

Ternium S.A.  
Form 6-K  
May 07, 2007  
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## FORM 6 - K

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of  
the Securities Exchange Act of 1934

As of 5/4/2007

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## Ternium S.A.

(Translation of Registrant's name into English)

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Ternium S.A.

46a, Avenue John F. Kennedy

L-1855 Luxembourg

(Address of principal executive offices)

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

Form 20-F  Form 40-F

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

Yes  No

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

**Not applicable**

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

This report contains Ternium's notice of Annual General Meeting of Shareholders, the Shareholder Meeting Brochure and Proxy Statement and Ternium's 2006 Annual Report.

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May 4, 2007

Dear Ternium Shareholders and ADR holders,

I am pleased to invite you to attend the Annual General Meeting of Shareholders of TERNIUM S.A., société anonyme holding, to be held on Wednesday, June 6, 2007, at the Company's registered office in Luxembourg, located at 46A, avenue John F. Kennedy, L-1855 Luxembourg. The Meeting will begin promptly at 2:30 p.m., local time.

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

The Notice and Agenda for the meeting, the Shareholder Meeting Brochure and Proxy Statement and the Company's 2006 annual report (which includes the Company's financial statements for the year ended December 31, 2006, in their consolidated and unconsolidated form, and the board of directors' and the independent auditors' reports), are available free of charge at the Company's registered office in Luxembourg and on our website at <http://www.ternium.com/en/investor/>. They may also be obtained upon request, by calling +352 26 68 31 52 or +1 (888) 269 2377 (this number is toll free if you call from the United States).

Even if you only own a few shares or ADRs, I hope that you will exercise your right to vote at the meeting. You can vote your shares personally or by proxy. If you choose to vote by proxy, you may use the enclosed dedicated proxy form. If you are a holder of ADRs, please see the letter from The Bank of New York, the depositary bank, or your broker/custodian, for instructions on how to exercise your vote by proxy.

Yours sincerely,

Paolo Rocca

Chairman

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***THE BANK OF NEW YORK***

101 Barclay Street

New York, NY 10286

**Re: TERNIUM S.A.**

To: Registered Holders of American Depositary Receipts ( ADRs )  
for Shares of Common Stock, US\$1 Nominal Value ( Common Stock ), of

Ternium S.A. (the Company ):

The Company has announced that its Annual General Meeting of Shareholders will be held on June 6, 2007, at 2:30 p.m. C.E.T., the meeting will take place at the Company's registered office in Luxembourg, located at 46A, avenue John F. Kennedy L-1855 Luxembourg. **A copy of the Company's Notice of Annual General Meeting of Shareholders, which includes the agenda for such meeting, will be made available beginning on May 4, 2007, on the Company's website at <http://www.ternium.com/en/investor/>.**

The enclosed dedicated proxy form is provided to allow the shares represented by your ADRs to be voted at the meeting. The Notice of Annual General Meeting of Shareholders, the Shareholder Meeting Brochure and Proxy Statement and the Company's 2006 annual report (which includes the Company's financial statements for the year ended December 31, 2006 in their consolidated and unconsolidated form, together with the board of directors and independent auditors reports), will be made available on the Company's website beginning on May 4, 2007, at <http://www.ternium.com/en/investor/> and may also be obtained upon request at +352 26 68 31 52 or +1-888-269-2377 (this number is toll free if you call from the United States). They will also be made available free of charge beginning on May 4, 2007, at the Company's registered office in Luxembourg.

Each holder of ADRs as of May 1, 2007 is entitled to instruct The Bank of New York, as Depositary (the Depositary ), as to the exercise of the voting rights pertaining to the Company's shares of Common Stock represented by such holder's ADRs. Eligible ADR holders who desire to vote the shares represented by their ADRs at the Meeting must complete, date and sign a proxy form and return it to The Bank of New York, 101 Barclay Street, New York, NY 10286, U.S.A. Attention: American Depositary Receipt Administration. If the Depositary receives properly completed instructions by **3:00 p.m., New York City time, on June 1, 2007**, then it shall vote or cause to be voted the shares underlying such ADRs in the manner prescribed by the instructions. However, if by 3:00 p.m., New York time, on June 1, 2007, the Depositary receives no instructions from the holder of ADRs, 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 discretionary proxy to a person designated by the Company with respect to that amount of shares underlying such ADRs to vote that amount of shares underlying such ADRs in favor of any proposals or recommendations of the Company (including any recommendation by the Company to vote that amount of shares underlying such ADRs on any issue in accordance with the majority shareholders' vote on that issue) as determined by the appointed proxy.** No instruction shall be deemed given and no discretionary proxy shall be given with respect to any matter as to which the Company informs the Depositary that (x) it does not wish such proxy given, (y) substantial opposition exists, or (z) the matter materially and adversely affects the rights of the holders of ADRs.

Any holder of ADRs is entitled to revoke or revise any instructions previously given to the Depositary by filing with the Depositary a written revocation or duly executed instructions bearing a later date at any time prior to **3:00 p.m., New York time, on June 1, 2007**. No instructions, revocations or revisions thereof will be accepted by the Depositary after that time.

In order to avoid the possibility of double vote, **the Company's ADR books will be closed for cancellations from May 1, 2007, until June 1, 2007.**

**IF YOU WANT YOUR VOTE TO BE COUNTED, THE DEPOSITARY MUST RECEIVE YOUR**

**VOTING INSTRUCTIONS PRIOR TO 3:00 P.M. (NEW YORK CITY TIME) ON JUNE 1, 2007.**

**THE BANK OF NEW YORK**

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*Depositary*

May 1, 2007

New York, New York

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**TERNIUM S.A.**

**Société Anonyme Holding**

**46A, Avenue John F. Kennedy**

**L-1855, Luxembourg**

**RCS Luxembourg B 98 668**

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**Notice of the Annual General Meeting of Shareholders**

**to be held on June 6, 2007 at 2:30 p.m. C.E.T.**

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Notice is hereby given to holders of shares of TERNIUM S.A. (the Company) that the Annual General Meeting of Shareholders of the Company will be held on June 6, 2007, at 2:30 p.m. (local time). The meeting will be held at the Company's registered office in Luxembourg, located at 46A, avenue John F. Kennedy L-1855 Luxembourg. The items listed below will be submitted to the vote of the Shareholders.

**AGENDA**

1. Consideration of the Board of Directors' and independent auditor's reports on the consolidated financial statements. Approval of the Company's consolidated financial statements as of, and for the fiscal year ended, December 31, 2006.
2. Consideration of the Board of Directors' and independent auditor's reports on the unconsolidated annual accounts. Approval of the Company's unconsolidated annual accounts as of, and for the fiscal year ended, December 31, 2006.
3. Allocation of results and approval of dividend payment.
4. Discharge to the members of the Board of Directors for the exercise of their mandate throughout the year ended December 31, 2006.
5. Election of the Board of Directors' members.
6. Authorization to the Board of Directors to delegate the day-to-day management of the Company's business to one or more of its members.
7. Authorization to the Board of Directors to appoint one or more of its members as the Company's attorney-in-fact.
8. Board of Directors' compensation.

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9. Appointment of the independent auditors and approval of their fees.

Pursuant to the Company's Articles of Association, resolutions at the Annual General Meeting of Shareholders will be passed by simple majority vote, irrespective of the number of shares present or represented.

