainable recovery and persistently weak economic conditions in our key markets, could depress demand for our products and adversely affect our business and results of operations.

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

Steel prices are volatile and are sensitive to trends in cyclical industries, such as the construction, automotive, appliance and machinery industries, which are significant markets for Ternium s products. Steel prices in the international markets, which had been rising fast during the first half of 2008, fell sharply beginning in the second half of 2008 as a result of collapsing demand and the resulting excess capacity in the industry. The fall in prices during this period adversely affected the results of steel producers generally, including Ternium, as a result of lower revenues and writedowns of finished steel products and raw material inventories. For example, in the second half of 2008 Ternium recorded a valuation allowance on inventories in an amount of USD200 million and in the first half of 2009 it recorded an additional valuation allowance in the amount of USD127.6 million. Beginning in the second half of 2009, steel prices in the international markets rebounded mainly as a result of the increase in the demand for steel in China and other emerging markets, and the subsidence of the worldwide de-stocking process. Although the duration and extent of this price recovery depends highly on global economic recovery, historically the length and nature of business cycles affecting the steel industry has been unpredictable. A downturn in steel prices would materially and

adversely affect Ternium s revenues and profitability.

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

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

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

Excess capacity, resulting in part from the recent financial crisis that reduced steel demand and from a strong increase in steel production capacity in recent years, may hamper the steel industry s ability to sustain adequate profitability.

In addition to economic conditions and prices, the steel industry is affected by other factors such as worldwide production capacity and fluctuations in steel imports/exports and tariffs. Historically, the steel industry has suffered, especially on downturn cycles, from substantial over-capacity. Currently, as a result of the economic crisis and the increase in steel production capacity in recent years, there are signs of excess capacity in all steel markets, which is impacting the profitability of the steel industry. Accordingly, it is possible that the industry s excess capacity will result in an extended period of depressed margins and industry weakness.

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

Inventory levels of steel products held by companies that purchase Ternium s products can vary significantly from period to period. These fluctuations can temporarily affect the demand for Ternium s products, as customers draw from existing inventory during periods of low investment in construction and the other industry sectors that purchase Ternium s products and accumulate inventory during periods of high investment and, as a result, these companies may not purchase additional steel products or maintain their current purchasing volume. Accordingly, Ternium may not be able to increase or maintain its current levels of sales volumes or prices.

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

Like other manufacturers of steel-related products, Ternium s operations require substantial amounts of raw materials, energy and other inputs from domestic and foreign suppliers. In particular, the Ternium companies consume large quantities of iron ore, scrap, ferroalloys, electricity, coal, natural gas, oxygen and other gases in operating their blast and electric arc furnaces. In addition, Ternium is a large consumer of slabs and hot and cold-rolled steel, which are used as inputs in the production process. Also, the availability and price of a significant portion of the raw materials, slabs, energy and other inputs Ternium requires are subject to market conditions and government regulation affecting supply and demand. For example, shortages of natural gas in Argentina and the consequent supply restrictions imposed by the government could lead to higher costs of production and eventually to production cutbacks at Ternium s facilities in Argentina. See Risks Relating to the Countries in Which We Operate Argentina Restrictions on the supply of energy to Ternium s operations in Argentina could curtail Ternium s production and negatively impact Ternium s results of operations. In the past, Ternium has usually been able to procure sufficient supplies of raw materials, slabs, energy and other inputs to meet its production needs; however, it could be unable to procure adequate supplies in the future. Any protracted interruption, discontinuation or other disruption of the supply of principal inputs to the Ternium companies (including as a result of strikes, lockouts or other problems) would result in lost sales and would have a material adverse effect on Ternium s business and results of operations. For example, during 2007 Companhia Vale do Rio Doce, or Vale, our main supplier of iron ore, was unable to provide us with the quantities of iron ore required for our Argentine operations; in addition, there was limited transportation capacity from Brazil to Argentina through the Paraguay and Parana rivers. For further information related to Raw Materials, Energy and Other inputs requirements, Item 4. Information on the Company B. Business Overview Raw Materials, Energy and Other inputs.

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

The Ternium companies depend on certain key suppliers for their requirements of some of their principal inputs, including Vale for iron ore and ArcelorMittal for slabs; there is also a trend towards consolidation among suppliers of iron ore and other raw materials. The Ternium companies have entered into long-term contracts for the supply of some of their principal inputs (including iron ore) and it is expected that they will maintain and, depending on the

circumstances, renew these contracts. However, if any of the key suppliers fails to deliver or there is a failure to renew these contracts, the Ternium companies could face limited access to some raw materials, energy or other inputs, or higher costs and delays resulting from the need to obtain their input requirements from other suppliers. As an example, in 2007 Vale was unable to provide Siderar with the quantities of iron ore that it required, forcing Siderar to import iron ore from Ternium Mexico.

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

The market for Ternium s steel products is highly competitive, particularly with respect to price, quality and service. In both the global and regional markets, Ternium competes against other global and local producers of flat and long steel products, which in some cases have greater financial and operating resources. Competition from larger steel manufacturers could result in declining margins and reductions in sales volumes and revenues.

Ternium s larger competitors could use their resources against Ternium in a variety of ways, including by making additional acquisitions, implementing modernization programs, expanding their production capacity, investing more aggressively in product development, and displacing demand for Ternium s products in certain markets. To the extent that these producers become more efficient, Ternium could confront stronger competition and could fail to preserve its current share of the relevant geographic or product markets. In addition, there has been a trend in recent years toward steel industry consolidation among Ternium s competitors, and smaller competitors in the steel market today could become larger competitors in the future. For example, in June 2006, Mittal Steel and Arcelor merged to create the world s largest steel company, ArcelorMittal; in April 2007, Tata Steel completed the acquisition of Corus and in 2008 Severstal acquired Sparrow Points steel mill, WCI Steel and Esmark. Regional players in Ternium s markets have also experienced consolidation through acquisitions; for example, Siderperu was acquired by Gerdau in 2006, Sicartsa of Mexico was acquired by ArcelorMittal in December 2006 and Aceria Paz del Rio of Colombia was acquired by Votorantim in March 2007. For further information please see Item 4. Information on the Company B. Business Overview Competition.

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

Competition in the global and regional markets could also be affected by antidumping and countervailing duties imposed on some producers in major steel markets and by the removal of barriers to imported products in those countries where the Ternium companies direct their sales. For further information please refer to Item 4. Information on the Company Regulations Trade regulations.

Risks Relating to our Business

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

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

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

A key element of Ternium s business strategy is to identify and pursue growth-enhancing strategic opportunities. As part of this growth strategy, Ternium has acquired interests in various companies, including Hylsamex, one of the main steel producers in Mexico; and Grupo Imsa, a leading steel processor with operations in Mexico, the United States and Guatemala. Additionally, Ternium has recently entered into a definitive agreement to acquire a 54% ownership interest in Colombia-based Ferrasa S.A.S. (Ferrasa) and Ferrasa Panamá and signed a non-binding memorandum of understanding with Nippon Steel Corporation to form a joint venture in Mexico for the manufacturing and sale of hot-dip galvanized and galvannealed steel sheets to serve the Mexican automobile market, see Item 5. Operating and Financial Review and Prospects G. Recent Developments.

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We regularly consider capital investments, strategic acquisitions, greenfield projects and alliances and we intend to actively pursue that growth strategy. However, any growth project will depend upon market and financing conditions. We must necessarily base any assessment of potential capital investments, acquisitions, green-field projects and alliances on assumptions with respect to operations, profitability and other matters that may subsequently prove to be incorrect. Our recent and future acquisitions, investments and alliances may not perform in accordance with our expectations and could adversely affect our operations and profitability. Furthermore, we may fail to find suitable acquisition targets or fail to consummate our acquisitions under favorable conditions, or could be unable to successfully integrate any acquired businesses into our operations. Moreover, we may also acquire, as part of future acquisitions, assets unrelated to our business, and we may not be able to integrate them or sell them under favorable terms and conditions.

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

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

In accordance with IFRS, management must test all of Ternium s goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use annually for impairment, or more frequently if there are indicators of impairment, and recognize a non-cash charge in an amount equal to any impairment. We recorded goodwill in connection with the acquisition of our Mexican subsidiaries, the balance of which, as of December 31, 2009, amounted to USD708.6 million. If Ternium s management were to determine in the future that the goodwill from the acquisition of our Mexican subsidiaries was impaired, Ternium would be required to recognize a non-cash charge to write down the value of this goodwill, which would adversely affect Ternium s results of operations.

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

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

In Argentina, in early 2009, following a decrease in the level of activity since the last quarter of 2008 due to the global economic downturn, Siderar downsized contractor and subcontractor activities and temporary personnel, triggering adverse reactions from the construction workers union and the steelworkers union. Later in 2009, during the negotiations between Siderar and the steelworkers union regarding the annual bonuses related to results, the unions called for work stoppages and other measures. For more information on the collective bargaining agreement applicable to most of Siderar s employees in Argentina, see Item 6. Directors, Senior Management and Employees D. Employees Argentina. In Mexico, the various measures that Ternium s Mexican subsidiaries have taken in order to become more competitive during 2009 have not resulted in significant labor unrest. Notwithstanding this, we cannot assure that this situation will remain stable. Any future stoppage, strike, disruption of operations or new collective bargaining agreements could result in lost sales and could increase Ternium s costs, thereby affecting our results of operations. For more information on labor relations, see Item 6. Directors, Senior Management and Employees D. Employees.

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Ternium s related party transactions with companies controlled by San Faustín may not always be on terms as favorable as those that could be obtained from unaffiliated third parties.

Some of Ternium s sales and purchases are made to and from other companies controlled by San Faustín. These sales and purchases are primarily made in the ordinary course of business, and we believe that they are made on terms no less favorable than those we could obtain from unaffiliated third parties. Ternium will continue to engage in related party transactions in the future, and these transactions may not be on terms as favorable as those that could be obtained from unaffiliated third parties. For information concerning the principal transactions between Ternium and related parties see Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions.

Following the completion of the Sidor nationalization process, Ternium is exposed to credit concentration risk with Venezuela.

On May 7, 2009, Ternium completed the transfer of its entire 59.7% interest in Sidor to Corporación Venezolana de Guayana, or CVG, a Venezuelan state-owned entity. Ternium agreed to receive an aggregate amount of USD1.97 billion as compensation for its Sidor shares. Of that amount, CVG paid USD400 million in cash on that date. The balance was divided in two tranches: the first tranche, of USD945 million, is being paid in six quarterly installments of approximately USD158 million each beginning in August 2009 until November 2010, while the second tranche, of USD626 million, will be due in November 2010, subject to quarterly mandatory prepayment events based on the increase of the WTI crude oil price over its May 6, 2009 level.

As of the date of this annual report, CVG has paid USD1.51 billion and the outstanding principal is USD458 million. These receivables with CVG are unsecured. Accordingly, we have significant credit concentration risk with CVG and Venezuela. Under the agreements with CVG and Venezuela, in the event of non-compliance by CVG with its payment obligations, Ternium has reserved the rights and remedies that it had prior to the transfer of the Sidor shares in relation to any claim against Venezuela, subject to certain limitations, including that Ternium may not claim an amount exceeding the outstanding balance due from CVG. For more information on the Sidor nationalization process, see note 29 to our audited consolidated financial statements included elsewhere in this annual report and Item 4. Information on the Company A. History and Development of the Company Sidor Nationalization Process.

A significant rise in interest rates or any limitation in the Ternium companies ability to hedge against interest rate fluctuations and other financial risks could adversely affect Ternium s business and results.

Changes in interest rates affect the amount of Ternium s interest payments as well as the fair value of its fixed rate debt. Most of Ternium s long-term borrowings are at variable rates, and accordingly, Ternium is exposed to the risk of increased interest expense in the event of a significant rise in interest rates. As of December 31, 2009, Ternium s total indebtedness was USD2.3 billion and, as stated above, most of it has variable rates.

In addition, a substantial rise in interest rates in developed economies such as the United States could adversely affect the economies in the countries where Ternium conducts its operations and markets its products.

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

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

The operations of the Ternium companies expose them to the effects of changes in foreign currency exchange rates. Most of Ternium s sales are carried out in currencies other than the U.S. dollar. As a result of this foreign currency exposure, exchange rate fluctuations impact the Ternium companies results and net worth as reported in their income statements and statements of financial position in the form of both translation risk and transaction risk.

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

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Risks Relating to our Mining Activities

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

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

Our mining activities are subject to specific regulations and depend on concessions and authorizations granted by governmental authorities. Amendments to applicable law and regulations may change the terms pursuant to which we are required to pursue our exploration, mining and ore processing activities. Such changes may result in new taxes or royalties or require modifications to the processes and technologies used in our mining activities, leading to unexpected capital expenditures and higher costs. If the relevant government authority determines that we are not in compliance with our obligations as concessionaires, it may terminate our concession. Furthermore, in order to explore or exploit mines it is necessary to obtain the right to occupy and use the land where the mines are situated. Even though government regulations frequently establish provisions intended to facilitate the establishment of such rights, in some cases it may be difficult to reach and maintain agreements with the owners or such agreements may be excessively onerous. If we are unable to establish use and occupancy rights on acceptable terms, our mining activities may be compromised.

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

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

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

We may be subject to increased costs or delays relating to the acquisition of adequate equipment for the exploration and exploitation of ore deposits. We may also fail to obtain any necessary permits, or experience significant delays in connection with the issuance of such permits. Adverse mining conditions, whether permanent or temporary, may lead to a significant increase on our costs and/or affect our ability to produce the expected quantities of mineral. All of the above may adversely affect our ability to conduct our mining activities as planned and affect our expected results of operations.

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

Communities living near areas where we operate may take actions to oppose and interfere with our mining activities. Although we make significant efforts to maintain good relationships with such communities, actions taken by them may hamper our ability to conduct our mining activities as planned, or significantly increase the cost of exploring and/or exploiting the mines and adversely affect our business and results of operations.

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Risks Relating to the Structure of the Company

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

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

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

As of March 31, 2010, San Faustín beneficially owned 60.64% and Tenaris, which is also controlled by San Faustín, held 11.46% of our outstanding voting stock. Rocca & Partners controls a significant portion of the voting power of San Faustín and has the ability to influence matters affecting, or submitted to a vote of, the shareholders of San Faustín. As a result, Rocca & Partners is indirectly able to elect a substantial majority of the members of the Company s board of directors and has the power to determine the outcome of most actions requiring shareholder approval, including, subject to the requirements of Luxembourg law, the payment of dividends. The decisions of the controlling shareholder may not reflect the will or best interests of other shareholders. For example, the Company s articles of association permit the board of directors to waive, limit or suppress preemptive rights in certain cases. Accordingly, our controlling shareholder may cause our board of directors to approve an issuance of shares for consideration without preemptive rights, thereby diluting the minority interest in the Company. See Risk Factors Risks Relating to our ADSs Holders of our shares and ADSs in the United States may not be able to exercise preemptive rights in certain cases.