### **PROCEDURES FOR ATTENDING THE MEETING**

Any shareholder who holds one or more share(s) of the Company on June 1, 2007 (the Record Date) shall be admitted to the Annual General Meeting of Shareholders of the Company. Holders of shares as of June 1, 2007 may also vote by proxy.

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

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Holders of American Depositary Receipts (the "ADRs") as of May 1, 2007 are entitled to instruct The Bank of New York, as Depositary, as to the exercise of the voting rights pertaining to the Company's shares represented by such holder's ADRs. Eligible holders of ADRs who desire to vote the shares represented by their ADRs at the Meeting must complete, date and sign a proxy form and return it to The Bank of New York, 101 Barclay Street, New York, NY 10286, U.S.A. Attention: American Depositary Receipt Administration, by **3:00 p.m., New York City time, on June 1, 2007**.

The Shareholder Meeting Brochure and Proxy Statement (which contains reports on each item of the agenda for the meeting, and further details on voting procedures) and the forms furnished by the Company in connection with the meeting, may be obtained from the Company's registered office located at 46A, avenue John F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg, between 10:00 a.m. and 5:00 p.m. (local time).

Copies of the Shareholder Meeting Brochure and Proxy Statement and the Company's 2006 annual report (which includes the Company's financial statements for the year ended December 31, 2006, in their consolidated and unconsolidated form, and the board of directors' and the independent auditors' reports) are available on our website at <http://www.ternium.com/en/investor/> and may also be obtained upon request, by calling +352 26 68 31 52 or +1 (888) 269 2377 (this number is toll free if you call from the United States). These documents are also available free of charge at the Company's registered office in Luxembourg.

Raúl H. Darderes

*Secretary to the Board of Directors*

May 4, 2007

Luxembourg

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**TERNIUM S.A.**

**Société Anonyme Holding**

**46A, Avenue John F. Kennedy**

**L-1855, Luxembourg**

**RCS Luxembourg B 98 668**

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**SHAREHOLDER MEETING BROCHURE AND PROXY STATEMENT**

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**Annual General Meeting of Shareholders**

**to be held on June 6, 2007 at 2:30 p.m. C.E.T.**

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This Shareholder Meeting Brochure and Proxy Statement is furnished by TERNIUM S.A. (the Company) in connection with the Annual General Meeting of Shareholders of the Company (the Meeting) to be held on June 6, 2007, starting at 2:30 p.m., C.E.T., for the purposes set forth in the accompanying Notice of the Annual General Meeting of Shareholders (the Notice), at the Company's registered office in Luxembourg, located at 46A, avenue John F. Kennedy L-1855 Luxembourg.

As of May 1, 2007, there were issued and outstanding 2,004,743,442 shares of common stock, US\$1 nominal value each, of the Company (the Common Stock), including shares of Common Stock (the Deposited Shares) deposited with The Bank of New York (the Depository) under the Deposit Agreement, dated as of January 31, 2006 (the Deposit Agreement), among the Company, the Depository and owners and beneficial owners from time to time of American Depositary Receipts (the ADRs) issued thereunder. The Deposited Shares are represented by American Depositary Shares, which are evidenced by the ADRs (one ADR equals ten Deposited Shares).

Each holder of shares of Common Stock is entitled to one vote per share.

Holders of shares as of June 1, 2007 may also vote by proxy.

Each holder of ADRs as of May 1, 2007 is entitled to instruct the Depository as to the exercise of the voting rights pertaining to the Company's shares of Common Stock represented by such holder's ADRs. Eligible holders of ADRs who desire to vote the shares represented by their ADRs at the Meeting must complete, date and sign a proxy form and return it to The Bank of New York, 101 Barclay Street, New York, NY 10286, U.S.A. Attention: American Depositary Receipt Administration, by **3:00 p.m., New York City time, on June 1, 2007**. If the Depository receives properly completed instructions by **3:00 p.m., New York City time, on June 1, 2007**, then it shall endeavor, insofar as practicable, to vote or cause to be voted the shares underlying such ADRs in the manner prescribed by the instructions. However, if by **3:00 p.m., New York time, on June 1, 2007**, the Depository receives no instructions from the holder of ADRs, or the instructions are not in proper form, then the Depository shall deem such holder to have instructed the Depository to give, and the Depository shall give, a discretionary proxy to a person designated by the Company with respect to that amount of shares underlying such ADRs to vote that amount of shares underlying such ADRs in favor of any proposals or recommendations of the Company (including any recommendation by the Company to vote that amount of shares underlying such ADRs on any issue in accordance with the majority shareholders' vote on that issue) as determined by the appointed proxy. No instruction shall be deemed given and no discretionary proxy shall be given with respect to any matter as to which the Company informs the Depository that (x) it does not wish such proxy given, (y) substantial opposition exists, or (z) the matter materially and adversely affects the rights of the holders of ADRs. Any holder of ADRs is entitled to revoke or revise any instructions previously given to the Depository by filing with the Depository a written revocation or duly executed instructions bearing a later date at any time prior to **3:00 p.m., New York time, on June 1, 2007**. No instructions, revocations or revisions thereof will be accepted by the Depository after that time. In order to avoid the possibility of double vote, the Company's ADR books will be closed for cancellations from May 1, 2007 until June 1, 2007.

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Holders of ADRs maintaining non-certificated positions must follow voting instructions outlined by their broker or custodian bank.

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Holders of ADRs traded in the New York stock exchange need not have their ADRs blocked for trading.

The meeting will appoint a chairperson *pro tempore* to preside over the meeting. The chairperson *pro tempore* will have broad authority to conduct the meeting in an orderly and timely manner and to establish rules for shareholders who wish to address the meeting; the chairperson may exercise broad discretion in recognizing shareholders who wish to speak and in determining the extent of discussion on each item of the agenda.

Pursuant to the Company's Articles of Association, resolutions at the Annual General Meeting of Shareholders will be passed by majority vote, irrespective of the number of shares present or represented.

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

**1. CONSIDERATION OF THE BOARD OF DIRECTORS AND INDEPENDENT AUDITOR'S REPORTS ON THE CONSOLIDATED FINANCIAL STATEMENTS. APPROVAL OF THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS AS OF, AND FOR THE FISCAL YEAR ENDED, DECEMBER 31, 2006**

The Board of Directors recommends a vote FOR approval of the Company's consolidated financial statements for the fiscal year ended December 31, 2006, after due consideration of the reports from each of the Board of Directors and Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers, on such consolidated financial statements. The consolidated balance sheet of the Company and its subsidiaries at December 31, 2006 and the related consolidated statement of income, consolidated statement of changes in shareholders' equity, consolidated cash flow statement and notes to the consolidated financial statements, the report from Price Waterhouse & Co. S.R.L. on such consolidated financial statements and management's discussion and analysis on the Company's results of operations and financial condition are included in the Company's 2006 annual report, a copy of which is available on our website at <http://www.ternium.com/en/investor/> and may also be obtained upon request, by calling +352 26 68 31 52 or +1 (888) 269 2377 (this number is toll free if you call from the United States). Copies of the Company's 2006 annual report are also available free of charge at the Company's registered office in Luxembourg.

**2. CONSIDERATION OF THE BOARD OF DIRECTORS' AND INDEPENDENT AUDITOR'S REPORTS ON THE UNCONSOLIDATED ANNUAL ACCOUNTS. APPROVAL OF THE COMPANY'S UNCONSOLIDATED ANNUAL ACCOUNTS AS OF, AND FOR THE FISCAL YEAR ENDED, DECEMBER 31, 2006**

The Board of Directors recommends a vote FOR approval of the Company's unconsolidated annual accounts as of, and for the fiscal year ended, December 31, 2006, after due consideration of the report from each of the Board of Directors and PricewaterhouseCoopers S.à.r.l., Réviseur d'entreprises, member firm of PricewaterhouseCoopers, on such unconsolidated annual accounts. These documents are included in the Company's 2006 annual report, a copy of which is available on our website at <http://www.ternium.com/en/investor/> and may also be obtained upon request, by calling +352 26 68 31 52 or +1 (888) 269 2377 (this number is toll free if you call from the United States). Copies of the Company's 2006 annual report are also available free of charge at the Company's registered office in Luxembourg.

**3. ALLOCATION OF RESULTS AND APPROVAL OF DIVIDEND PAYMENT**

The Board of Directors recommends a vote FOR approval of a dividend payable in U.S. dollars on June 12, 2007 in the amount of US\$ 0.05 per share currently issued and outstanding on June 7, 2007. Since each ADR is equivalent to ten shares, this dividend payment of US\$ 0.05 per share is equivalent to US\$ 0.50 per ADR. All of the aggregate amount of US\$ 100,237,172.10 to be distributed as dividends are to be paid from the Company's distributable reserve account. The profits of the year ended December 31, 2006 of US\$ 392,230,475 will be allocated to the Company's retained earnings account.

Upon approval of this resolution, it is proposed that the Board of Directors determine, in its discretion, the terms and conditions of the dividend payment.

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**4. DISCHARGE TO THE MEMBERS OF THE BOARD OF DIRECTORS FOR THE EXERCISE OF THEIR MANDATE THROUGHOUT THE YEAR ENDED DECEMBER 31, 2006**

In accordance with applicable Luxembourg law and regulations, it is proposed that, upon approval of the Company's accounts for the year ended December 31, 2006, the members of the Board of Directors be discharged from any liability in connection with the management of the Company's affairs during such year.

**5. ELECTION OF THE BOARD OF DIRECTORS MEMBERS.**

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

Under the Company's Articles of Association and applicable U.S. laws and regulations, effective on February 1, 2006, the Company is required to have an audit committee comprised solely of directors who are independent.

The present Board of Directors of the Company consists of eleven Directors. Three members of the Board of Directors (Messrs. Ubaldo Aguirre, Adrian Lajous and Gerardo Sepulveda) qualify as independent members under the Company's Articles of Association and applicable law.

It is proposed that (i) Messrs Ubaldo Aguirre, Roberto Bonatti, Rinaldo Campos Soares, Carlos Condorelli, Adrian Lajous, Bertoldo Machado Veiga, Bruno Marchettini, Gianfelice Mario Rocca, Paolo Rocca and Daniel Agustin Novegil be re-elected as members of the Board of Directors and (ii) Mr. Pedro Pablo Kuczynski be appointed as a member of the Board of Directors. If appointed, Mr. Kuczynski would qualify as an independent member of the Board of Directors under the Company's Articles of Association and applicable law.

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

- 1) Mr. Ubaldo Aguirre\*. Mr. Aguirre is a managing director of Aguirre, Gonzalez and Marx S.A., and Argentine investment banking firm, and also serves as a member of the board of directors of Juan Minetti S.A., a subsidiary of Holcim, the Swiss cement producer. Mr. Aguirre, aged 58, is an Argentine citizen
- 2) Mr. Roberto Bonatti. Mr. Bonatti is president of San Faustin N.V. ( San Faustin ), the Company's controlling shareholder, president of Techint Compañía Técnica Internacional S.A.C.I. of Argentina, and Tecpetrol S.A. and a director of Tenaris S.A. ( Tenaris ), Siderca S.A.I.C. and Siderar S.A.I.C. ( Siderar ). Mr. Bonatti, aged 57, is an Italian citizen.
- 3) Mr. Rinaldo Campos Soares. Mr. Campos Soares is president and a member of the board of directors of Usinas Siderurgicas de Minas Gerais S/A USIMINAS, president of Cosipa, chairman of the board of directors of Rio Negro Comércio e Indústria de Aço, Usiparts Sistemas Automotivos, president of Usiminas Mecânica, president of Fundação São Francisco Xavier and vice president of the Brazilian Steel Institute. Mr. Campos Soares, aged 68, is a Brazilian citizen.
- 4) Mr. Carlos Condorelli. Mr. Condorelli is chief financial officer of Tenaris, and vice president and member of the board of directors of each of Tenaris Financial Services S.A. and Tenaris Global Services S.A. Mr. Condorelli, aged 56, is an Argentine citizen.
- 5) Mr. Pedro Pablo Kuczynski\*. Mr. Kuczynski has been Prime Minister of Peru during 2005 and 2006. He previously served as Minister of Economy and Finance from 2001 until 2005. He also served as Minister of Energy and Mines from 1980 until 1982. Until 2001, Mr. Kuczynski served as president of a private equity

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firm he founded in 1992 after spending ten years as Chairman of First Boston International (today Credit Suisse) in New York. Since 2007, he is Senior Advisor to the Rohatyn Group, a firm specializing in emerging markets. From 1977 until 1980, he ran a bauxite mining company affiliated with Alcoa. He began his career at the World Bank in 1961 where he held several positions, including head of the World Bank's Policy Planning Division, Chief Economist for Latin America and Chief Economist of the International Finance Corporation. He was born in Peru in 1938. Mr. Kuczynski was educated in Peru and at Oxford and Princeton. Mr. Kuczynski, aged 68, is a U.S. and Peruvian national.

6) Mr. Adrian Lajous\*. Mr. Lajous is senior energy advisor to McKinsey & Company, chairman of the Oxford Institute for Energy Studies, president of Petrométrica, S.C. and non-executive director of Schlumberger, Ltd. Mr. Lajous, aged 63, is a Mexican citizen.

7) Mr. Bertoldo Machado Veiga. Mr. Machado Veiga is chairman of the board of directors of Usinas Siderurgicas de Minas Gerais S/A USIMINAS and head of its legal department, and a director of Fasal S/A Comércio e Indústria de Produtos Siderúrgicos. Mr. Machado Veiga, aged 64, is a Brazilian citizen.

8) Mr. Bruno Marchettini. Mr. Marchettini is senior advisor in technological matters for the Techint Group. Mr. Marchettini has retired from executive positions and is presently engaged as a consultant by Siderar. Mr. Marchettini is a director of San Faustin and Tenaris. Mr. Marchettini, aged 65, is an Italian citizen.

9) Mr. Gianfelice Mario Rocca. Mr. Rocca is chairman of the board of directors of San Faustin, a director of I.I.I. Industrial Investments Inc., Tenaris, Dalmine S.p.A. and Tubos de Acero de México, S.A., president of the Humanitas Group and president of the board of directors of Techint Compagnia Tecnica Internazionale S.p.A. and Techint S.A. de C.V. In addition, he sits on the board of directors or executive committees of several companies, including Sirti S.p.A., Ras, RCS Quotidiani, Fastweb and Buzzi Unicem. He is Vice President of Confindustria, the leading association of Italian industrialists. He is a member of the European Advisory Board of the Harvard Business School, the Trilateral Commission. Mr. Gianfelice Rocca graduated in Physics cum laude at the University of Milan and holds a postgraduate degree from Harvard Business School. Mr. Rocca, aged 59, is an Italian citizen.