Remaining minority interests in Siderar could delay or impede our ability to complete our strategy.

We do not own one hundred percent of the interests in certain of our subsidiaries. As of March 31, 2010, approximately 25.97% of Siderar was held by the Administración Nacional de la Seguridad Social (ANSeS), Argentina s governmental social security agency, approximately 9.71% was publicly held, and approximately 3.38% was held by certain Siderar employees. ANSeS became a shareholder of Siderar in the last quarter of 2008 as a result of the nationalization of Argentina s private pension system, which caused assets under administration of Argentina s private pension funds including significant interests in publicly traded companies, such as Siderar, held by such funds to be transferred to ANSeS.

The existence of a minority interest in Siderar could prevent Ternium from taking actions that, while beneficial to the Company, might not be beneficial to Siderar considered separately. As a result, we could be delayed or impeded in the full implementation of our strategy or the maximization of Ternium s competitive strengths.

The Company s tax-exempt status will terminate on December 31, 2010. If we are unable to mitigate the consequences of the termination of the preferential tax regime applicable to the Company, in the future we may be subject to a higher tax burden and holders of our shares or ADSs may be subject to tax withholdings.

The Company was established as a *société anonyme* holding under Luxembourg s 1929 holding company regime and the billionaire provisions relating thereto. 1929 holding companies are exempt from Luxembourg corporate income tax over income derived from low tax jurisdictions and withholding tax over dividends distributions to holders of our shares and ADSs. Following a decision by the European Commission, the Grand-Duchy of Luxembourg terminated its 1929 holding company regime, effective January 1, 2007. However, under the implementing legislation, pre-existing publicly-listed companies including the Company are entitled to continue benefiting from their current tax regime until

December 31, 2010. If we are unable to mitigate the consequences of the termination of the preferential tax regime, in the future we may be subject to a higher tax burden and holders of our shares or ADSs may be subject to tax withholdings.

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Risks Relating to the Countries in Which We Operate

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

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

Mexico

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

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

In the past, Mexico has experienced several periods of slow or negative economic growth, high inflation, high interest rates, currency devaluation and other economic problems. Furthermore, the Mexican national economy tends to reflect changes in the economic environment in the United States. If problems such as the recent deterioration in Mexico s economic conditions continue, or social instability, political unrest, reduction in government spending or other adverse social developments reemerge in the future, they could lead to continued volatility in the foreign exchange and financial markets, and, depending on their severity and duration, could adversely affect the business, results of operations, financial condition or liquidity of Ternium. In addition, high incidences of violence and crime in Mexico related to drug trafficking could result in an economic slowdown, reducing domestic demand for our products and thereby having an adverse effect on our business. A continued deterioration of the security situation may result in significant obstacles or additional costs to the implementation of our growth plans in Mexico.

Mexican peso volatility could have a negative impact on Ternium s financial condition.

Ternium could have, at any given time, a long or short net Mexican peso financial position. The fluctuation of the Mexican peso against the U.S. dollar (whether an appreciation or a devaluation) could result in financial losses. For example, most of Ternium Mexico s trade receivables are Mexican peso-denominated; accordingly, in the event of a Mexican peso devaluation, the financial condition of our Mexican operations, when measured in U.S. dollars, could be adversely affected.

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Changes in the Mexican tax system could have an adverse effect on Ternium s Mexican operations.

On September 14, 2007, the Mexican Congress passed a tax reform act, which created a new flat tax (the *impuesto empresarial a tasa única* or IETU) and, effective January 1, 2008, replaced the Mexican assets tax (the *impuesto al activo* or IMPAC). The act also established certain temporary and operational limits for the recoverability of assets tax credits. The IETU works as a corporate income tax supplement and is levied on income received. Ternium Mexico consolidates its various subsidiaries for purposes of determination and payment of Mexican corporate income tax. However, consolidation was not permitted for purposes of determination and payment of the new flat tax, nor was it possible to apply corporate income tax credits against IETU liabilities.

Additionally, on November 5, 2009, the Mexican Congress passed a tax reform modifying the Income Tax Law. As a result, the statutory tax rate was raised from 28% to 30% for the years 2010, 2011 and 2012, and subsequently reduced to 29% for 2013 and to 28% for 2014. The tax consolidation regime was also modified. According to such changes and effective for the fiscal years ending after January 1, 2010, the tax deferred in the sixth preceding fiscal year under the tax consolidation regime has to be paid in five annual installments of 25%, 25%, 20%, 15%, and 15%, respectively, with the first installment being due in 2010.

Present and future changes in the Mexican tax system may affect our Mexican subsidiaries tax burden and the application or recoverability of tax credits, thereby affecting our financial condition and results of operations.

Argentina

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

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

Our business and results of operations in Argentina have closely followed macroeconomic conditions. Domestic sales of our Argentine subsidiary were severely affected by Argentina s recession during 2001 and 2002. The domestic economic recovery over the 2003 2008 period, with sustained growth in construction, agriculture, industrial activity and particularly a significant improvement in the automobile industry, led to a recovery of steel shipments to the Argentine domestic market. During the last quarter of 2008, however, the downturn in the global economy reached the Argentine economy and had a significant adverse impact on our shipments to the Argentine domestic market until the third quarter of 2009. The Argentine economy is currently facing significant challenges. Inflation is high, as further discussed below, and the economy has been affected by supply constraints. Capital investment in general has lagged due to, among other factors, political uncertainties and government actions including price controls, export taxes, the nationalization of Argentina s private pension system, and other measures limiting the conduct of business in the private sector or affecting investor confidence. Declining capital investment may affect growth and, accordingly, cause the demand for our local subsidiary s products in the domestic market to drop. A lack of financing alternatives could significantly impair Argentina s ability to sustain the economy s activity level, foster economic growth and/or avert a new sovereign default.

Economic conditions in Argentina have deteriorated rapidly in the past and may deteriorate rapidly in the future. The Argentine economy may not continue to grow and economic instability may return. Our business and results of operations in Argentina could be adversely affected by rapidly changing economic conditions in Argentina or by the Argentine government s policy response to such conditions.

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

In the past, inflation has undermined the Argentine economy and the government s ability to stimulate economic growth. During 2002, the Argentine Consumer Price Index (CPI) increased by 41%, and the Wholesale Price Index (WPI) increased by 118.2%. According to official inflation data published by the *Instituto Nacional de Estadística y Censos* (INDEC), Argentina s national statistics institute, inflation slowed in 2003, with a 3.7% increase in the CPI and a 2% increase in the WPI. Beginning in 2004, both indexes began showing significant year-over-year increases in

local prices, signaling a trend characteristic of an inflationary economy. The pace of inflation has increased rapidly and significantly over the last three years; however, Argentina s inflation indicators have been subject to changes in calculation and may not be consistent with the past or may not adequately reflect increases in costs. Moreover, since such changes were implemented and as of the date of this annual report, the official inflation figures published by the INDEC have been consistently disputed by independent economists.

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

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

In 2001 and 2002 and until February 7, 2003, the Argentine Central Bank restricted Argentine individuals and corporations from transferring U.S. dollars abroad without its prior approval. In 2003 and 2004, the government reduced some of these restrictions, including those requiring the Argentine Central Bank s prior authorization for the transfer of funds abroad in order to pay principal and interest on debt obligations. Nevertheless, significant government controls and restrictions remain in place. Increasingly during 2008 and into 2009, the Argentine government imposed new restrictions on foreign exchange outflows, including through certain transactions on securities traded locally. The existing controls and restrictions, and any additional restrictions of this kind that may be imposed in the future, could impair Ternium s ability to transfer funds generated by Ternium s Argentine operations in U.S. dollars outside Argentina to fund the payment of dividends or other amounts and to undertake investments and other activities that require payments in U.S. dollars.

On June 10, 2005, the Argentine government issued Decree No. 616/2005 that, together with related regulations, established restrictions on capital inflows into Argentina, requiring that, with certain exceptions, 30% of the amount of off-shore proceeds be deposited in a non-transferable, non-interest bearing account with an Argentine bank for 365 days. In addition, any principal payment obligation on external financial debt excluding, subject to compliance with certain requirements, export financings and debt securities publicly traded in Argentina of Argentine residents (including private Argentine entities) is required to have a maturity of at least 365 days from the date of receipt of the proceeds thereof. These restrictions could affect Ternium s ability to finance its investments and operations in Argentina. In addition, our Argentine subsidiary is currently required to repatriate U.S. dollars collected in connection with exports from Argentina (including U.S. dollars obtained through advance payment and pre-financing facilities) into Argentina and convert them into Argentine pesos at the relevant exchange rate applicable on the date of repatriation. In October 2008, the time periods for the repatriation of export revenues credited in foreign currency overseas were, in practice, substantially shortened.

The above restrictions and requirements, and any additional restrictions or requirements that may be imposed in the future, expose Ternium to the risk of losses arising from fluctuations in the exchange rate of the Argentine peso and could prevent Ternium from paying dividends or other amounts from cash generated by its Argentine operations. For additional information on current Argentine exchange controls and restrictions, see Item 10. Additional Information D. Exchange Controls.

The Argentine government has increased taxes on Argentine companies and could further increase the fiscal burden in the future.

Since 1992, the Argentine government has not permitted the application of an inflation adjustment on the value of fixed assets for tax purposes. Since the substantial devaluation of the Argentine peso in 2002, the amounts that the Argentine tax authorities permit Ternium to deduct as depreciation for its past investments in plant, property and equipment have been substantially reduced, resulting in a higher effective income tax charge. Additionally, in 2001, the Argentine government imposed a 0.6% tax on credits in checking accounts (34% of which is paid on account of income tax payments) and a 0.6% tax on debits in checking accounts, while in 2002 a 5% tax was imposed on the export of manufactured products. If the Argentine government continues to increase the tax burden on Ternium s operations in Argentina, Ternium s results of operations and financial condition could be adversely affected.

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

There has been a lack of investment in natural gas and electricity supply and transport capacity in Argentina in recent years. Over the course of the last several years, demand for natural gas and electricity has increased substantially, driven by a recovery in economic conditions and low prices in comparison with alternative fuel sources. This in turn resulted in shortages of natural gas and electricity to residential and industrial users during periods of high demand. For example, in recent years our operations in Argentina experienced constraints in their natural gas supply requirements and interruptions in their electricity supply at peak hours on many occasions. If demand for natural gas and electricity increases and a matching increase in natural gas and electricity supply and transport capacity fails to materialize on a timely basis, Ternium s production in Argentina (or that of its main customers and suppliers) could be curtailed, and Ternium s sales and revenues could decline. Although Ternium could take measures, such as the purchase of alternative fuels such as fuel oil, to limit the effect of supply restrictions on its operations in Argentina, such efforts might not be sufficient to avoid any impact on Ternium s production in Argentina and Ternium might not be able to similarly limit the effect of future supply restrictions. See Risks Relating to the Steel Industry Price fluctuations or shortages in the supply of raw materials, slabs and energy could adversely affect Ternium s profitability above.

Certain Regulatory Risks and Litigation Risks

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

International trade-related legal actions and restrictions pose a constant risk for Ternium s international operations and sales throughout the world. Additionally, increased global trade liberalization, with many countries forming free trade blocs or otherwise reducing restrictions on imported goods, including steel products, and excess global steel capacity have increased competition in many markets in which Ternium sells its products. Such risks and increased competition are likely to continue into the foreseeable future. Also, we are a significant purchaser of slabs for our operations in Mexico, which we buy from various suppliers in Mexico and overseas. Imports of slabs into Mexico are, subject to certain conditions, imported under lower import duties or through a temporary import regime. Should imports of slabs into Mexico grow, we may not be able to make such imports under the lower duty regime, or the Mexican government may increase the applicable duties or impose restrictions in the quantities allowed to be imported.

Increased trade liberalization has reduced certain of Ternium s imported input costs and increased Ternium s access to many foreign markets. However, greater trade liberalization in its domestic markets is increasing competition for Ternium in such markets. In recent times, as a consequence of the global downturn, the number of antidumping and countervailing actions limiting trade has increased substantially. Accordingly, producers from certain countries find themselves excluded from certain markets and in need to find alternatives for their products. Ternium s domestic market share could be eroded in the face of foreign imports if tariffs and other barriers are reduced or eliminated in Ternium s domestic markets. Ternium s increased exports to foreign markets where import barriers have been reduced may not completely offset domestic market share losses resulting from increased foreign competition.

Countries can impose restrictive import duties and other restrictions on imports under various national trade laws. The timing and nature of the imposition of trade-related restrictions potentially affecting Ternium s exports are unpredictable. Trade restrictions on Ternium s exports could adversely affect Ternium s ability to sell products abroad and, as a result, Ternium s profit margins, financial condition and overall business could suffer.

One significant source of trade restrictions results from countries imposition of so-called antidumping and countervailing duties, as well as safeguard measures . These duties can severely limit or altogether impede an exporter s ability to export to relevant markets. In several of Ternium s export destinations, such as the United States or Europe, safeguard duties and other protective measures have been imposed against a broad array of steel imports in certain periods of excess global production capacity, as is currently the case. Furthermore, certain domestic producers have filed antidumping and/or countervailing duty actions against particular steel imports. Some of these actions have led to restrictions on Ternium s exports of certain types of steel products to some steel markets. As domestic producers filing of such actions is largely unpredictable, additional antidumping, countervailing duty or other such import restrictions

could be imposed in the future, limiting Ternium s export sales to and potential growth in those markets. See Item 4. Information on the Company B. Business Overview Regulations Trade regulations.

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

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

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

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

Some of the activities for which Ternium supplies products, such as canning for consumption, construction and the automotive industry are subject to inherent risks that could result in death, personal injury, property damage or environmental pollution. Furthermore, Ternium s products are also sold to, and used in, certain safety-critical appliances. Actual or claimed defects in our products may give rise to claims against us for losses suffered by our customers and expose us to claims for damages. The insurance we maintain may not be adequate or available to protect us in the event of a claim, its coverage may be limited, canceled or otherwise terminated, or the amount of our insurance may be less than the related impact on enterprise value after a loss.

Risks Relating to our ADSs

The market price for our ADSs could be highly volatile.

Volatility in the price of our ADSs may be caused by factors outside of our control and may be unrelated or disproportionate to Ternium s operating results. In particular, announcements of potentially adverse developments, such as proposed regulatory changes, new government investigations or the commencement or threat of litigation against Ternium, as well as announced changes in Ternium s business plans or those of its competitors could adversely affect the trading price of our ADSs, regardless of the likely outcome of those developments or proceedings. Broad market and industry factors could adversely affect the market price of our ADSs, regardless of its actual operating performance. As an example of this volatility, the price of our ADSs reached USD45.99 on June 6, 2008, before falling to USD4.55 on November 20, 2008, and then recovering to a closing price of USD35.42 on December 31, 2009.