10) Mr. Paolo Rocca. Mr. Rocca has served as our chairman since 2005. He is also chairman and chief executive officer of Tenaris, director and vice-president of San Faustin and director of Techint Financial Corporation N.V. Mr. Rocca currently serves as chairman of Tubos de Acero de México S.A. and Dalmine S.p.A., and vice-president of Confab Industrial S.A. and honorary president of the Board of Directors of Siderar. Mr. Rocca is member of the Executive Committee of the IISI (International Iron and Steel Institute) and member of the International Advisory Committee of the NYSE (New York Stock Exchange). Mr. Rocca, aged 54, is an Italian citizen.

11) Mr. Daniel Agustin Novegil. Mr. Novegil has served as director and chief executive officer of the Company since 2005. Mr. Novegil joined Propulsora Siderurgica in 1978 and was appointed as its general director in 1991. In 1993, following the merger of the privatized company Somisa with Propulsora, he was appointed managing director of Siderar. In 1998, after the acquisition of Sidor, Mr. Novegil was appointed chairman and chief executive officer of Sidor. In March 2003, Mr. Novegil was designated executive vice-president of the Techint Flat and Long Steel Division, with executive responsibilities over Siderar and Sidor. He became president of Siderar in May 2005. Mr. Novegil, aged 54, is an Argentine citizen.

Each elected director will hold office until the next annual general meeting of shareholders. Under the current Company's Articles of Association, such meeting is required to be held on June 4, 2008.

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\* Independent directors

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

**6. AUTHORIZATION TO THE BOARD OF DIRECTORS TO DELEGATE THE DAY-TO-DAY MANAGEMENT OF THE COMPANY'S BUSINESS TO ONE OR MORE OF ITS MEMBERS**

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

**7. AUTHORIZATION TO THE BOARD OF DIRECTORS TO APPOINT ONE OR MORE OF ITS MEMBERS AS THE COMPANY'S ATTORNEY-IN-FACT**

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

**8. BOARD OF DIRECTORS' COMPENSATION.**

It is proposed that each of the Board of Directors' members in office receive an amount of US\$ 70,000 as compensation for their services during the current fiscal year. It is further proposed that the Chairman of the Audit Committee receive an additional fee of US\$ 60,000 and that the other Directors who are members of such Committee receive an additional fee of US\$ 50,000.

**9. APPOINTMENT OF THE INDEPENDENT AUDITORS AND APPROVAL OF THEIR FEES**

Based on the recommendation from the Company's Audit Committee, the Board of Directors recommends a vote FOR the appointment of PricewaterhouseCoopers (acting, in connection with the Company's annual accounts required under Luxembourg law, through PricewaterhouseCoopers S.à.r.l., Réviseur d'entreprises, and, in connection with the Company's annual and interim financial statements required under the laws of other relevant jurisdictions, through Price Waterhouse & Co. S.R.L.) as the Company's independent auditors for the fiscal year ending December 31, 2007, to be engaged until the next annual general meeting that will be convened to decide on the 2007 accounts.

In addition, the Board of Directors recommends a vote FOR approval of an amount up to US\$ 3,255,698 payable to the independent auditors as fees for services to be rendered during the fiscal year ending December 31, 2007, such fees to cover the audit of the Company and its subsidiaries, other audit related services and other services rendered by the independent auditors. The Board also recommends that the Audit Committee of the Board of Directors be authorized to increase the independent auditors' fees whenever it would conclude that circumstances would merit any such change.

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The Company anticipates that the next Annual General Meeting of Shareholders will be held on June 4, 2008. A holder of shares who intends to present a proposal to be considered at the next Annual General Meeting of Shareholders must submit the proposal in writing to the Company at the registered office of the Company, located at 46A, avenue John F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg not later than 4:00 P.M. (local time) on February 20, 2008, in order for such proposal to be considered for inclusion on the agenda for the 2008 annual general meeting of shareholders.

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PricewaterhouseCoopers are the Company's independent auditors. A representative of the independent auditors will be present at the Meetings to respond to questions.

Raúl H. Darderes

*Secretary to the Board of Directors*

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**Ternium**

**Annual Report 2006**

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**Company Profile**

Ternium is one of the leading steel companies in the Americas. We manufacture and process a broad spectrum of value-added steel products, including tinplate, galvanized and electro-galvanized sheets, pre-painted sheets, welded pipes, hot rolled pickled and annealed and cold rolled steel, as well as slit and cut-to-length offerings through our service centers. We also produce long steel products such as bars and wire rod.

Our customers range from large global companies to small enterprises operating in the construction, home appliances, capital goods, containers, food and automotive industries. We aim to build close relationships with our customers and recognize that our success is closely linked with theirs.

With a deep industrial culture, Ternium supports its operations with 18,300 direct employees. Our integrated manufacturing facilities, which produced nearly 10 million tons of crude steel in 2006, are located in Mexico, Argentina and Venezuela, providing us with a strong position from which to serve our core markets throughout the Americas.

Ternium's production costs are among the lowest in the industry as a result of our favorable access to energy and proximity to iron ore sources, which is further enhanced by our proprietary mines in Mexico.

We are committed to being responsible and active members of the communities in which we operate. We are committed to investing in them and we work hard to share our success with our neighbors.

**Table of Contents****Operating and Financial Highlights**

|   | 2006        | 2005        |
|---|-------------|-------------|
| <b>SALES VOLUME (thousand tons)</b>   |             |             |
| Flat products   | 6,861.4     | 5,382.6     |
| Long products   | 2,173.7     | 1,217.7     |
| Total flat and long products  | 9,035.1     | 6,600.3     |
| <b>FINANCIAL INDICATORS (US\$ millions)</b>                                       |             |             |
| Net sales   | 6,569.0     | 4,447.7     |
| Operating income  | 1,636.6     | 1,392.2     |
| EBITDA <sup>(1)</sup>   | 2,074.3     | 1,762.9     |
| Income before income tax expense  | 1,258.3     | 1,291.3     |
| Net income attributable to:   |             |             |
| Equity holders of the Company   | 795.4       | 704.4       |
| Minority interest   | 200.5       | 368.4       |
| Net income for the year   | 996.0       | 1,072.8     |
| Free cash flow <sup>(2)</sup>   | 839.2       | 1,017.5     |
| Capital expenditures  | 405.8       | 244.9       |
| <b>BALANCE SHEET (US\$ millions)</b>  |             |             |
| Total assets  | 8,770.5     | 8,660.0     |
| Total financial debt  | 1,057.1     | 2,916.3     |
| Net financial debt  | 413.7       | 2,150.7     |
| Total liabilities   | 3,283.4     | 5,084.1     |
| Capital and reserves attributable to the company's equity holders                 | 3,757.6     | 1,842.5     |
| Minority interest   | 1,729.6     | 1,733.5     |
| <b>STOCK DATA (US\$ per share / ADS)</b>  |             |             |
| Basic earnings per share  | 0.41        | 0.58        |
| Basic earnings per ADS <sup>(3)</sup>   | 4.11        | 5.82        |
| Weighted average number of shares outstanding <sup>(4)</sup><br>(thousand shares) | 1,936,833.1 | 1,209,476.6 |
| DIRECT EMPLOYEES <sup>(5)</sup>   | 18,257      | 18,283      |
| OUTSOURCED PERSONNEL  | 3,997       | 4,733       |

Note: based on consolidated financial data. The combined consolidated financial statements for the year 2005 combine and consolidate Ternium Siderar, Ylopa and Ternium International, together with Amazonia since February 2005 and with Ternium Hylsa since August 2005.

- (1) EBITDA equals operating income of US\$1.6 billion and US\$1.4 billion in 2006 and 2005, respectively, plus depreciation and amortization of US\$424.5 million and US\$316.4 million in 2006 and 2005, respectively, and other non-cash items of US\$13.3 million and US\$54.3 million in 2006 and 2005, respectively (which related to the closure of certain facilities).
- (2) Free cash flow equals net cash provided by operating activities of US\$1.2 billion and US\$1.3 billion in 2006 and 2005, respectively, less capital expenditures of US\$0.4 billion and US\$0.2 billion in 2006 and 2005, respectively.
- (3) Each ADS represents 10 shares of Ternium common stock.
- (4) Shares outstanding were 2,004,743,442 and 1,396,551,887 as of December 31, 2006 and 2005, respectively.
- (5) During 2006, Ternium successfully streamlined staffing throughout its organization. Previously outsourced personnel became direct employees of the Company, while the aggregate number of direct employees and outsourced personnel decreased compared to 2005 levels.

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### **Letter to Shareholders**

Dear Shareholder,

Last year was Ternium's first year as a publicly listed company following the completion of our initial public offering in February. It was a year in which our focus was very much on consolidating the company through integration and the fostering of a common industrial culture throughout the enterprise. Ternium, with production of 9.7 million tons of crude steel and 9.2 million tons of finished products, is one of America's leading steel producers and, with an EBITDA margin of 32% on net sales, it is one of the most competitive steel producers anywhere in the world.

Our strong regional positioning in Latin America, with its growing markets, and privileged position in the vast North American market, the destination of 42% of our sales, provides us abundant opportunities for growth. We will continue to build Ternium, investing in our industrial facilities and processes and in human resources. We are strengthening our processes to integrate our operations more closely with those of our customers and to create further value by strengthening their competitiveness. At the same time, we are working with the local communities where we have our roots to contribute to their sustainable development.

Global steel consumption is growing strongly, with a compound annual growth rate over the past five years of 8.1%, led by China, which now represents 32% of total global steel consumption. Steel consumption in Latin America is also growing strongly where the compound annual growth rate over the past five years has been 7.1%, or twice the level of regional GDP growth. With regional policies favoring industrialization, this strong growth in regional steel consumption should continue.

The successful integration of the former Hylsamex operations has opened significant opportunities for Ternium in North America. Productivity at our plants in Mexico has risen sharply in the eighteen months since the acquisition. With imports accounting for as much as one-third of Mexican steel consumption and with Monterrey's location close to southern U.S. markets, we believe that there will be many chances for Ternium's industrial model to grow and prosper.

The financial results of Ternium's first year as a publicly listed company reflect both the strength of our industrial positioning and the ongoing growth in our markets. Operating income amounted to US\$1.6 billion and net income to US\$1.0 billion on sales of US\$6.6 billion. Capital expenditures in our industrial system amounted to US\$405.8 million. The debt taken on has now been largely paid down to leave Ternium with a strong balance sheet ready to take advantage of opportunities for strategic growth. Earnings per ADS amounted to US\$4.11 and we propose to distribute a dividend of US\$0.50 per ADS to shareholders in June following these results.

In closing, I would like to express my thanks to our dedicated employees for their efforts in making possible all that we have accomplished during the year as well as to our customers, suppliers and shareholders for their continued support and confidence in Ternium.

Sincerely,

Paolo Rocca

Chairman

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**Business Review**

**Market Background and Outlook**

In 2006, the global steel market continued to expand at a rapid pace, fueled by the strong performance of the world economy.

The Mexican economy performed well during the year. Growth rates picked up, aided by the good performance of the construction and industrial sectors. The U.S. economy also had a positive performance in 2006. GDP is estimated to have grown at a slightly higher rate than in 2005, although growth was uneven across various sectors of the economy, with some experiencing less dynamism than others.

In 2006, South America's economies continued to enjoy strong growth, characterized by good pricing levels of commodities, healthy public finances, stable local currencies and relatively low local interest rates. The main economies in the region showed robust growth for the fourth year in a row, aided by the good performance of the construction and industrial sectors.

GDP performance Latin America\*

GDP performance United States\*

Apparent steel use in the North America Region is estimated to have grown by about 11% year-over-year in 2006. The recovery in apparent steel use was particularly notable in the U.S., as consumption in 2005 was affected by an inventory correction. The Mexican steel market, which ranks as the third largest in the Americas, is estimated to have grown at a rate of about 6% in the last four years, well above the rate of the U.S. market in the same period. A de-stocking process took place in the distribution sectors in the U.S. and Mexico during the fourth quarter of 2006, due to slower economic growth in the period. The steel market stabilized during the first quarter of 2007.

Apparent Steel Use Mexico\*

Apparent Steel Use United States\*

Steel consuming sectors such as construction, automotive and capital equipment showed mixed performance during 2006. In Mexico, all sectors continued expanding and at higher growth rates, particularly automotive. In the U.S., on the other hand, activity in the automotive sector softened in 2006. Overall construction activity was good, helped by a strong year in non-residential construction, which offset a lower level of activity in residential construction.

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\* Source: IISI.

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Construction Mexico\*

Construction United States\*

Finished steel demand continued to grow at a strong pace in our core markets within South and Central America. Apparent steel use is estimated to have grown 13% year-over-year in 2006, slightly above the estimated average for the 2003-2006 period, which reflects the continued strong performance of the Argentine and Venezuelan economies in the current cycle.

Apparent Steel Use South and Central America ex Brazil\*

The construction, automotive and capital equipment sectors in the South and Central America Region had another strong year of growth in 2006. All sectors continued expanding and most of them experienced higher growth rates. In Argentina, the key steel consuming construction sector grew 15% year-over-year in 2006, while the automotive and home appliance sectors grew 35% and 15%, respectively, during the year. Construction activity in Venezuela grew for the third year in a row, by 39% compared to 2005.

Construction Argentina\*

Construction Venezuela\*

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The outlook for 2007 in the North America Region is mixed. GDP growth is expected to be slightly lower compared to the rate achieved in 2006. Apparent steel use in Mexico is expected to grow again in 2007, though at lower rates compared to 2006. The steel market in the U.S. is expected to shrink slightly compared to the previous year, mainly as a result of further de-stocking in the distribution sector.

In the South and Central America Region, the outlook for 2007 is positive. The economies of

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\* Source: IISI.

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the region should continue to enjoy a strong environment for commodities and favorable financial conditions. GDP performance is expected to be slightly lower compared to growth in 2006, as the main economies are likely to revert to more normal long-term growth trends. In this context, apparent steel use is expected to post another year of growth in the region, though at lower rates compared to 2006.

### **Summary of Results**

Driven by healthy pricing levels and solid demand in its core markets, Ternium achieved significant shipment growth in 2006. Growth was good in the North America Region and particularly strong in the South and Central America Region, as a result of positive economic performance.