Furthermore, the trading price of our ADSs could suffer as a result of developments in emerging markets. Although the Company is organized as a Luxembourg corporation, almost all of its assets and operations are located in Latin America. Financial and securities markets for companies with a substantial portion of their assets and operations in Latin America are, to varying degrees, influenced by political, economic and market conditions in emerging market countries. Although market conditions are different in each country, investor reaction to developments in one country can have significant effects on the securities of issuers with assets or operations in other emerging markets, including Mexico and Argentina.

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

There may be less publicly available information about us than is regularly published by or about U.S. issuers. Also, Luxembourg regulations governing the securities of Luxembourg companies may not be as extensive as those in effect in the United States, and Luxembourg law and regulations in respect of corporate governance matters might not be as protective of minority shareholders as state corporation laws in the United States. Furthermore, IFRS differ in certain material aspects from the accounting standards used in the United States.

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

Certain shareholders rights under Luxembourg law, including the right to vote, to receive dividends and distributions, to bring actions, to examine the books and records and to exercise appraisal rights may not be available to holders of ADSs, or may be subject to restrictions and special procedures for their exercise, as holders of ADSs only have those rights that are expressly granted to them in the deposit agreement. The Bank of New York Mellon, as depositary, through its custodian agent, is the registered shareholder of the deposited shares underlying the ADSs and therefore only the depositary can exercise the shareholders rights in connection with the deposited shares. For example, if we make a distribution in the form of securities, the depositary is allowed, at its discretion, to sell that right to acquire those securities on your behalf and to instead distribute the net proceeds to you. Also, under certain circumstances, such as our failure to provide the depositary with voting materials on a timely basis, you may not be able to vote by giving instructions to the depositary. In the circumstances specified in the deposit agreement, if the depositary does not receive voting instructions from the holder of ADSs or the instructions are not in proper form, then the depositary shall deem such holder to have instructed the depositary to give, and the depositary shall give, a proxy to a person designated by the Company with respect to that amount of shares underlying such ADSs to vote that amount of shares underlying such ADSs in favor of any proposals or recommendations of the Company (including any recommendation by the Company to vote that amount of shares underlying such ADSs on any issue in accordance with the majority shareholders vote on that issue) as determined by the appointed proxy. No instruction shall be deemed given and no proxy shall be given with respect to any matter as to which the Company informs the depositary that (x) it does not wish such proxy given, (y) substantial opposition exists, or (z) the matter materially and adversely affects the rights of the holders of ADSs.

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

Pursuant to Luxembourg corporate law, existing shareholders of the Company are generally entitled to preemptive subscription rights in the event of capital increases and issues of shares against cash contributions. Under the Company s articles of association, the board of directors had been authorized to waive, limit or suppress such preemptive subscription rights until October 26, 2010; such authorization was renewed in the Extraordinary General Meeting of Shareholders held on June 2, 2010 and is in force until the fifth anniversary of the date of publication in Luxembourg s official gazette of the deed recording the minutes of the meeting. The Company, however, may issue shares without preemptive rights only if the newly issued shares are issued:

- for, within, in conjunction with or related to, an initial public offering of the shares of the Company on one or more regulated markets (in one or more instances);
- for consideration other than cash;
- upon conversion of convertible bonds or other instruments convertible into shares of the Company; provided, however, that the preemptive subscription rights of the then existing shareholders shall apply in connection with any issuance of convertible bonds or other instruments convertible into shares of the Company for cash; or
- subject to a certain maximum percentage, as compensation to directors, officers, agents or employees of the Company, its direct or indirect subsidiaries or its affiliates, including without limitation the direct issuance of shares or the issuance of shares upon exercise of options, rights convertible into shares or

similar instruments convertible or exchangeable into shares issued or created to provide compensation or incentives to directors, officers, agents or employees of the Company, its direct or indirect subsidiaries or its affiliates.

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For further details, see Item 10. Additional Information B. Memorandum and Articles of Association.

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

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

The Company is a corporation organized under the laws of Luxembourg, and most of its assets are located outside of the United States. Furthermore, most of the Company s directors and officers named in this annual report reside outside the United States. As a result, investors may not be able to effect service of process within the United States upon the Company or its directors or officers or to enforce against the Company or them in U.S. courts judgments predicated upon the civil liability provisions of U.S. federal securities law. Likewise, it may be difficult for a U.S. investor to bring an original action in a Luxembourg court predicated upon the civil liability provisions of the U.S. federal securities laws against the Company, its directors or its officers. There is also uncertainty with regard to the enforceability of original actions in courts outside the United States of civil liabilities predicated upon the civil liability provisions of U.S. federal securities laws. Furthermore, the enforceability in courts outside the United States of judgments entered by U.S. courts predicated upon the civil liability provisions of U.S. federal securities law will be subject to compliance with procedural requirements under applicable local law, including the condition that the judgment does not violate the public policy of the applicable jurisdiction.

Item 4. Information on the Company

Overview

Ternium is a leading steel company in Latin America, manufacturing and processing a wide range of flat and long steel products for customers active in the construction, home appliances, capital goods, container, food, energy and automotive industries. Ternium has a production capacity of finished steel products of approximately 9.6 million tons per year, and shipped approximately 6.4 million tons of steel products in 2009. The Company believes that it is a competitive steel producer due to its proximity to customers and high-quality raw material sources, state-of-the-art and flexible production facilities and downstream integration into value-added steel products.

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

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

In 2009, approximately 60.0% of Ternium s sales were made to North America, 35.9% to South and Central America, and 4.0% to Europe and other markets. Ternium s net sales were USD5.0 billion, gross profit was USD848.6 million, and net income attributable to equity holders was USD717.4 million.

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A. History and Development of the Company

The Company

Our legal and commercial name is Ternium S.A. The Company was organized as a joint stock corporation (*societé anonyme* holding) under the laws of the Grand-Duchy of Luxembourg on December 22, 2003. Our registered office is located at 46a, Avenue John F. Kennedy, L-1855 Luxembourg, telephone number +352 26 68 31 52. Our agent for U.S. federal securities law purposes is Ternium International U.S.A. Corporation, located at 2200 West Loop South, 8th floor, Houston, TX 77027, United States.

Ternium

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

In December 1997, Amazonia (a consortium formed by San Faustín, Siderar, Usiminas, Hylsamex and Sivensa) won the bid in the privatization of 70% of the shares of Sidor, the largest steel company in the Andean Community, while Venezuela retained the remaining 30%. The continuing worldwide steel production crisis, the deterioration of the financial markets, the appreciation of the Venezuelan Bolívar and other adverse factors negatively affected Sidor and Amazonia, which undertook debt restructurings in 2000 and 2003. In the 2003 restructuring, Amazonia s interest in Sidor was reduced to 59.7%, while Venezuela increased its interest to 40.3%. In addition, Ylopa (an entity formed by San Faustín, Siderar, Tenaris, Usiminas and Hylsamex s former controlling shareholder) provided financial assistance to Sidor under a participation account agreement. Subsequently, Venezuela transferred a 19.9% interest in Sidor to present and former employees of Sidor under the terms of a special employee participation plan.

As a part of a multiple-step corporate reorganization in 2005, San Faustín reorganized its investments in flat and long steel manufacturing, processing and distribution businesses by contributing its controlling interests in Siderar, Sidor (through Amazonia and Ylopa) and Ternium Internacional to the Company. On August 22, 2005, we acquired, together with Siderar, an indirect 99.3% interest in the Mexican company Hylsamex and its subsidiaries and the equity stakes owned by Hylsamex s former controlling shareholder, Alfa, S.A. de C.V., in Amazonia and Ylopa. We subsequently purchased additional shares of Hylsamex in the open market, subject to applicable law, thereby increasing our and Siderar s direct and indirect interest in Hylsamex to 99.9%. In 2005, each of Tenaris and Usiminas exchanged its interests in Amazonia, Ylopa and, in the case of Usiminas, Siderar for shares of the Company, and Sivensa exchanged its interest in Amazonia for shares of the Company.

On January 11, 2006, the Company launched an initial public offering of 24,844,720 American Depositary Shares, each representing 10 shares of the Company (each an ADS), in the United States. In connection with the offering, the Company granted the underwriters of the Company s initial public offering an option to purchase up to 3,726,708 additional ADSs to cover over-allotments in the sale of the ADSs. The offering was settled on February 6, 2006.

On December 28, 2006, we acquired an additional 4.85% interest in Siderar from CVRD Internacional S.A., a wholly-owned subsidiary of Vale, thereby increasing our ownership in Siderar to 60.93%.

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

this capital reduction, we became the sole shareholder of Grupo Imsa.

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

Sidor Nationalization Process

On March 31, 2008, the Company controlled approximately 59.7% of Sidor, while CVG and Banco de Desarrollo Económico y Social de Venezuela, or BANDES (a bank owned by the Venezuelan government), held approximately 20.4% of Sidor and certain Sidor employees and former employees held the remaining 19.9% interest.

Further to several threats of nationalization and various adverse interferences with management in preceding years, on April 8, 2008, the Venezuelan government announced its intention to take control over Sidor. On April 29, 2008, the National Assembly of Venezuela passed a resolution declaring that the shares of Sidor, together with all of its assets, were of public and social interest, and authorizing the Venezuelan government to take any action it deemed appropriate in connection with any such assets, including expropriation.

On May 11, 2008, Decree Law 6058 of the President of Venezuela regulating the steel production activity in the Guayana region in Venezuela (the Decree), dated April 30, 2008, was published. The Decree ordered that Sidor and its subsidiaries and associated companies be transformed into state-owned enterprises (*empresas del Estado*), with Venezuela owning not less than 60% of their share capital. The Decree required the Venezuelan government to create two committees: a transition committee to be incorporated into Sidor s management and to ensure that control over the current operations of Sidor and its subsidiaries and associated companies was transferred to the government on or prior to July 12, 2008, and a separate technical committee, composed of representatives of the government and the private shareholders of Sidor and its subsidiaries and associated companies, to negotiate over a 60-day period (extendable by mutual agreement) a fair price for the shares to be transferred to Venezuela. The Decree also stated that, in the event the parties failed to reach agreement by the expiration of the 60-day period, the Venezuelan Ministry of Basic Industries and Mining would assume control and exclusive operation of, and the Executive Branch would order the expropriation of the shares of, the relevant companies.

Upon expiration of the term contemplated under the Decree, on July 12, 2008, Venezuela, acting through CVG, assumed operational control and complete responsibility for Sidor s operations, and Sidor s board of directors ceased to function. However, negotiations between the Venezuelan government and the Company regarding the terms of the compensation continued over several months, and the Company retained formal title over the Sidor shares during that period.

On May 7, 2009, Ternium completed the transfer of its entire 59.7% interest in Sidor to CVG. Ternium agreed to receive an aggregate amount of USD1.97 billion as compensation for its Sidor shares. Of that amount, CVG paid USD400 million in cash on that date. The balance was divided in two tranches: the first tranche, of USD945 million, payable in six equal quarterly installments (the first such installment was due on August 7, 2009, and the last of such installments will be due in November 2010), while the second tranche of USD626 million will be due in November 2010, subject to quarterly mandatory prepayment events based on the increase of the WTI crude oil price over its May 6, 2009 level. As of the date of this annual report, CVG has paid USD1.51 billion and the outstanding principal is USD458 million. While the first, second and fourth installments were paid upon maturity, the third installment payment, due on February 8, 2010, had a twenty-three day delay, and was finally paid on March 3, 2010.

Under the agreements with CVG and Venezuela, in the event of non-compliance by CVG with its payment obligations, Ternium has reserved the rights and remedies that it had prior to the transfer of the Sidor shares in relation to any claim against Venezuela, subject to certain limitations, including that Ternium may not claim an amount exceeding the outstanding balance due from CVG. For more information on the Sidor nationalization process, see note 29 to our audited consolidated financial statements included elsewhere in this annual report.

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2010 Events

Ternium has recently entered into a definitive agreement to acquire a 54% ownership interest in Ferrasa through a capital contribution in the amount of USD74.5 million. Upon completion of this transaction, Ferrasa will have a 100% ownership interest in Sidecaldas S.A.S., Figuraciones S.A.S. and Perfilamos del Cauca S.A.S., all of which are Colombian-based companies. The transaction is subject to Colombian antitrust clearance and other customary conditions and is expected to close in the third quarter of 2010. Ternium also has agreed to purchase a 54% ownership interest in Ferrasa Panamá S.A. for USD0.5 million.

Additionally, Ternium has signed a non-binding memorandum of understanding with Nippon Steel Corporation with the intention of forming a joint venture in Mexico for the manufacturing and sale of hot-dip galvanized and galvannealed steel sheets to serve the Mexican automobile market. The two companies will now maintain exclusive negotiations towards a binding joint venture agreement, which shall be subject to final documentation, due diligence, feasibility studies, agreement on other issues, and regulatory and corporate approvals.

For more information on these developments, see Item 5. Operating and Financial Review and Prospects G. Recent Developments.

B. Business Overview

Our Business Strategy

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

The main elements of this strategy are:

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

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

Maximize the benefits arising from Ternium s broad distribution network. We intend to maximize the benefits arising from Ternium s broad network of distribution, sales and marketing services to reach customers in major steel markets with a comprehensive range of value-added products and services and to continue to expand its customer base and improve its product mix;

Focus on higher margin value-added products. We intend to continue to shift Ternium s sales mix towards higher margin value-added products, such as cold-rolled sheets and coated and tailor-made products, and services, such as just-in-time delivery and inventory management. In this regard, our Mexican acquisitions in 2005 and 2007 allowed Ternium to expand its offerings of value-added products, such as galvanized products and panels; and

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

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Our Competitive Strengths

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

State-of-the-art and flexible production system, low cost producer. The combination of a portfolio of state-of-the-art, low cost steel production mills, access to diversified sources of raw materials, including proprietary iron ore mines in Mexico, diversified technology base, including blast furnace based, mini-mill based and non-integrated based steel processing facilities, and cost-competitive labor sources makes Ternium a low-cost producer of steel and a cost-competitive producer of value-added products;

Strong market position and extensive market reach. Ternium has a leading participation in the market for flat steel products in Mexico and in Argentina. The location of its production facilities gives Ternium favorable access to the most important regional markets in the Americas, including the North American Free Trade Agreement, or NAFTA, and *Mercado Común del Sur*, or Mercosur; and

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

Our Products

The Ternium companies produce mainly finished and semi-finished flat and long steel products which are sold either directly to steel processors or to end-users, after different value-adding processes. Flat steel products include slabs (steel in its basic, semi-finished state), hot-rolled coils and sheets, cold-rolled coils and sheets, tin plate, hot dipped galvanized and electrogalvanized sheets and pre-painted sheets. Galvanized and pre-painted sheets can be further processed into a variety of corrugated sheets, trapezoidal sheets and other tailor-made products to serve Ternium s customer requirements. Long steel products include billets (steel in its basic, semi-finished state), wire rod and bars.