Steel prices in the North America Region in 2006 were less volatile than in prior years. The demand-driven pick up in prices that occurred in the second quarter of 2006 subsided in the fourth quarter of the year. A de-stocking process in the distribution sectors in the U.S. and Mexico in the fourth quarter was caused by slower economic growth and higher imports during the period. Steel prices recovered during the first quarter of 2007. The development of this steel price cycle, which was softer than the one experienced by the industry in mid-2005, reflects the steel sector's ability to adjust to demand conditions following the significant consolidation in steel production capacity.

This environment benefited Ternium in 2006. Our net sales were US\$6.6 billion on shipments of 9.0 million tons. Revenue per ton shipped was US\$698 (including only flat and long products). Operating income was US\$1.6 billion, or 25% of net sales. Net income for the year was US\$1.0 billion, of which US\$0.2 billion is attributable to minority interest.

Ternium achieved a free cash flow (net cash provided by operations less capital expenditures) of US\$0.8 billion in 2006. Furthermore, including the effects of the Company's initial public offering and the conversion of Ternium's subordinated convertible loans into common shares of the Company, both concluded in early 2006, Ternium's debt was reduced by US\$1.8 billion in the year. Accordingly, Ternium achieved renewed financial flexibility to pursue growth opportunities.

For a more detailed analysis of Ternium's financial condition and results of operations, please refer to the Operating and Financial Review section.

### **Business Performance**

Our production facilities are located in Mexico, Argentina and Venezuela. The product range is wide and includes hot rolled coils, cold rolled steel, hot dip and electro-galvanized, tinplate, pre-painted steel, welded pipe and insulated paneling. Most products are tailor-made, either slit or cut-to-length, and subject to other transformations at our service centers. We also manufacture reinforcing bars for the construction sector and wire rod for industrial uses and for the construction market.

During 2006, Ternium developed new steel products for customized applications as part of its strategy to produce value-added products and access new markets while enhancing customer service. These included new steel grades to be used in the production of bumper bearers, chassis, crossbars and suspension springs in the automotive industry, new API steel grades for oil industry applications and special projects and new coated steel grades for use in exposed surfaces of home appliances and for constructive systems.

Ternium also developed corrosive-resistant steel for use in iron ore transport wagons, steel grades for cold rolled galvanized products for roofing applications and high-carbon wire rod for mattress springs, big wires, barbed wires and electric conductors' reinforcement.

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Ternium's support program for small- and medium-sized enterprises (Pro-pyme Program) currently assists more than a hundred of its customers and suppliers servicing the construction sector and a broad spectrum of industrial activities. Ternium provides these companies with financial assistance and professional advice, including quality and industrial programs, market intelligence and counsel regarding unfair competition claims.

Through our Pro-pyme Program, we support the creation of new facilities and the development of new products such as iron ore transport wagons, refractory, liquid steel thermometers, truck trailers, fuel drums, electric panels and packing materials. We also help customers finance new capital equipment to expand their product range and increase and improve their manufacturing capabilities.

### **North America**

Ternium is the leading supplier of flat and long steel products to the Mexican market and, through NAFTA, it has preferential access to the U.S. and Canadian markets. The Mexican steel market is one of the most dynamic and developed in Latin America given its size and growth prospects. Mexico is the market where Ternium has its largest sales growth opportunities.

Mexico's steel demand grew strongly during the first half of 2006, tapering off to moderate levels in the second half of the year. For the full year 2006, the Mexican steel market grew 11% year-over-year to about 17.9 million tons of apparent steel use, supported by increased consumption in the industrial and construction sectors.

Through our facilities in Mexico, we have capitalized on the incremental steel demand by increasing production of hot rolled steel in our hot strip mill #1 by utilizing slabs from other Ternium mills and third parties. This allowed the Company to expand its presence with Mexican steel distributors and profile manufacturers and offset a slight tapering off in the industrial customers segment, which took place during the second half of 2006, mainly in export driven sectors such as automotive and home appliances.

We implemented a company-wide program that increased utilization of all of our product lines, cancelling low-margin, short-run products. As a result, production records were achieved across all production facilities, including the iron ore mines, melt shops, hot and cold rolling mills, coated lines and service centers.

Among the initiatives Ternium launched in 2006 to maintain its competitive position in the North America Region were its acquisition of the remaining 50% stake in Acerex owned by Worthington Industries and its integration of this service center into its Mexican operations. This furthered Ternium's strategy of continuing to incorporate value-added products into its rich product mix. Ternium invested US\$44.6 million to complete the Acerex transaction.

Ternium has rationalized its distribution network in the U.S., focusing operations on the most efficient locations. The Company has also increased its client base in the country, particularly in the south and southwest regions where it enjoys lower lead-times than other steel producers.

Ternium created a Mining division in 2006. Its responsibilities entail securing iron ore supply at competitive costs for Ternium's Mexican operations, increasing iron ore reserves in our mines and commercializing excess availability of the mineral.

During 2006, iron ore exploration activities were carried out in several locations. As a result of such actions, 15 million tons of new concentrates equivalent have been surveyed, of which 6 million tons were certified. In the same period, 6 million tons of concentrate equivalents were deployed. Studies will continue at these locations during 2007 to further increase their potential. Additionally, Ternium is in the process of evaluating alternative mining projects aimed at achieving higher production and shipments of iron ore.

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### **South and Central America**

Ternium is the leading supplier of flat steel products to the Argentine, Paraguayan, Peruvian, Ecuadorian, Colombian and Venezuelan markets. During 2006, all of these markets exhibited high levels of growth in apparent steel use.

Argentina's steel demand grew significantly during 2006, tied primarily to the country's good economic performance, which was mainly driven by solid domestic demand. The Argentine steel market grew 10% to about 4.1 million tons of apparent steel use, supported by increased consumption in the construction and industrial sectors. Of note was growth in the automotive industry, which expanded 34% year-over-year in 2006 and still shows relatively low capacity utilization.

Our aggregate shipments to Chile, Bolivia, Paraguay and Uruguay almost doubled in 2006, as a result of across-the-board strength in demand for steel products. Of note were the high activity levels in Uruguay and Chile, where GDP in 2006 expanded by 6.9% and 4.5%, respectively.

Peru, where apparent steel use was about 1.3 million tons in 2006, also enjoyed strong economic activity in 2006. In Ecuador, apparent steel use surpassed 0.9 million tons in 2006, its third consecutive year of growth and a new record. The Colombian steel market repeated the good performance of previous years, with apparent steel use at about 2.4 million tons, mainly driven by the strong activity in the construction sector.

Steel demand in Venezuela was good as well during 2006. The country's outstanding economic performance in 2006 was aided by a 50% year-over-year boost in government spending. The Venezuelan steel market grew 31% to about 3.2 million tons of apparent steel use, supported by increased consumption in private construction and infrastructure development. Activity in the country's oil industry was also high, allowing Ternium to maintain strong shipment levels to this sector. Of note was the particularly strong activity in large-scale natural gas projects.

The Company seeks ways to add value and enhance customer service as part of its ongoing initiative to maintain its competitive position in the region. With this objective, early in 2006 we completed the acquisition of Acindar's welded steel tubes manufacturing facilities in Argentina for US\$55 million. The acquired assets provide us with 140,000 tons per year of steel tube production capacity.