Flat steel products

Slabs: Slabs are semi-finished steel forms with dimensions suitable for its processing into hot-rolled flat products. The use of slabs is determined by its dimensions and by its chemical and metallurgical characteristics.

Hot-rolled flat products: Hot-rolled flat products are used by a variety of industrial consumers in applications such as the manufacturing of wheels, auto parts, pipes, gas cylinders and containers. They are also directly used for the construction of buildings, bridges and railroad cars, and for the chassis of trucks and automobiles. Hot-rolled products can be supplied as coils or as sheets cut to a specific length. These products also serve as inputs for the production of cold-rolled products.

Cold-rolled products: Cold-rolled products are applied mainly to the automotive, home appliance and capital goods industries, as well as to galvanizers, drummers, distributors and service centers. Cold-rolled coils are sold as coils or cut into sheets or blanks to meet customers needs. These products also serve as inputs for the production of coated products.

Tin plate and tin free: Given its resistance to corrosion and its mechanical and chemical characteristics, tin plate is mainly sold to the packaging industry for food canning, sprays and paint containers. Tin plate and tin free are produced by coating cold-rolled coils with a layer of tin and thin chrome, respectively, that is attached by an electroplating continuous process.

Hot dipped galvanized and pre-painted sheets: Hot dipped galvanized sheets are produced by adding a layer of zinc to cold-rolled coils, which are afterwards cut into sheets. Galvanized sheets can also be pre-painted, resulting in a product that is mainly sold to the construction industry for building coverings, manufacturing of ceiling systems, panels, air conditioning ducts and several other uses. Ternium also offers, under the trademark Zintroalum in Mexico and Cincalum in Argentina, a distinctive type of galvanized product with coating composition that contains 55% aluminum-zinc to improve product performance for construction industry, including rural, industrial and marine sites.

Electrogalvanized and pre-painted sheets: Electro-galvanized and pre-painted sheets are sold mainly to customers in the automotive and home appliance industries. Electro-galvanized and pre-painted sheets are produced from cold-rolled coils by adding a layer of zinc that is attached by an electroplating continuous process, in one or both sides. The electro-galvanized coils are subsequently cut and sold either as sheets or are further processed with a color

coating to produce pre-painted sheets. Electro-galvanization provides products with a longer useful life and more resistance to corrosion compared to other coating methods.

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Steel pipes and tubular products: Products included are tubes for general use, structural tubes, tubes for mechanical applications, conduction tubes, conduction electrical tubes and oil tubes. These products, uncoated or galvanized, have applications in several sectors including home accessories, furniture, scaffolding, automotive, bicycles, hospital equipment, posts for wire mesh garden and poultry tools, handrails, guard-rails, agricultural machinery, industrial equipment, conduction of water, air, gas, oil, high-pressure liquids and special fluids and internal building electrical installations.

Beams: Obtained by roll forming of steel strips, include C and Z section steel profiles (purlings) and tubular section beams, these products have applications in window frames, stilts, mainstays, crossbeams, building structures, supports, guides and crossbars for installing windows, doors, frames and boards.

Roll formed products: Products included are insultated panels, roofing and cladding, roof tiles and steel decks. Obtained from the mechanical transformation of flat steel, uncoated, galvanized or pre-painted, these products are used mainly in the construction industry in warehouses, commercial and industrial refrigeration installations, grain storage, poultry and porcine confinement facilities, roofing and side walls for buildings, and terraces and mezzanine floorings.

Long steel products

Steel billets: Billets are semi-finished steel forms with dimensions suitable for its processing into hot-rolled long steel products such as wire rod, bars and other shapes.

Wire rod: Rods are round, thin, semi-finished steel products that are rolled from a billet and coiled for further processing. Rods are commonly drawn into wire products or used to make bolts and nails. Wire rod can be produced in different qualities according to customers demands.

Bars: Bars are long steel products that are rolled from billets. Two of the most common types of bars produced are merchant bars and reinforcing bars (rebar). Merchant bars include specific shape features such as rounds, flats, angles, squares and channels that are used by customers to manufacture a wide variety of products such as furniture, stair railings and farm equipment. Rebar is used to strengthen concrete highways, bridges and buildings.

Other products

Pre-engineered metal building systems: These products are obtained from the mechanical transformation of flat steel. The steel construction systems are destined to low-rise, non-residential buildings. Include frames, secondary steel members, roofs and walls panels, as well as finishing and accessories.

Pig iron: A semifinished product obtained in the blast furnace, it is mostly used as metallic charge in the steel shop for the production of crude steel and it is also marketed to other steel producers and to manufactures of iron-based cast products.

Iron ore pellets: A raw material for the production of steel, it is mostly used as metallic charge (after being reduced in DRI modules or blast furnaces) in the steel shop for the production of crude steel and it is also marketed to other steel producers.

Within each of the basic product categories there is a range of different items of varying qualities and prices that are produced either to meet the particular requirements of end users or sold as commodity items.

Production Facilities and Processes

Ternium has steel production facilities, service centers and distribution centers, or DCs, in North, Central and South America and iron ore mining operations in North America.

Ternium s aggregate production capacity of steel products as of December 31, 2009, calculated based on, as estimated by management, standard productivity, product mix allocations, the maximum number of possible working shifts and a continued flow of supplies to the production process, was approximately 10.0 million tons, of which 8.4 million tons correspond to flat steel products and 1.6 million tons correspond to long steel products, and of which 7.2 million tons correspond to facilities located in North America and 2.8 million tons correspond to facilities located in South and Central America.

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Steel production facilities, service centers and distribution centers

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

		Capacity (thousand tons per year) [1]			
Production asset	Quantity	Mexico	Argentina	Other	Total
Coke Plant	4		1,030		1,030
Sinter Plant	1		1,430		1,430
Direct Reduced Iron Plant	3	2,690			2,690
Blast Furnace	2		3,700		3,700
Electric Arc Furnace	4	3,720			3,720
Basic Oxygen Furnace	3		5,000		5,000
Thin Slab Continuous Caster	1	2,050			2,050
Slab Continuous Caster	1		2,880		2,880
Billet Continuous Caster	2	1,660			1,660
Slab Rolling Mill	4	5,700	2,780		8,480
Skin Pass Mill	4	1,860	940		2,800
Billet Rolling Mill	2	1,060			1,060
Pickling Line	8	3,390	1,790		5,180
Cold-Rolling Mill (Tandem or Reversing)	9	2,150	1,770		3,920
Electrolytic Clearing	4	1,140	200		1,340
Annealing Line	4	1,240	1,240		2,480
Temper Mill	6	1,180	1,770		2,950
Tension-Leveling / Inspection Line	7	800	985		1,785
Electro-tin plating line	1		160		160
Hot Dip Galvanizing Line	12	1,430	525	385	2,340
Electro-galvanizing Line	1		120		120
Color Coating Line	8	660	100	180	940
Slitter	33	1,800	450	90	2,340
Cut to length	31	500	860	50	1,410
Roll forming Line	35	450	350	280	1,080
Panel Line	4	80			80
Profile Line	10	180		20	200
Tube Line	21	440	200		640

[1] In this annual report annual production capacity is calculated based on, as estimated by management, standard productivity, product mix allocations, the maximum number of possible

working shifts and a continued flow of supplies to the production process.

North America Region. Ternium has twelve steel production and/or processing units in this region, consisting of three integrated steel-making plants (two of which produce long steel products and one of which produces flat steel products and includes two steel service centers), five downstream flat steel processing plants, combining hot-rolling, cold-rolling and/or coating facilities (two of which include steel service centers), and four steel service centers. In addition, Ternium has ten steel retail distribution centers in this region, aimed at serving customers mainly in the construction sector.

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

Unit	Country	Type of Plant				Location	Products
		Integrated	Downstream	Service Center	Distribution Center		
Guerrero[1]	Mexico	X		X		San Nicolás d.l.G., Nuevo León	Flat Products
Norte[2]	Mexico	X				Apodaca, Nuevo León	Long Products
Puebla[3]	Mexico	X				Puebla, Puebla	Long Products
Juventud[4]	Mexico		X	X		San Nicolás d.l.G., Nuevo León	Flat Products
Churubusco[5]	Mexico		X	X		Monterrey, Nuevo León	Flat Products
Monclova[6]	Mexico		X			Monclova, Coahuila	Flat Products
Universidad[7]	Mexico		X			San Nicolás d.l.G., Nuevo León	Flat Products
Apodaca Industrial[8]	Mexico			X		Apodaca, Nuevo León	Flat Products
Apodaca Comercial[9]	Mexico			X		Apodaca, Nuevo León	Flat Products
Varco-Pruden[10]	Mexico			X		Ciénaga de Flores, Nuevo León	Metal buildings
San Luis[11]	Mexico			X		San Luis, San Luis Potosí	Flat Products
DC Chihuahua	Mexico				X	Chihuahua, Chihuahua	Flat Products
DC BC	Mexico				X	Tijuana, Baja California	Flat Products
DC MTY	Mxico				X	Monterrey, Nuevo León	Flat Products
DC Puebla	Mexico				X	Puebla, Puebla	Flat Products
DC Guadalajara	Mexico				X	Guadalajara, Jalisco	Flat Products
DC Mexico	Mexico				X	Naucalpan, Estado De México	Flat Products
DC Culiacán	Mexico				X	Culiacán, Sinaloa	Flat Products
DC Veracruz	Mexico				X	Veracruz, Veracruz	Flat Products
DC Mérida	Mexico				X	Mérida, Yucatán	Flat Products
DC Tuxtla	Mexico				X	Tuxtla Gtz, Chiapas	Flat Products
Shreveport[12]	USA		X			Shreveport, Louisiana	Flat Products

[1] The Guerrero unit, located in the metropolitan area of Monterrey, Nuevo León,

Mexico, produces hot-rolled and cold-rolled coils for the industrial, construction and home appliance sectors and for further processing in other Ternium Mexico s units. It also produces slitted and cut-to-length products for the industrial sector, and profiles and tubes for the industrial and construction sectors. This unit includes two steel service centers, a slab-rolling mill, and an integrated facility based on direct reduced iron, mini-mill steelmaking and thin-slab casting/rolling mill technologies that uses iron ore pellets and steel scrap as main raw materials. The facility sources all of the iron ore from Ternium Mexico s mining operations and the electricity and natural gas from the

Mexican grid. In addition, the facility sources its net requirements of slabs from Mexican and international producers. Ternium s procurement policy for these products is described in greater depth in Item 4. Information on the Company B. Business Overview. Raw materials, energy and other inputs.

2 The Norte unit in Nuevo León, Mexico, produces billets and rebar for the construction industry. It is an integrated facility based on mini-mill steelmaking technology that uses steel scrap as its main raw material. The facility sources electricity from the Mexican grid. Ternium s procurement policy for these products is described in greater depth in Item 4. Information on the Company B.

Business Overview. Raw materials, energy and other inputs.

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

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

[5] The Churubusco unit in Nuevo León, Mexico, produces hot-rolled and cold-rolled coils for industrial, construction and home appliance sectors and for further processing in other Ternium Mexico s units. It also produces slitted and cut-to-length products for the industrial sector.

The facility sources its requirements of slabs from other Mexican producers and from the international markets. Ternium s procurement policy for slabs is described in greater depth in Item 4. Information on the Company B. Business Overview. Raw materials, energy and other inputs.

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

7 The Universidad unit in Nuevo León, Mexico, located across the street from the Guerrero unit, produces galvanized and color coated coils for the construction, home appliance

and industrial sectors. This plant processes hot-rolled coils received from Ternium Mexico s units in Nuevo León.

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

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

10 The Varco-Pruden unit in Nuevo

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

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

12 The Shreveport unit in Lousiana, US, produces galvanized and color coated sheets. It processes cold-rolled coils procured in the international markets.

In May 2010, Ternium announced that it had signed a memorandum of understanding with Nippon Steel Corporation to form a joint venture for the construction of a hot-dipped galvanizing plant. For more information on this proposed

joint venture, see Item 5 Operating and Financial Review and Prospects G. Recent Developments Memorandum of Understanding for Joint Venture in Mexico .

South and Central America Region. Ternium has fourteen steel production and/or processing units in this region, consisting of one integrated steel-making plant (which produces flat steel products), five downstream flat steel processing plants, comprising cold-rolling or coating facilities (four of which include steel service centers), and eight steel service centers. In addition, Ternium has five steel retail distribution centers in this region, aimed at serving customers mainly in the construction sector.

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

Unit	Country	Type of Plant				Location	Products
		Integrated	Downstream	Service Center	Distribution Center		
San Nicolás[13]	Argentina	X				Ramallo, Buenos Aires	Flat Products
Canning[14]	Argentina		X	X		Canning, Buenos Aires	Flat Products
Haedo[14]	Argentina		X	X		Haedo, Buenos Aires	Flat Products
Florencio Varela[15]	Argentina		X	X		Florencio Varela, Buenos Aires	Flat Products
Ensenada[16]	Argentina		X			Ensenada, Buenos Aires	Flat Products
Rosario[17]	Argentina			X		Rosario, Santa Fe	Flat Products
San Luis[17]	Argentina			X		San Luis, San Luis	Flat Products
Serviacero III[18]	Argentina			X		Ramallo, Buenos Aires	Flat Products
Sidercrom[19]	Argentina			X		Ramallo, Buenos Aires	Flat Products
Villa Nueva[20]	Guatemala		X	X		Villa Nueva, Guatemala	Flat Products
DC Norte	Guatemala				X	Guatemala, Guatemala	Flat Products
DC Occidente	Guatemala				X	Mazatenango, Suchitepéquez	Flat Products
Tegucigalpa[21]	Honduras			X		San Pedro Sula, Cortés	Flat Products
DC Tegucigalpa	Honduras				X	Tegucigalpa, Distrito Central	Flat Products
San Salvador[21]	El Salvador			X		San Salvador, San Salvador	Flat Products
DC San Miguel	El Salvador				X	San Miguel, San Miguel	Flat products
Managua[21]	Nicaragua			X		Managua, Managua	Flat Products
Heredia[22]	Costa Rica			X		Heredia, Heredia	Flat Products
DC Liberia	Costa Rica				X	Liberia, Guanacaste	Flat Products

[13] The San Nicolás unit in the Province of Buenos Aires, Argentina, produces hot-rolled, cold-rolled and tinplate coils for

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

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

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

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

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

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

[19] The Sidercrom unit in the Province of Buenos Aires, Argentina, is a steel service center that produces

cut-to-length and slitted products for the packaging sector. This plant processes tinplate coils received from Siderar s San Nicolás unit.

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

21 The Tegucigalpa unit in Cortés,

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

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

Iron ore mining facilities

Ternium has a 100% interest in Las Encinas S.A. de C.V. (Las Encinas) and a 50% interest in Consorcio Minero Benito Juárez Peña Colorada, S.A. de C.V (Peña Colorada). The following table provides an overview, by type of asset, of Ternium s production capacity:

		Capacity (thousand tons per year)	
Production asset	Quantity	Peña Colorada	Total

		Las Encinas		
Crushing Plant	3	5,300	9,000	14,300
Beneficiation Plant	2	2,000	4,400	6,400
Pelletizing Line	3	1,900	4,000	5,900

Las Encinas operates the Aquila open pit mine located in Michoacán, Mexico, and the El Encino underground mine located in Jalisco, Mexico. Las Encinas produces iron ore pellets. The facilities include crushing and beneficiation plants located close to the mines and beneficiation and pelletizing plants located near Alzada in Colima, Mexico, approximately 160 kilometers from Aquila. The iron ore pellets are shipped by rail to Ternium Mexico s integrated facilities.

Peña Colorada operates the Minatitlán open pit mine located in Colima, Mexico. Peña Colorada produces iron ore pellets and magnetite concentrate. The facilities include crushing and beneficiation plants located close to the mine, near Minatitlán, and a pelletizing plant, including two pelletizing lines, located near the Manzanillo Port in the Pacific coast in Colima, Mexico, 50 kilometers from Minatitlán. Ternium and ArcelorMittal each own 50% of Peña Colorada. Under the existing arrangements, Peña Colorada is required to sell half of the mine s production to each of Ternium and ArcelorMittal. See Item 4. Information on the Company B. Business Overview. Raw materials, energy and other inputs Mexico Iron Ore. Both iron ore pellets and magnetite concentrates are shipped by rail or from the Manzanillo Port to Ternium s facilities, to ArcelorMittal s facilities and abroad.

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Production process

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

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

After crushing, the ore goes through magnetic drums that separate the iron from the sterile material, to obtain a pellet with high iron content. This process is carried out using water as an auxiliary element. Excess water is afterwards eliminated, leaving only the necessary humidity for the formation of pellets using pelletizing disks. Pellets are separated according to their size and are then hardened in ovens and shipped to the steel producing facilities.

Steel production. Ternium produces semi-finished steel in the form of thin slabs, slabs and billets through the electric arc furnace and the blast furnace methods. Under the electric arc furnace method, which is used in Mexico, pellets are converted into direct reduced iron (DRI) in the DRI modules. One of Monterrey s DRI plants includes the latest DRI HYL® technological advances, such as Hytemp®, which permits the hot discharge of the DRI to the electric arc furnace generating significant energy savings and improving productivity. Direct reduced iron and steel scrap is mixed in variable proportions and heated with other elements to obtain molten steel. The molten steel is then cast using the continuous casting method into billets and thin slabs.

Under the blast furnace method, which is used in Argentina, iron ore pellets, lumps, sinter (a mixture of iron ore fines and limestone produced in our sinter plant) and coke (a solid residue obtained from the distillation of coal produced in our coking batteries) are mixed in the blast furnaces in a process that melts and reduces the iron ore, obtaining pig iron. The molten pig iron is then mixed with steel scrap and other products in a basic oxygen furnace through a process that removes impurities from the pig iron by injecting pure oxygen at high pressure into the molten metal, burning-off carbon and other elements. The molten steel is then cast using the continuous casting method into slabs.

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

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

Depending on its final use, the hot-rolled coils are then scaled, tempered and pickled, both in Mexico and Argentina, before being sent for sale as coils or cut into steel sheets. Alternatively, the hot-rolled coils may be sent to a cold-rolling mill where they are put under a deformation process at room temperature to reduce their thickness and obtain cold-rolled coils. Cold-rolled coils can be sold in crude form to the market (full hard) or processed in the reheating ovens, annealing bays and tempers lines to modify their metallurgic and physical characteristics. The tempered products can be sold as coils or sheets or further processed by adding coverings.

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

hot-rolled coils can be further processed into tubular products, such as welded pipes, insulated panels and architectural panels, among other products.

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Sales and Marketing

Net Sales

Ternium primarily sells its steel products in the regional markets of North America and Central and South America, where it can leverage its strategically located manufacturing facilities to provide specialized products, delivery services to its clients and reduce freight costs.

Our total net sales amounted to USD5.0 billion in 2009, USD8.5 billion in 2008 and USD5.6 billion in 2007. For further information on our net sales see Item 5. Operating and Financial Review and Prospects A. Results of Operations .

The following table shows Ternium s total consolidated net sales by product and geographical region for the years indicated:

	For the year ended December 31,		
In million of U.S. dollars	**2009**	**2008**	**2007**
Flat Steel Product Sales			
South and Central America	1,717.1	2,782.5	2,037.0
North America	2,371.9	4,294.7	2,571.8
Europe and Other	161.0	47.5	123,0
Total Flat Steel Products Sales	4,250.0	7,124.7	4.731.7
Long Steel Product Sales			
South and Central America	57.3	274.2	70.0
North America	512.0	791.8	696.0
Europe and Other	3.5	8.9	6.9
Total Long Steel Product Sales	572.9	1,075.1	772.8
Total Other Sales (1)	136.1	265.1	128.8
Total Sales	4,959.0	8,464.9	5,633.4

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

	For the year ended December 31,		
In thousands tons			
(unaudited)	**2009**	**2008**	**2007**
Flat Steel Product Sales Volume			
South and Central America	1,904	2,604	2,499
North America	3,115	3,666	3,035
Europe and Other	287	55	185

Total Flat Steel Product Sales Volume	5,305	6,326	5,719
Long Steel Product Sales Volume			
South and Central America	118	302	133
North America	931	901	1,113
Europe and Other	6	13	15
Total Long Steel Product Sales Volume	1,056	1,217	1,261
Total Sales Volume (1)	6,361	7,543	6,980

(1) The Total Sales Volume does not include the tons of Other sales.

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North America Region

Sales to customers in the North America Region accounted for 60.0% of Ternium s consolidated sales during 2009, 61.8% during 2008 and 59.3% during 2007. See Item 5. Operating and Financial Review and Prospects A. Results of Operations Fiscal Year Ended December 31, 2009 compared to Fiscal Year Ended December 31, 2008 Net Sales and Fiscal Year Ended December 31, 2008 compared to Fiscal Year Ended December 31, 2007 Net Sales.

Ternium s largest markets in the North America Region are Mexico and the United States.

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

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

South and Central America Region

Sales to customers in the South and Central America Region accounted for 35.9% of Ternium s consolidated sales during 2009, 36.7% during 2008 and 38.2% during 2007. See Item 5. Operating and Financial Review and Prospects A. Results of Operations Fiscal Year Ended December 31, 2009 compared to Fiscal Year Ended December 31, 2008 Net Sales and Fiscal Year Ended December 31, 2008 compared to Fiscal Year Ended December 31, 2007 Net Sales.

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

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

Ternium s principal customers in the region are located near its plants in Argentina. We also sell to customers in other South and Central American countries, including Brazil, Bolivia, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, Peru and Uruguay.

Europe and Other

Sales to customers in Europe and other regions, which are generally made on a spot basis, accounted for 4.0% of Ternium s consolidated sales during 2009, 1.5% during 2008 and 2.5% during 2007. See Item 5. Operating and Financial Review and Prospects A. Results of Operations Fiscal Year Ended December 31, 2009 compared to Fiscal Year Ended December 31, 2008 Net Sales and Fiscal Year Ended December 31, 2008 compared to Fiscal Year Ended December 31, 2007 Net Sales.

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Ternium s shipments in Europe in 2009 were mainly destined for Italy, Spain, Portugal and the United Kingdom. Customers in Europe are mainly independent, small- and medium-sized companies dedicated to steel processing that generally serve the construction, furniture and appliance industries. A large part of their purchases are cold-rolled coils and coated products. Ternium s sales to Europe are carried out through the Ternium commercial network.

Pricing

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

Marketing

Our marketing strategy is to continue increasing higher margin value-added products and services in Ternium s sales mix. We expect to increase Ternium s offerings of value-added products, such as cold-rolled sheets and coated and tailor-made products, and services, such as just-in-time deliveries and inventory management. In order to do so, Ternium will continue to work with customers to anticipate their needs and develop customized products for particular applications and to maintain a strategic presence in several steel markets through its network of commercial offices. Ternium adapts its marketing strategy according to the different regions it serves. Its sales force specializes in different regional requirements ranging from product specifications to transport logistics.

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

North America Region

The North American steel market is highly competitive, since most major international steel producers direct part of their sales efforts to this region. Ternium s steel customers in Mexico are in the construction sector, automotive and home appliances industries, among other sectors. In Mexico, where our main production facilities are located, we can offer customized services.

Through our service centers, located in the southern United States and in northern and central Mexico, Ternium can cut, paint or roll-form its products to specific client requirements. Customized products include metallic roofing, auto parts and cut-to-length products used in the home appliance and construction industries.

Ternium has commercial offices in Mexico and the United States. These offices provide services such as logistics, stock management and customer assistance, as well as analysis of businesses opportunities in their respective markets. Ternium Mexico has a department focused on the development of small- and medium-sized companies in Mexico under a program created by the Techint group for the development of its customers and the local industry (Propymes). The objective of the program is to improve the competitiveness of customers and suppliers, to increase their exports and allow them to substitute imports with local products. Approximately 150 companies are part of this program in Mexico, which provides support for industrial, training, and institutional requirements of the participating companies.

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

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South and Central America Region

A principal component of Ternium s marketing strategy in South and Central America is establishing lasting and close relationships with customers. This allows Ternium to provide assistance to its customers in their use of steel products and to obtain downstream information that can be applied to future product development.

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

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

Ternium has commercial offices in Argentina, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua and Uruguay. These offices provide services such as market development, analysis of businesses opportunities, and customer support in their respective countries. Propymes was implemented in Argentina in 2002, with the objective of promoting the local industry. As of December 31, 2009, approximately 380 companies were part of this program, which provides support for industrial, training, commercial, financial and institutional requirements of the participating companies.

Europe and Other

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

Competition

Global Market

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

Steel consumption has historically been centered in developed economies such as the United States, Western Europe and Japan. However, in recent years steel consumption in Asia, and in particular China, has increased significantly. Moreover, while production in Europe, Japan and the United States remains significant, steel producers in those regions have increasingly focused on the rolling and finishing of semi-finished products.

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

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

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

April 2007: Tata Steel completes the acquisition of Corus.

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July 2007: Gerdau acquires Chaparral Steel.

August 2007: US Steel acquires Stelco.

March 2008 to May 2008: Severstal acquires Sparrow Point steel mill, WCI Steel and Esmark.

Despite this trend, the global steel market remains highly fragmented. In 2009, the five largest steel producers, ArcelorMittal, Hebei, Baosteel, POSCO and Wuhan, accounted for 18% of total worldwide steel production, compared to 15% for the five largest steel producers in 2000.

Steel prices in general, including for both flat and long products, have exhibited significant volatility in recent years. From 2000 to 2002, the industry, especially in North America, experienced fluctuating capacity utilization, low demand growth levels and other adverse conditions, which led to depressed steel prices, adversely impacting many steel producers profitability. In 2003 and 2004, steel prices increased worldwide, due to higher economic growth in most regions, particularly China and other developing countries, as well as higher raw material prices (iron ore, ferroalloys and energy). During the first quarter of 2008, steel prices went up significantly due to higher demand for steel products and higher input costs resulting from constraints in the availability of raw materials. However, this trend reversed beginning in the second half of 2008 due to a global economic downturn, with prices and costs declining steeply. In the second half of 2009, steel prices recovered, reflecting the improving conditions in the steel markets worldwide and higher raw material costs.

North America Region

Mexico. Ternium has strong domestic competitors in the Mexican steel market and faces significant competition from imports. According to Canacero, the Mexican chamber of the iron and steel industry, imports of hot-rolled, cold-rolled and galvanized steel products in Mexico accounted for approximately 27%, 33% and 27% of the Mexican market in 2009, 2008 and 2007, respectively, as steel consumption in Mexico is higher than the installed steel capacity in the country.

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

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

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

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

South and Central America Region

Ternium s most significant market in the South and Central America Region is Argentina. Other relevant markets in the region are Guatemala, Colombia, Chile and Paraguay.

Argentina. Siderar is the main producer of flat rolled steel products in Argentina. Its main competition in the Argentine flat steel market are imports, mainly from Brazil. The main Brazilian producers of flat steel value-added products are Usiminas, Companhia Siderúrgica Nacional and ArcelorMittal.

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Although Siderar has been the principal flat steel provider in Argentina since its foundation, foreign competition has challenged its market positioning in the country. For example, during the 1990s, Siderar s market share in Argentina decreased as a result of imports of steel products at very low prices. See Regulations Trade regulations.

Other South and Central American markets. Ternium keeps an active presence in the region, particularly in those steel markets where there is absence or limited presence of domestic competitors. Ternium keeps a leading position in the steel markets of Paraguay and Uruguay and has a strong presence in the steel markets of Chile and Bolivia, where the location of Ternium s facilities in neighboring Argentina provides a logistical advantage to supply these markets *vis a vis* its competitors. In addition, Ternium keeps an active presence in the steel markets of the Andean Community (Colombia, Ecuador and Peru), although it usually faces strong competition in these markets from steel producers located in Brazil and Venezuela. Finally, Ternium keeps an important presence in the steel markets for coated products in Central America, where it leverages its logistical advantages stemming from the location of its facilities in Guatemala and Mexico.

On April 8, 2010, the Company announced that it had entered into a definitive agreement to acquire a 54% ownership interest in Ferrasa through a capital contribution in the amount of USD74.5 million. See Item 5. Operating and Financial Review and Prospects G. Recent Developments Ferrasa . Upon completion of this transaction, Ternium expects to expand its business and commercial presence in Colombia as well as in Central America.

Capital Expenditure Program

Capital expenditures in Ternium s facilities during 2009 amounted to approximately USD208.6 million. In light of the global economic downturn, we delayed, reassessed or canceled a significant part of previously announced capital expenditure plans and projects. We currently expect that our capital expenditures for 2010 will amount to approximately USD300 million and that such amount will be financed with cash from operations.

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

- maintain and replace equipment;
- reduce production costs;
- improve product quality, equipment reliability and productivity;
- comply with applicable environmental standards; and
- provide enhanced customer services.

In the past, we announced new investments and projects to be developed in Mexico and in Argentina. These investments were aimed at increasing steel production and processing capacity through the construction of new facilities and the expansion of existing ones. The current status of these projects is discussed below.