A union-led work slowdown at Ternium's mill in Venezuela started in September over a dispute concerning employee benefits. This action, together with work stoppages that lasted for two days in September, three days in October and seven days in November, affected production levels at several of the Company's product lines. Shipments were reduced by an estimated 170,000 tons during the fourth quarter of 2006 as a result of these actions. The mill returned to full production on November 8, 2006.

### **Investments**

Ternium's capital expenditures during 2006 reached US\$406 million. The Company's investment program has been diverse, encompassing the prospecting for iron ore reserves, revamping and expanding its metallic and steel producing mills, developing finished product capacity and enhancing the overall mix of value-added products. The addition of Hylsamex enhanced Ternium's growth prospects in North America and presented significant opportunities for operational integration. During 2006, the Company launched several initiatives to capitalize on these opportunities, some of which are expected to begin to bear fruit in 2007.

Ternium's capital expenditures for 2007-2010 are estimated to be US\$1.7 billion, primarily directed at projects to expand, enhance and maintain the Company's facilities. The Company's

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objective is to produce crude steel in locations with favorable access to raw materials and energy, and finished steel close to the locations where we expect the strongest sales growth. We believe this strategy will allow us to meet the increasing demand for steel in our regional markets while also expanding our presence in North America. The additional production required by this approach will be generated mostly from existing spare capacity that requires a low level of investment per added ton.

Ternium's investment plan includes a number of noteworthy projects that are currently in the pipeline, including:

Expansion of hot rolled coil production in Mexico and slab production in Venezuela.

By mid-2007, the hot strip mill #1 in Mexico will expand its processing capacity by about 500,000 tons of slabs per year. Concurrently, the flat steel shop in Venezuela will expand its slabs production capacity by about 500,000 tons per year. These two projects will enable Ternium to increase its penetration of the North American market.

New service center in Central Mexico.

This new facility will add 400,000 tons per year of processing capacity in two stages – the first of which will be completed in 2008 and the second of which will be concluded in 2010. Ternium expects that this new service center will allow it to expand its customer base and replace imported products in Central Mexico, mainly in the high-end industrial segment.

Crude steel and hot rolled coil production expansion in Argentina.

Production capacity at the hot strip mill has recently been expanded by 250,000 tons per year. Ternium plans to further reduce bottlenecks in this facility and scale up its production capacity by an additional 300,000 tons per year in two stages – the first of which will be completed in 2009 and the second of which will be completed in 2011. Additionally, during 2010 the Company intends to complete a crude steel production expansion project in Argentina, with the goal of increasing slab production capacity by about 1.2 million tons per year.

Billet production expansion in Venezuela.

The Company expects to complete the first of a two-stage revamping of its HYL production facilities in Venezuela, which will expand its direct reduced iron or DRI production capacity. The higher supply of metallic charge for the steel shop will permit it to increase its utilization rate by 400,000 tons of billets per year in two stages – the first of which will be completed during 2008 and the second of which will be concluded in 2010.

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### **Our Communities and Environment**

#### **Communities**

Over the years, each Ternium production unit has strengthened its ties to its local community through close collaboration with community leaders and scientific research and education centers.

Ternium offers support to small- and medium-sized companies operating upstream and downstream its value chain, recognizing the importance of their development to the sustainability of the Company's success. As part of this support program (Pro-pyme), many companies have received a wide range of assistance from Ternium, including financial assistance, professional advice and the ability to reach new markets in the Americas and the world.

Ternium also conducts activities and programs aimed at improving the overall quality of life in its local communities. Ternium leads projects and collaborates with public and private organizations in the fields of culture, education and health. We sponsor academic scholarships, as well as the improvement of educational and healthcare facilities, cultural activities and sports programs.

#### **Mexico**

In 2006, through joint actions with Clínica Nova, Ternium was behind several initiatives that promoted health and sports for its employees in the Monterrey area. We also took action to aid the development of the local communities in the region's mining areas.

The Company organized health teams and centers through which primary school students were able to receive medical diagnosis. Ternium remodeled primary schools and organized academies for labor training. We also developed local infrastructure, including new roads and better access to remote towns.

Ternium also sponsored activities to encourage social integration of its employees with the nearby communities. These included a marathon and the opening of sports training schools, at which games were organized in several disciplines and categories.

#### **Argentina**

In 2006, the Company implemented several programs aimed at contributing to the advancement of education, health, arts and culture. Activities included exhibitions on local history and paintings, the promotion and spread of world class artistic and cultural activities, as well as a local city marathon.

The Company also continued to work to strengthen the local technical schools in the country. This endeavor included funding scholarships, providing training for a number of students and teachers, and remodeling three local technical schools. The Company also participated in the complete remodeling of a local hospital.

#### **Venezuela**

In 2006, through Fundación Sidor, the Company funded the diverse needs of local schools and healthcare institutions, including the remodeling and equipping of the intensive care unit of one local hospital. We also funded urban development projects and the construction of new homes for our employees.

Ternium Sidor also promoted local artists, as well as diverse educational activities and concerts. At the same time, it has made contributions to the local symphony orchestra and sponsored activities to encourage social integration and sports among its employees, including marathons and in-company sporting games in several disciplines.

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**Environment, Health & Safety**

During 2006, Ternium established its own unified environmental, safety and occupational health policy. The Company also adopted the International Iron and Steel Institute's (IISI) policy statement and its six principles for excellence in safety and occupational health, as well as the Occupational Safety and Health Administration's (OSHA) 18,000 international standard directives. We actively participate in different governmental and non-governmental forums focused on the environment, health and safety. These forums include the environmental, health and safety commissions and working groups of organizations such as the IISI, the Latin American Iron & Steel Institute (ILAFA) and various national chapters of the World Business Council for Sustainable Development (WBCSD).

Chief among our top management's core responsibilities are prevention, education, workplace intervention and incident and accident analysis. Currently, Ternium is developing a unified environment and safety management information system that will support the implementation and execution of its programs, including those related to environmental and safety risk identification and assessment, events processing, improvement plans, management control and follow up.

Current safety improvement initiatives, together with those implemented in previous years, have allowed Ternium to cut its injuries frequency rate<sup>1</sup> (IFR) to 9.5 in 2006, down from an IFR of 14.6 the previous year. We also have been able to lower our lost time injuries frequency rate<sup>2</sup> (LTIFR) to 4.7 in 2006 from 6.6 the previous year.

Ternium supports the steel industry's ongoing effort to develop innovative solutions to reduce greenhouse gas (GHG) emissions over the life-cycle of steel products. We continually review our operations to maximize the efficient use of energy resources, the re-use of by-products and the appropriate treatment and disposal of wastes, air emissions and waste waters. One noteworthy development on this front in 2006 was the installation of new air emission control equipment at our sinter facilities in Argentina, which includes an electrostatic precipitator and bag house.

Today, steel producers utilize complex energy and gas management systems for optimal energy use in their processes. Gaseous by-products are used as fuels, replacing primary energy. Due to these strategies, the current industrial processes associated with primary steel production are achieving GHG-specific emission levels that are close to the theoretical minimum GHG-specific emission levels. This is the case for the electric arc furnace route, which is the technology employed by Ternium Sidor and Ternium Hylsa. Additionally, certain clean development mechanism projects (e.g., CDM, as outlined in the Kyoto Protocol) are under evaluation at Ternium Siderar, which uses the blast furnace route.