North America Region

During 2009, Ternium s capital expenditures in the region amounted to USD88 million. A basic capital expenditure plan was carried out in order to maintain our equipment s operating performance and continue with some projects of which the most significant were:

- *New iron ore crushing and pre-beneficiation plant*. This new facility, part of the Las Encinas mining operations in Mexico, is the result of the relocation, revamping and expansion of former crushing facilities. Its relocation freed iron ore reserves at the former crushing plant site and its increased processing capacity will allow Las Encinas to maintain its iron ore pellet production capacity while processing material with lower iron ore content.
- *Revamping of hot-rolling mill No. 3 in Mexico*. This included the installation of a work-roll change system and the installation of new interstand equipment in the finishing mill, providing an additional annual rolling capacity of 280,000 tons.

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In 2008, Ternium announced a greenfield project to build a flat steel plant in Mexico, which was aimed at expanding its production capacity. In its initial phase, the project would involve the design and construction of a mini-mill and a hot-rolling mill in the Monterrey area, while its second phase would involve the construction of a cold-rolled and galvanizing plant, including a pickling line and a cold-rolled tandem mill, and a hot-dipped galvanizing line, to serve the industrial and commercial markets. Subsequently, Ternium changed the sequence of the project, and resolved to build the cold-rolling and galvanizing facilities first, thereby changing the second phase to first phase. As part of this project, in May 2010, Ternium announced that it had signed a memorandum of understanding with Nippon Steel Corporation to form a joint venture for the construction of the hot-dipped galvanizing plant. For more information on this proposed joint venture, see Item 5 Operating and Financial Review and Prospects G. Recent Developments Memorandum of Understanding for Joint Venture in Mexico .

South and Central America Region

During 2009, Ternium s capital expenditures amounted to USD120.5 million. We carried out a basic capital expenditure plan to maintain our equipment s operating performance and continued with some projects, of which the most significant were:

Partial revamping of coke oven plant in Argentina. The revamping of batteries #3 and #4 was launched during 2007 with the objective of improving performance and reducing gas emissions. The project s first stage was completed in 2008. The second stage, the relining and repair of 70 headers, began in October 2008; work in battery #3 was completed during 2009, while work in battery #4 was suspended.

Relining of blast furnace No. 1 in Argentina. The preparatory works for this project began in 2007, and the relining work commenced in October 2008. We expect that this project will be completed during the first half of 2010.

Ternium s capital expenditure plan in Argentina contemplates an increase in slabs annual production capacity from the current 2.9 million tons to 4.0 million tons, through the construction of a new continuous caster and other investments. Since the inception of this plan through December 31, 2009, Ternium invested an aggregate amount of USD263.3 million. As of the date of this annual report, Ternium is reassessing the scope and timetable of this project.

Information technology investments

We spent an aggregate of approximately USD6.1 million in information technology investments during 2009. In 2010, we expect to begin the integration of our Mexican facilities into Ternium s core business administration system and to expand the reach of that system in Argentina and Guatemala.

Raw Materials, Energy and Other Inputs

The main inputs for Ternium s facilities in Mexico are slabs, iron ore, steel scrap, natural gas and electricity, while the main inputs materials at Ternium s integrated steel facilities in Argentina are iron ore and coal. Below is a more complete description of the supply conditions for raw materials, energy and other inputs at Ternium s facilities in these countries. For a description of some of the risks associated with Ternium s access to raw materials, energy and other inputs, see Item 3. Key Information D. Risk Factors Risk Relating to the Steel Industry Price fluctuations or shortages in the supply of raw materials, slabs and energy could adversely affect Ternium s profitability.

Mexico

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

Slabs. Ternium s Mexican subsidiary has some non-integrated facilities that consume large quantities of slabs purchased from third-party steel suppliers. Currently, slabs are purchased both in Mexico (primarily from ArcelorMittal) and in the international markets. In addition, in the past Siderar supplied slabs from time to time to our Mexican operations. Slab consumption varies significantly year to year in accordance with market conditions. In 2008, our Mexican subsidiary purchased 2.4 million tons of slabs, while in 2009 slab purchases amounted to 1.7 million tons. Slab purchase prices are market-based.

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Iron ore. As described under Production Facilities and Processes Iron ore mining facilities above, Ternium s subsidiaries own interests in two mining companies in Mexico: 100% of the equity of the Las Encinas and a 50% equity stake in Peña Colorada. In 2009, Ternium s Mexican facilities sourced 100% of their iron ore requirements from the mines operated by these two companies. Under our arrangement with Peña Colorada s other shareholder, an ArcelorMittal subsidiary, we are committed to off-take 50% of the annual production of the Peña Colorada mine. In 2009, approximately 83% of Ternium s iron ore production went to our own direct reduction plants, 1% to our own blast furnance in Argentina and the remaining 16% was sold in the international markets. Most of the iron ore exports during 2009 were made on a spot price basis.

Scrap. Ternium sources 100% of its steel scrap needs in Mexico through its own steel scrap collecting and processing companies. In 2009, most of the scrap used was purchased domestically, with approximately 23% coming from the United States. Scrap is purchased at market prices.

Electricity. Electric arc furnaces consume large quantities of electricity. During 2009, 57% of Ternium Mexico s total consumption was supplied by the *Comisión Federal de Electricidad* or CFE, Mexico s state-owned electricity company. The remainder was purchased under long-term contracts from two other suppliers with power plants in the Monterrey area, Iberdrola Energía Monterrey, S.A. de C.V. (Ibedrola), a subsidiary of a Spanish utility company, and Tractebel Energía de Monterrey, S. de R.L. de C.V. (Tractebel), a subsidiary of a U.S. utility company. We have a long-term contract with Iberdrola for approximately 111 MW capacity and a long-term contract with Tractebel for aproximately 90 MW capacity. Electricity purchases under these contracts are made at prices linked to prevailing market conditions.

Natural gas. Natural gas is used as a reducing agent for the production of DRI and for the reheating of slabs and billets before the hot-rolling process. In Mexico, Ternium purchases natural gas from Pemex, the Mexican state-owned oil and gas company that is Mexico s sole producer of natural gas, and from three distributors: Gas Industrial de Monterrey S.A. de C.V. (GIMSA), Compañía Mexicana de Gas (CMG) and Gas Natural Mexico. Natural gas prices for Ternium Mexico are determined based on the average of the quoted prices of several indexes plus transportation and service costs depending on the areas or cities or pursuant to the methodology approved by the Energy Regulatory Commission for prices applicable to an area, as the case may be. Those prices are related to the market prices of natural gas in the southern United States.

Argentina

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

Iron ore. Iron ore is purchased under long-term agreements from suppliers in neighboring Brazil. Prices under these contracts are determined in accordance with market conditions. Our main suppliers of iron ore, in the form of lumps, pellets and sinter feed fines, are Vale and MMX. Our geographic location provides favorable access to high quality iron ore lump and fines produced in Brazil s iron ore mines in the Pantanal Region (Mato Grosso do Sul state), which are transported on barges navigating the Paraguay and Parana Rivers; accordingly, our costs associated with the provision of iron ore are low in comparison with customers requiring seaborne shipping. In addition, our steelmaking facility in Argentina receives iron ore pellets and fines from ports located on Brazil s ocean coast.

Coking coal and related materials. Siderar obtains its coke through the distillation of coking coal and petroleum coke in its coke ovens. Siderar requires different types of coal to produce coke. Coking coal is purchased under annual renewable contracts and on the spot market from several major international suppliers based mainly in Australia and the United States. Prices under contracts are determined in accordance with market conditions. Petroleum coke is sourced domestically from oil companies such as Exxon Mobil and Repsol YPF. The volume purchased from each supplier mainly depends on technical quality requirements of the blast furnace operations.

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Electricity. Siderar consumes large quantities of electricity for its manufacturing activities, particularly in its San Nicolás and Ensenada facilities. The electricity required to cover most of our facilities needs is self-generated by a wholly-owned thermoelectric plant with an installed capacity of 110 Mw located at the San Nicolás facility. Most of the energy requirements of the thermoelectric plant are obtained from blast furnace and coke oven gases and from steam that is purchased at market prices from a power plant located at the San Nicolás facility owned by Siderca S.A.I.C., a subsidiary of Tenaris, under a long-term steam sales agreement. The rest of the requirements are covered through the purchase of natural gas from different market vendors, or with alternative sources of energy such as fuel oil. Siderar covers electricity shortfalls or sells excesses, as the case may be, at spot prices in the wholesale market. In order to mitigate these shortfalls, it entered into electricity supply contracts with the Central Puerto and Genelba power plants, both owned by Petrobras. Over the course of the last several years, demand for electricity has increased substantially, resulting in shortages of electricity to residential and industrial users during periods of high demand. Accordingly, in 2008 certain Siderar facilities suffered interruptions in their electricity supply at peak hours.

Natural gas. Siderar also consumes substantial volumes of natural gas, particularly to operate its blast furnace and power generation facilities. Siderar purchases natural gas at spot prices and on spot terms and conditions. Siderar s San Nicolás facilities needs for natural gas are covered mainly by Pan American Energy, Total Austral, Repsol YPF, Tecpetrol S.A., a company controlled by San Faustín, and natural gas traders in Argentina, including MetroEnergía, Albanesi, Energy Consulting Services and Energy Traders. As is the case with electricity, natural gas demand has increased significantly, and supply to industrial users (including Siderar) has often been restricted during the Argentine winter.

Siderar has separate transportation agreements with Transportadora de Gas del Norte S.A. (TGN), Transportadora de Gas del Sur S.A. (TGS), Camuzzi Gas Pampeana S.A. (Camuzzi), Gas Natural Ban S.A. (Gasban) and Metrogas. The main transportation contract is with TGN, a company partially owned by San Faustín, which expires in April 2013.

For the final distribution phase, Siderar has several distribution contracts with Litoral Gas (a company partially owned by San Faustín), Camuzzi, Gasban and Metrogas. The principal contract is with Litoral Gas, which expires in December 2011.

Other inputs. Siderar has on-site oxygen, nitrogen and argon separation plants in order to extract these gases for use in the steelmaking process. Siderar is a party to a long-term contract with Air Liquide Argentina S.A. for the operation and maintenance of a separation facility at San Nicolás for a contracted amount of USD175.2 million, which is due to terminate in 2025. Under the terms of the contract, Siderar is required to take or pay certain minimum daily amounts of oxygen, nitrogen and argon, which amounts are consistent with its production requirements in Argentina. The parties entered into an amendment to this contract in order to increase the volume of gases supplied thereunder; however, due to the effect of the economic downturn on Siderar s expected requirements of oxygen, nitrogen and argon, the parties entered into a renegotiation of the contract. Pursuant to such renegotiation certain obligations of both parties under the contract were temporarily suspended; such suspension has been extended in several opportunities and is currently effective until June 30, 2010.

Product Quality Standards

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

Ternium designed, developed and implemented the quality management system it has in place. Based on the ISO 9001:2008 and, in the case of areas related to the production of automotive supplies, ISO/TS 16949:2009 platforms, the Ternium Quality Management System aligned quality management systems and criteria throughout Ternium s subsidiaries. To keep the ISO Multisite certification, the Ternium Quality Management System is regularly audited by Lloyd s Register Quality Assurance.

During October 2009, Siderar s facilities were recertified under ISO 9001:2008 and ISO/TS 16949:2009, as part of a Multisite certification scheme running on the Ternium Quality Management System.

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

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In July 2008, the American Petroleum Industry, or API, performed an audit under API Q1 ISO/TS 29001 at Planta Tuberia Guerrero, Ternium Mexico s thick-walled tubes manufacturing facility, for the renewal of Ternium Mexico s license to use the API Monogram® on its line pipe products under the conditions specified in API Spec 5L. In February 2009, the license was renewed.

Research and Development; Product Development

Product research and development activities at Ternium are conducted through a central Product Development Department in coordination with local teams that operate in several of our facilities. Applied research efforts are carried out in-house and in conjunction with universities and research centers, as well as through the participation in international consortia. Ternium also develops new products and processes in cooperation with its industrial customers.

In 2009, Ternium s product research and development activities focused on increasing the industrial integration of its facilities and on the development of products for new customers, mainly aimed at increasing capacity utilization rates at Ternium s facilities. In addition, we continued developing new products for long-standing customers, mainly aimed at fulfilling increasing product performance requirements. Furthermore, Ternium continued carrying out its medium-term product research and development plan, encompassing foreseen product requirements and associated new equipment, which it considers a key input for the design of Ternium s capital expenditure projects and differentiating strategies.

In 2009, Ternium continued the development of new processing routes to integrate its production units and increase shipments. These initiatives were part of its efforts to increase capacity utilization rates at its production units in the context of a pronounced steel market downturn. Ultimately, it allowed for replacing semi-finished steel products procured from third parties with products manufactured in-house and a market share increase in certain market segments. Slabs, hot-rolled coils and cold-rolled coils manufactured in our production units in Argentina were further processed in our production units in Mexico and Guatemala. In addition, new coated products were developed for processing at our Mexican production units to supply customers in Argentina and Argentina s neighboring countries.

During 2009, Ternium developed structural bars for use in highway bridges and thin-gauge hot-rolled structural steels for industrial shelving and storage racks. In addition, we developed new steel chemical compositions to fulfill new customers requirements in our markets. Ternium also developed new hot-rolled structural grades used by welded pipe manufacturing customers serving the construction industry.

During 2009, Ternium developed new industrial customers in Mexico, leveraging its extended network of service centers to differentiate and compete against imports. Among these initiatives, we launched product approval processes with new customers in the automotive and rail transportation sectors.

In addition, we continued the certification of processes with existing customers in the automotive industry in Mexico and Argentina, related to newly defined standards and new car models to be produced in these countries. We also developed new products for industrial customers, such as high-gauge hot-rolled high-strength low-alloy grade structural steel for the automotive industry, new cold-rolled re-phosphorized grade for boilers and super high-gloss coil coated products for refrigerators.

Ternium s medium-term product research and development plans are based on its continuing assessment of the emerging requirements for steel product performance with leading steel customers. Based on customer feedback, we define future technology requirements at our facilities.

Presently, we are working on various medium-term projects, including advanced high-strength steel for the automotive industry through the Galvanized Autobody Partnership and McMaster University; high-strength low-alloy steel for our industrial customers in collaboration with the University of Pittsburgh and support by the Argentine Steel Institute; and coated products with long-term corrosion resistance for the construction industry as well as new magnesium added metallic coatings for various applications with the French Corrosion Institute.

In 2010, Ternium plans to expand its product range of hot-rolled, cold-rolled and galvanized products through the development of new automotive and heavy machinery high-strength steel grades to increase its market share. We also expect to develop new wire rod grades for the manufacturing of novel springs, aimed at reducing weight and extending service life, driven by the specifications of some European carmakers. In addition, Ternium plans to develop hot-rolled and cold-rolled steel grades to increase shipments to welded pipe manufactures serving the

automotive and industrial sectors.

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We spent an aggregate of USD0.7 million for product research and development in 2009, compared to USD0.8 million in 2008 and USD1.1 million in 2007.

Regulations

Environmental Regulation

Ternium s operations (including mining activities in Mexico) are subject to a broad range of environmental laws, regulations, permit requirements and decrees relating to the protection of human health and environment, including laws and regulations relating to land use; air emissions; wastewater treatment and discharges; the use, handling and disposal of hazardous or toxic materials and the handling and disposal of solid wastes. Laws and regulations protecting the environment have become increasingly complex and more stringent and expensive to implement in recent years. International environmental requirements vary.

Ternium has established corporate environmental guidelines requiring each of its business units to comply with all applicable environmental laws and regulations. Compliance with environmental laws and regulations, and monitoring regulatory changes, is addressed primarily at the regional level.

Ternium reports to the World Steel Association its CO_2 emissions data on an annual basis as part of the association s initiative to collect emissions data from member companies. We support the steel industry s ongoing effort to develop innovative solutions to reduce greenhouse gas (GHG) emissions over the life cycle of steel products. According to the Intergovernmental Panel on Climate Change (IPCC), the steel industry accounts for approximately 3% to 4% of total world GHG emissions.

Our steel production facilities in Mexico have achieved GHG-specific emission levels that are close to the theoretical minimum. In Argentina, Siderar s GHG-specific emission levels are close to the industry average for blast furnace technology.

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

Ternium has not been subject to any material penalty for any environmental violations in 2009, and we are not aware of any current material legal or administrative proceedings pending against Ternium with respect to environmental matters which could have an adverse material impact on Ternium s financial condition or results of operations.

Mining regulations in Mexico

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

A mining concession allows its holder to perform both exploration works (including identifying mineral deposits and quantifying and evaluating economically minable reserves), and exploitation works (including detaching and extracting mineral products from such deposits). Mining concessions have a 50-year duration from the date of their recording in the Public Mining Registry and may be extended for an equal term, provided certain requirements are met.

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

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

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

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

Trade regulations

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

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

Countries imposition of trade remedy measures and the entry into force of various free trade agreements can and have both benefited and adversely affected Ternium s home market and export sales of steel products, as described below. See also Item 3. Key Information D. Risk Factors Certain Regulatory Risks and Litigation Risks International trade actions or regulations and trade-related legal proceedings could adversely affect Ternium s sales, revenues and overall business.

Mexico.

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

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

Furthermore, since September 2005, Mexico has imposed antidumping duties against Ukraine (60.1%), Romania (67.60%) and Russia (36.80%) on cut-to-length plate in coils. Mexican authorities are expected to conduct a sunset review of these measures in 2010.

In March 2008, the Mexican government imposed a provisional antidumping duty on cut-to-length plate imports from China. The measure was lifted in October 6, 2008, as the Mexican authorities concluded that their domestic industry was not suffering injury as a result of such imports and thus decided not to conduct any further investigations thereon.

Cold-rolled products: Since June 1999, Mexico has imposed antidumping duties on cold-rolled steel sheets from Bulgaria (44% 45%), the Russian Federation (83% 88%) and Kazakhstan (33% 34%). On December 12, 2005, and as a result of the first sunset review, the Mexican authorities extended the anti-dumping duties for an additional five-year period until June 2009. A sunset review was initiated in July 2009 and is currently under way; after completing this procedure, some or all of these duties could be eliminated.

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

Long products: Brazilian imports of reinforcing bars are currently subject to an antidumping duty of 57.69%. In June 2006, the second sunset review resolution determined the continuation of antidumping duties for an additional five-year period. A third sunset review will be initiated in August 2010. Wire rod imports from Ukraine are subject to a duty of 30.52% since September 2000. In June 2006, the first sunset review resolution determined the continuation of antidumping duties for an additional five-year period. The initiation of a second sunset review is expected to take place in September 2010.

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

Hylsamex s wire rod exports are subject to an antidumping duty of 17.94% pursuant to an antidumping duty order on carbon and certain alloy steel wire rod from Mexico. Following the most recent sunset review, such duty was extended for five more years from June 2008. In November 2008, at Ternium Mexico s request, the U.S. Department of Commerce (DoC) initiated a changed circumstances review of the antidumping duty order described above in order to determine whether Ternium Mexico is the successor-in-interest to Hylsamex for purposes of determining antidumping duty liability. On May 13, 2009, the DoC determined that Ternium Mexico is the successor-in-interest to Hylsamex and, thus, should receive the same antidumping duty treatment with respect to steel wire rod from Mexico as Hylsamex.

Tubular products from Mexico have been subject to antidumping duties since August 1995. In particular, our subsidiaries Oil Country Tubular Goods, or OCTG, products were subject to a 1.48% antidumping duty until such duty was revoked in May 31, 2007, following International Trade Administration s (ITC) determination that if the order on imports of OCTG from, among other countries, Mexico was lifted it would not be likely to lead to continuation or recurrence of material injury within a reasonably foreseeable time.

In 2007, the DoC initiated an antidumping investigation of light-walled rectangular pipe and tube (LWRPT) from, among other countries, Mexico. On June 13, 2008, the DoC made a final determination of sales at less than fair value in the investigation of LWRPT from Mexico and, as a result, LWRPT from Mexico, including LWRPT manufactured by Hylsamex, are now subject to antidumping duties. In particular, Hylsamex s exports of LWRPT are subject to either a 3.76% or an 11.5% duty, depending on the plant at which the relevant product was manufactured. In August 2009, the DoC issued the final results of a changed circumstances review of the antidumping duty order on LWRPT from Mexico concluding that Ternium Mexico is the successor-in-interest to Hylsamex for purposes of determining antidumping duty liability and, thus, Ternium Mexico will receive the same antidumping duty treatment with respect to LWRPT from Mexico as Hylsamex.

Since 1992, pursuant to an antidumping duty order on circular welded non-alloy steel pipe or standard pipe from various countries, including Mexico, standard pipes manufactured by Hylsamex and Grupo Imsa were subject to antidumping duties. In 2007, such measures were extended for five more years. In August 2009, the DoC published the final results of a changed circumstances review, concluding that Ternium Mexico is the successor-in-interest to Hylsamex for purposes of determining antidumping duty liability. As of April 13, 2010, in accordance with the latest administrative review, the applicable duty for Ternium Mexico is 48.33%.

On January 25, 2010, Colombian authorities initiated an antidumping investigation against wire rod products from Mexico. The investigation was closed on April 23, 2010.

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

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

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

In addition, the Mexican government has signed trade agreements with Venezuela, Colombia, the European Free Trade Association an intergovernmental organization set up by Liechtenstein, Norway, Iceland and Switzerland, Japan, Chile, Bolivia, Nicaragua, Costa Rica and Uruguay, among others. However, the Mexico-Venezuela free trade agreement was terminated in November 2006.

On February 9, 2010, the Mexican Government issued a decree reducing the tariffs on several steel product groups. For 2010, the tariff in semifinished products was set at 3% (5% in 2009), the tariff for finished flat and long products was set at 5% (7% in 2009), and the tariff for welded pipe products was set at 7% (10% in 2009).

Argentina.

The Argentine government has imposed various antidumping measures on certain steel imports that compete directly with Ternium s sales in Argentina.The following measures are currently in effect:

Hot-rolled products: Since December 1999, the Argentine government has imposed anti-dumping measures requiring a minimum import price for hot-rolled steel imports from Brazil, the Russian Federation and Ukraine. Argentina accepted a price undertaking agreement from Brazilian exporters. In 2006 Argentine authorities conducted a sunset review of these measures and decided to continue them for five more years. In its decision, the Argentine government determined antidumping duties for Russian, Ukrainian and Brazilian hot-rolled steel exports to Argentina. A price undertaking for Brazilian exports was also accepted by Argentine authorities.

Argentina has also imposed antidumping measures on hot-rolled steel imports from Kazakhstan (39.91%), Romania (40.48%), Slovak Republic (62.09%) and South Africa (55.26%), effective since April 2002. In October 2008, following completion of a sunset review initiated in May 2007, Argentine authorities decided to continue these measures for five more years.

Cold-rolled products: Since January 2003, Argentina has also imposed antidumping measures on cold-rolled steel imports from Korea (60.46%), South Africa (83.07%), Kazakhstan (80.61%) and Ukraine (71.22%). In July 2009, following completion of a sunset review initiated in January 2008, the Argentine authorities decided to continue these antidumping measures for one year.

Galvanized products: since May 2003, Argentina has imposed antidumping duties on galvanized steel sheets from South Korea (49.67%), South Africa (27.90%), Australia (70.37%) and Taiwan (33.09%). The petitioners requested the initiation of a sunset review in May 2008 to determine whether the antidumping duties will be maintained for five more years. In November 2009, following completion of a sunset review initiated in May 2008, the Argentine

government decided to renew measures for three years, replacing previous ad valorem rates by specific antidumping measures: USD243/ton for South Korea; USD286/ton for South Africa; USD247/ton for Australia; and USD223/ton for Taiwan.

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U.S. authorities had imposed a number of measures on steel import products from Argentina, thereby restricting Ternium s exports to that country in the past. Such measures were revoked and, accordingly, none of them are currently in effect.

As of May 2003, Thailand imposed antidumping duties of 37.94% against imports of hot rolled steel from Argentina; such duties remain currently in effect.

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

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

In 2005, Mercosur entered into a trade agreement with Chile, pursuant to which all tariffs on steel products have been eliminated. In 1996, Mercosur signed a free trade agreement with Bolivia, pursuant to which all steel products began receiving a 100% tariff preference on January 1, 2006. Mercosur and the Andean Community (Bolivia, Colombia, Ecuador, Peru and, formerly, Venezuela), signed a free trade agreement aimed at reducing and eventually eliminating tariffs on steel products traded among member countries over a period of 8 to 12 years. Mercosur is also negotiating free-trade agreements with the EU, Mexico, India and South Africa. In May 2006, Venezuela became a junior member of Mercosur and is currently seeking full membership in the group. Brazil, Argentina and Uruguay have already approved Venezuela s membership. The matter is still pending before Congress in Paraguay.

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

Insurance

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

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C. Organizational Structure

Below is a simplified diagram of Ternium s corporate structure as of December 31, 2009.

Subsidiaries

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

Ternium Mexico. Ternium Mexico was formed as result of the merger of Grupo Imsa, Hylsamex and Hylsamex s major shareholder in March 2008. Ternium Mexico and its subsidiaries operate all of Ternium s mining and steel production activities in Mexico, the United States, Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica. Ternium Mexico and its subsidiaries produce flat and long steel products, including value-added finished steel products for use mainly in the construction and industrial sectors. Ternium Mexico has a finished steel annual production capacity of 6.1 million tons.

Siderar. Siderar is the main integrated manufacturer of flat steel products in Argentina with total annual finished steel production capacity of 2.6 million tons. The shareholders of Siderar as of March 31, 2010 are set out in the following table, together with the share percentage owned by each such shareholder as of that date:

Siderar Shareholders	**Number**	**Percent**
Ternium	211,754,474	60.94%
ANSeS	90,225,841	25.97%
Inversora Siderúrgica Argentina (employees)	11,734,770	3.38%
Public	33,753,686	9.71%
Total	347,468,771	100.00%

Siderar s shares are listed on the Buenos Aires Stock Exchange (*Bolsa de Comercio de Buenos Aires*), or BASE, under the symbol ERAR. The Buenos Aires Stock Market (*Mercado de Valores de Buenos Aires*), which is affiliated with the BASE, is the largest stock market in Argentina. On March 31, 2010, the closing price of the Siderar shares on the BASE was ARP26.95 per share (approximately USD7.02 per share).

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Ternium Internacional. Ternium Internacional comprises a network of companies in various jurisdictions around the world including Colombia, Ecuador, Panama, Spain, Uruguay, the Netherlands and the United States that market and provide services in relation to the sales of Ternium s products worldwide. The headquarters of the network are located in Uruguay. Ternium Internacional s services include sales and trading, communication systems, offices and human resources dedicated to export trading, technical assistance, commercial back office and credit analysis.

Ternium Brasil. Ternium Brasil S.A. is a wholly-owned subsidiary of the Company. Organized under the laws of Brazil, it was formed for the purpose of assessing expansion opportunities in that country.

Other Investments

Exiros. Exiros, with offices located in nine countries, and in which we have a 50% share ownership and Tenaris has the remaining 50% share ownership, provides our subsidiaries with purchase agency services in connection with purchases of raw materials and other products or services. Exiros s objectives are to procure better purchase conditions and prices by exercising the improved bargaining power that results from combining the demand of products and services by both Ternium and Tenaris.

D. Property, Plants and Equipment

See Business Overview Production Facilities and Processes.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

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

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

Overview

Ternium is a leading steel company in Latin America, manufacturing and processing a wide range of flat and long steel products for customers active in the construction, home appliances, capital goods, container, food, energy and automotive industries. Ternium has production facilities in Mexico, Argentina, the United States and Guatemala, as well as a network of service centers which provide it with a strong position from which to serve its core markets. Ternium primarily sells its flat and long steel products in the regional markets of the Americas. Ternium provides specialized products and delivery services, mainly to customers in Mexico and Argentina, through its network of manufacturing facilities and service centers. We believe that Ternium is a leading supplier of flat steel products in Mexico, the leading supplier of flat steel products in Argentina, and a competitive player in the international steel market for flat and long steel products. Through its network of commercial offices in several countries in Latin America, the United States and Spain, Ternium maintains an international presence that allows it to reach customers outside its local markets, achieve improved effectiveness in the supply of its products and in the procurement of semi-finished steel, and maintain a fluid commercial relationship with its customers by providing continuous services and assistance.

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Ternium s revenues are affected by general global trends in the steel industry and more specifically by the economic conditions in the countries in which it has manufacturing operations and where its customers are located. Ternium s revenues are also impacted by events that affect the price and availability of raw materials, energy and other inputs needed for its operations. Furthermore, due to the highly cyclical nature of the steel industry, recent results may not be indicative of future performance, and historical results may not be comparable to future results. Investors should not rely on the results of a single period, particularly a period of peak prices, as an indication of Ternium s annual results or future performance. The variables and trends mentioned below could also affect the results of its investments in steel related companies. See Item 4. Information on the Company B. Business Overview Our Business Strategy .

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

Ternium s results are sensitive to economic activity and steel consumption. Ternium s results of operations primarily depend on economic conditions in Mexico and Argentina and, to a lesser extent, on economic conditions in international and regional markets such as NAFTA, Mercosur and the Andean Community. Historically, annual steel consumption in the countries where Ternium operates has varied at a rate that is linked to the annual change in each country s gross domestic product and per capita disposable income. Recently, the global economic downturn resulted in an overall decreased demand for Ternium s products. For example, apparent consumption of finished steel products in Mexico decreased by 1% during 2007 and 4% during 2008, due to subdued industrial activity in the NAFTA region, while in Argentina it increased 3% during 2007 and 4% during 2008, reflecting a sustained activity in the construction and industrial sectors. During the fourth quarter 2008, following a steep downturn in the global economy, demand for steel products fell sharply. As a result, apparent consumption of finished steel products decreased in 2009 by 15% in Mexico and 33% in Argentina. This economic downturn has had a pronounced negative effect on Ternium s business and results of operations. A protracted global recession or a depression would have a material adverse effect on the steel industry and Ternium.

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

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

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

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

Prevailing exchange rates have had an impact on Ternium s results in the past and could impact results again in the future. In accordance with IFRS, Ternium s subsidiaries in Mexico and Argentina prepare financial statements in their local currencies and record foreign exchange results on their net non-local currency positions when their local currencies revaluate or devaluate to other currencies. Accordingly, fluctuations in the local currencies against the U.S. Dollar have had, and may also have in the future, an impact on Ternium s results. In 2008, net foreign exchange result was a loss of USD632.7 million, which was primarily due to the impact of the Mexican peso s 25% devaluation on Ternium Mexico s U.S. dollar denominated debt. This non-cash result when measured in U.S. dollars was offset by changes in Ternium s net equity position in the currency translation adjustment, or CTA, line, as the value of Ternium Mexico s U.S. dollar-denominated debt was not affected by the Mexican peso fluctuation when stated in U.S. dollar terms in Ternium s consolidated financial statements.

Our 2009 results and cash flows reflect the impact of a variety of initiatives aimed at mitigating the effects of the global economic downturn. The decrease in apparent steel demand in Ternium s markets forced us to reduce capacity utilization rates at our facilities. We made adjustments to our production configuration taking into consideration, among other factors, market demand, inventory resizing goals and cost. We were able to operate our crude steel production facilities at relatively high utilization rates in 2009 and substantially reduced our third-party purchases of slabs. In addition, we reduced labor shifts at many of our production lines, supplementing these measures with the downsizing of corporate and other staff, and other company-wide cost cutting initiatives. In 2009, we faced no financial constraints in spite of the worldwide financial crisis. In addition to the year s operating income contribution in the reduction of our net debt, we freed substantial cash flows as a result of our inventory reduction program. Furthermore, we reassessed, early in the year, our entire short-to medium-term capital expenditure plans and slowed down or suspended major capital expenditure projects to strengthen our balance sheet. Through these initiatives, we managed to significantly mitigate the impact of the global crisis on our margins.

Ternium s cash flows for 2009 and 2010 are strongly affected by the non-recurring payments received or to be received in connection with the transfer of our interest in Sidor to Venezuela. On May 7, 2009, we completed the transfer of our entire 59.7% interest in Sidor to CVG. Ternium agreed to receive an aggregate amount of USD1.97 billion as compensation for its Sidor shares. Of that amount, CVG paid USD400 million in cash at closing, and the balance was divided in two tranches: the first tranche of USD945 million is being paid in six equal quarterly installments, while the second tranche is due in November 2010, subject to quarterly mandatory prepayment events based on the increase of the WTI crude oil price over its May 6, 2009 level. Payments from CVG aggregated USD954 million in 2009 and USD563 million in 2010 through the date of this annual report. The outstanding

principal amount of the receivables with CVG is currently USD458 million.

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Critical Accounting Estimates

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

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its accounting estimates and assumptions, including those related to doubtful accounts, obsolescence of inventory, impairment of long-term investments, goodwill, and other assets and contingencies, and revises them when appropriate. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Although management believes that its estimates and assumptions are reasonable, they are based upon information available when the estimates and assumptions are made. Actual results may differ significantly from these estimates under different assumptions or conditions.

Our most critical accounting estimates are those that are most important to the portrayal of our financial condition and results of operations, and which require us to make our most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Changes in these assumptions and estimates could have a material impact on our consolidated financial statements. Our most critical accounting estimates and judgments are set forth below.

Useful Lives and Impairment of Property, Plant and Equipment and Other Long-lived Assets

As permitted under IFRS 1 First Time Adoption of IFRS , management has elected to use the fair value of its property, plant and equipment as at January 1, 2003, as its deemed cost . In determining useful lives and impairment estimates, management considered, among others, the following factors: age, operating condition and level of usage and maintenance. Management conducted visual inspections for the purpose of (i) determining whether the current conditions of such assets are consistent with normal conditions of assets of similar age; (ii) confirming that the operating conditions and levels of usage of such assets are adequate and consistent with their design; (iii) establishing obsolescence levels; and (iv) estimating expectancy, all of which were used in determining useful lives and impairment estimates. Management believes, however, that it is possible that the periods of economic utilization of property, plant and equipment may be different than the useful lives so determined. Impairments may result from, among other factors, changes in usage level and maintenance capital expenditure policies, obsolescence and external factors (including increases in input prices that would affect the profitability of the selected fixed assets). Any such impairment charges could have a material adverse effect on Ternium s results of operations, financial condition and net worth. Under IFRS, assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. An impairment loss is recognized for the amount by which the asset s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset s fair value less cost to sell and the present value of estimated future cash flows. For purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Management believes that this accounting policy involves a critical accounting estimate because it is subject to change from period to period as a result of variations in economic conditions and business performance.

At December 31, 2009, an impairment loss over the intangible asset booked in connection with the slab purchase agreement with Corus was recorded for the amount of USD27 million. For more information see Item 8. Financial Information A. Consolidated Statements and other Financial Information. Legal Proceedings and note 27 to our consolidated financial statements included elsewhere in this annual report.

No other impairment losses were recorded from the impairment tests performed.

Impairment and recoverability of goodwill and other assets

Assessment of the recoverability of the carrying value of goodwill and other assets require significant judgment. We evaluate goodwill allocated to the operating units for impairment on an annual basis.

Goodwill is tested at the level of the cash generating units, or CGU. Impairment testing of the CGU is carried out and the value in use determined in accordance with the discounted cash flow method. In order to perform the test, we use

projections for the next five years based on past performance and expectations of market development. After the fifth year a perpetuity rate with no grow up increase is utilized. The discount rates used for these tests are based on our weighted average cost of capital adjusted for specific country and currency risks associated with the cash flow projections. Discount rate used at December 31, 2009, was 11.8%.

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The impairment tests performed as of December 31, 2009, resulted in no impairment charge.

Although we believe our estimates and projections are appropriate based on currently available information, the actual operating performance of an asset or group of assets which has been tested for impairment may be significantly different from current expectations. In such an event, the carrying value of goodwill, investments in associated companies and deferred taxes may be required to be reduced from the amounts currently recorded. Any such reductions may materially affect asset values and results of operations.

Allowances for Doubtful Accounts

Management makes estimates of the uncollectibility of our accounts receivable. Management analyzes our trade accounts receivable on a regular basis and, when aware of a third party s inability to meet its financial commitments to us, management impairs the amounts due by means of a charge to the allowance for doubtful accounts.

Management specifically analyzes accounts receivable and historical bad debts, customer creditworthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts.

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

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

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

Allowance for Obsolescence of Supplies and Spare Parts, Inventory s Net Realizable Value and Slow-Moving Inventory

Management assesses the recoverability of its inventories considering their selling prices, if the inventories are damaged, or if they have become wholly or partially obsolete. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

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

As of December 31, 2008 the allowance for net realizable value totaled USD160.9 million. That allowance amount was applied, in its entirety, against sales of inventories in fiscal year 2009 and, accordingly, there was no allowance for net realizable value as of December 31, 2009. The allowance for obsolescence as of December 31, 2009 and December 31, 2008 amounted to USD58.2 million and USD124.9 million, respectively.

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

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Loss Contingencies

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

With respect to the loss contingencies described in our financial statements, we do not expect to incur any losses exceeding the amounts accrued as of December 31, 2009, that would be material relative to our consolidated financial position, results of operations or liquidity as of such date. However, if reserves prove to be inadequate and we incur a charge to earnings, such charge could have a material adverse effect on our results of operations, financial condition and net worth.

Valuation Allowance of Deferred Tax Assets

Management calculates current and deferred income taxes according to the tax laws applicable to our subsidiaries in the countries in which such subsidiaries operate. However, certain adjustments necessary to determine the income tax provision are finalized only after the financial statements are issued. In cases in which the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. When assessing the recoverability of deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. Based on those estimates, management did not record a valuation allowance at December 31, 2009.

Although we believe our estimates are appropriate, significant differences in actual performance of the asset or group of assets may materially affect our asset values and results of operation.

Sidor Financial Asset

As further described in Note 29 to our audited consolidated financial statements included elsewhere in this annual report, on May 7, 2009, Ternium reached an agreement with CVG for the transfer of its entire 59.7% interest in Sidor in exchange for an aggregate amount of USD1.97 billion, out of which USD400 million were paid in cash on that date. The initial measurement of the outstanding receivable was performed on the basis of its discounted amount using an annual discount rate of 14.36%. Subsequently, this receivable was valued at its amortized cost using the effective interest rate.We believe that the most significant estimate used in the valuation of the Sidor financial asset was the determination of the discount rate used to discount future cash flows.

A. Results of Operations

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

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In thousands of U.S. dollars	For the year ended December 31,				
(except number of shares and per share data)	**2009**	**2008**	**2007**	**2006**	**2005** (1)
Selected consolidated income statement data					
Continuing operations					
Net sales	4,958,983	8,464,885	5,633,366	4,484,918	2,690,450
Cost of sales	(4,110,370)	(6,128,027)	(4,287,671)	(3,107,629)	(1,787,848)
Gross profit	848,613	2,336,858	1,345,695	1,377,289	902,602
Selling, general and administrative expenses	(531,530)	(669,473)	(517,433)	(370,727)	(243,993)
Other operating (expenses) income, net	(20,700)	8,662	8,514	(4,739)	(57,338)
Operating income	296,383	1,676,047	836,776	1,001,823	601,271
Interest expense	(105,810)	(136,111)	(133,109)	(96,814)	(60,686)
Interest income	21,141	32,178	41,613	33,903	17,786
Interest income Sidor financial asset	135,952				
Other financial income (expenses), net	81,639	(693,192)	(38,498)	(40,432)	33,514
Equity in earnings of associated companies	1,110	1,851	434	671	153
Income before income tax expense	430,415	880,773	707,216	899,151	592,038
Current and deferred income tax expense	(91,314)	(258,969)	(291,345)	(353,044)	(233,113)
Reversal of deferred statutory profit sharing		96,265			
Income from continuing operations	339,101	718,069	415,871	546,107	358,925
Discontinued operations					
Income from discontinued operations	428,023	157,095	579,925	444,468	715,900
Net income for the year (2)	767,124	875,164	995,796	990,575	1,074,825
Attributable to:					
Equity holders of the Company	717,400	715,418	784,490	795,424	706,418
Minority interest	49,724	159,746	211,306	195,151	368,407
	767,124	875,164	995,796	990,575	1,074,825
Depreciation and amortization	385,105	413,541	355,271	251,371	160,145
Weighted average number of shares outstanding (4)	2,004,743,442	2,004,743,442	2,004,743,442	1,936,833,060	1,209,476,609
Basic earnings per share (expressed in USD per share) for profit: (2) (3) (4)					
From continuing operations attributable to the equity holders of the Company	0.15	0.27	0.15	0.20	0.15
	0.21	0.09	0.24	0.21	0.43

From discontinued operations attributable to the equity holders of the Company					
For the year attributable to the equity holders of the Company	0.36	0.36	0.39	0.41	0.58
Dividends per share declared	0.05		0.05	0.05	

(1) Combined consolidated financial information on the basis of common control.

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

(3) Diluted earnings per share (expressed in USD per share), equals basic earnings per share in 2009, 2008, 2007 and 2006. In 2005, diluted earnings per share were USD0.54, including USD0.14 from continuing operations and USD0.39 from discontinued operations. Diluted earnings per share have been calculated giving effect to the conversion of certain subordinated

convertible loans.

(4) In October 2005, Usiminas exchanged its 5.3% equity interest in Siderar, its 16.6% equity interest in Amazonia and its 19.1% equity interest in Ylopa and other items for 227,608,254 new shares of the Company. Upon the consummation of this exchange, capital increased to USD1,396.6 million, represented by 1,396,551,886 shares of USD1.00 nominal value each. Pursuant to provisions contained in certain subordinated convertible loan agreements, on February 6, 2006, the Company exchanged such subordinated convertible loans (including interest accrued thereon through January 31, 2006) for Company shares at a conversion price of USD2 per share, resulting in the issuance of 302,962,261 new shares to a wholly-owned subsidiary of San Faustín on February 9, 2006. As provided in a certain corporate reorganization agreement, on February 9, 2006,

after the settlement of the Company s initial public offering, a wholly-owned subsidiary of San Faustín contributed all of its assets and liabilities to the Company in exchange for 959,482,775 newly-issued shares of the Company, which contribution included, among other items, the San Faustín subsidiary s right to receive 302,962,261 new shares of the Company in connection with the conversion of the subordinated convertible loans described above, and 374,272,579 existing shares of the Company then held by such San Faustín subsidiary that were cancelled upon receipt by the Company. In connection with the over-allotment option granted to the underwriters of the Company s initial public offering, on March 1, 2006, the Company issued 22,981,360 new shares. Upon consummation of the transactions discussed above, as of December 31, 2006, the capital of the Company was

increased to USD2,004.7 million, represented by 2,004,743,442 shares, each having a nominal value of USD1.00. For fiscal years 2009, 2008, 2007, 2006 and 2005, the weighted average of shares outstanding totaled 2,004,743,442, 2,004,743,442, 2,004,743,442, 1,936,833,060 and 1,209,476,609 shares, respectively.

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In thousands of U.S. dollars	At December 31,				
(except number of shares and per share data)	**2009**	**2008**	**2007**	**2006**	**2005** (1)
Selected consolidated balance sheet data					
Non-current assets	5,250,135	5,491,408	8,553,123	6,029,383	6,029,823
Property, plant and equipment, net	4,040,415	4,212,313	6,776,630	5,335,030	5,377,831
Other non-current assets (2)	1,209,720	1,279,095	1,776,493	694,353	651,992
Current assets	5,042,538	5,179,839	5,095,959	2,628,870	2,518,958
Cash and cash equivalents	2,095,798	1,065,552	1,125,830	643,291	765,506
Other current assets	2,937,494	4,108,954	3,200,987	1,978,537	1,750,292
Non-current assets classified as held for sale	9,246	5,333	769,142	7,042	3,160