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<sup>1</sup> Injuries frequency rate refers to total quantity of injuries per million of worked hours.

<sup>2</sup> Lost time injuries frequency rate refers to quantity of day-loss injuries per million of worked hours.

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### **Corporate Governance**

#### **Shares**

Ternium has a single class of shares, with each share having equal rights, including the entitlement to one vote at our general shareholders meetings. Our articles of association provide that the annual ordinary general shareholders meeting, at which our annual financial statements are approved and the members of our board of directors are appointed, occur in Luxembourg on the first Wednesday of each June at 2:30 p.m., Luxembourg time.

We have an authorized share capital of a single class of 3.5 billion shares, having a nominal value of US\$1.00 per share.

Our articles of association currently authorize our board of directors, for a period commencing on June 17, 2005 and ending on October 26, 2010, to issue shares within the limits of our authorized share capital at such times and on such terms and conditions as the board of directors or its delegates may determine. Accordingly, until October 26, 2010, shares may be issued up to the authorized share capital limit of US\$3.5 billion by a decision of the board of directors. With the exception of some cases set out in the articles of association, any issuance of shares for cash within the limits of the authorized share capital shall be, as long as our shares are listed on a regulated market, subject to the pre-emptive subscription rights of the then existing shareholders.

There are no limitations currently imposed by Luxembourg law on the rights of non-resident shareholders to hold or vote our shares.

The Company may repurchase its own shares in the cases and subject to the conditions set by the Luxembourg law of August 10, 1915, as amended.

#### **2 Board of Directors**

Our articles of association provide for a board of directors consisting of a minimum of five (5) members (when the shares of the Company are listed on a regulated market as they currently are) and a maximum of fifteen (15) members. The board of directors is vested with the broadest powers to act on behalf of the Company and accomplish or authorize all acts and transactions of management and disposal which are within its corporate purpose and which are not specifically reserved in the articles of association to the general shareholders' meetings.

The board of directors is required to meet as often as required by the interests of Ternium. A majority of the members of the board of directors in office present or represented at each board of directors meeting constitutes a quorum, and resolutions may be adopted by the vote of a majority of the directors present or represented. In case of a tie, the chairman is entitled to cast the deciding vote.

Directors are elected at the annual ordinary general shareholders meeting to serve one-year renewable terms, as determined by the shareholders. Our current board of directors is comprised of 11 directors and an audit committee, which is comprised entirely of independent directors.

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### **3 Audit Committee**

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

assists the board of directors in fulfilling its oversight responsibilities relating to the integrity of the financial statements of the Company, including periodically reporting to the board of directors on its activity and the adequacy of Ternium's systems of internal control over financial reporting;

is responsible for making recommendations for the appointment, compensation, retention and oversight of, and assessment of the independence of, the Company's independent auditors;

reviews Material Transactions (as such term is defined in the Company's articles of association and the audit committee charter) between Ternium or its subsidiaries with Related Parties (as such term is defined in the Company's articles of association; other than transactions that were reviewed and approved by the independent members of the board of directors or other governing body of any subsidiary of Ternium) to determine whether their terms are consistent with market conditions or are otherwise fair to Ternium and its subsidiaries; and

performs such other duties imposed to it by applicable laws and regulations of the regulated market or markets on which the shares of Ternium are listed, as well as any other duty entrusted to it by the board of directors.

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

### **4 Auditors**

Our articles of association require the appointment of at least one independent auditor chosen from among the members of the Luxembourg Institute of Independent Auditors. Auditors are appointed by the shareholders through a resolution passed by a simple majority vote at the annual general shareholders' meeting, irrespective of the number of shares present or represented, on the audit committee's recommendation. Shareholders may determine the number and the term of the office of the auditors at the ordinary general shareholders' meeting, provided however that an auditor's term shall not exceed one year and that any auditor may be reappointed or dismissed by the shareholders. As part of their duties, the auditors report directly to the audit committee.

PricewaterhouseCoopers (acting, in connection with our statutory annual accounts required under Luxembourg law, through PricewaterhouseCoopers S.à.r.l., Réviseur d'entreprises, and, in connection with our annual and interim consolidated financial statements required under the laws of other relevant jurisdictions, through Price Waterhouse & Co. S.R.L.) was appointed as the Company's independent auditor at the ordinary general shareholders' meeting held on June 7, 2006. On June 17, 2005, our general shareholders' meeting resolved to amend and restate the Company's articles of association, as a result of which the position of statutory auditor was eliminated in accordance with the provisions of applicable Luxembourg law.

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**Board of Directors and Executive Officers**

Board of Directors

**Chairman**

Paolo Rocca

**Vice Chairman**

Rinaldo Campos Soares

Ubaldo Aguirre (\*)

Roberto Bonatti

Carlos Condorelli

Adrián Lajous Vargas (\*)

Bruno Marchettini

Daniel Novegil

Gianfelice Rocca

Gerardo Sepúlveda (\*)

Bertoldo Machado Veiga

**Secretary**

Raúl Darderes

(\*) Audit Committee Members

Executive Officers

**Chief Executive Officer and Director**

Daniel Novegil

**Chief Financial Officer**

Roberto Philipps

**International Commercial Officer**

Alfredo Indaco

**North Region Area Manager**

Regulo Salinas

**South Region Area Manager**

Martín Berardi

**Central Region Area Manager**

Julián Eguren

**Planning and Operations General Director**

Oscar Montero

**Technical Director**

Luis Andreozzi

**Human Resources Director**

Miguel Angel Punte

**Chief Information Officer**

Rubén Bocanera

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**Corporate Information**

**Registered Office**

46a Avenue John F. Kennedy  
L1855 - Luxembourg  
Luxembourg  
(352) 26 68 31 52 tel  
(352) 26 68 31 53 fax

**Principal Executive Offices**

México  
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San Nicolás de los Garza - Nuevo León  
66452 México  
(52) 81 8865 2828 phone

Argentina  
Av. Leandro N. Alem 1067 21st Floor  
C1001AAF - Buenos Aires  
Argentina  
(54) 11 4018 4100 phone  
(54) 11 4018 1000 fax

Venezuela  
Av. La Estancia, Edificio General, 9th Floor  
Urbanización Chuao - Caracas  
Venezuela  
(58) 212 600 3901 phone

**Investor Information**

**Investor Relations Director**

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

**Phone**

Toll free number for U.S. callers: 1 (866) 890 0443  
Mexico: 52 (81) 8865 2111  
Argentina: 54 (11) 4018 2389

**Stock Information**

New York Stock Exchange (TX)

**General Inquiries**

TERNIUM Investor Relations  
[ir@ternium.com](mailto:ir@ternium.com)

**ADS Depositary Bank**

The Bank of New York  
Investor Services  
P.O. Box 11258  
Church Street Station  
New York, NY 10286-1258

Toll free number for U.S. callers: 1 888 269 2377  
International Callers: (1) 212 815 3700  
[shareowners@bankofny.com](mailto:shareowners@bankofny.com)  
CUSIP Number: 880890108

**Internet**

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

**Table of Contents****Operating and Financial Review (MD&A)**

The review of Ternium's financial condition and results of operations is based on, and should be read in conjunction with, the Company's audited consolidated financial statements and related notes included in the annual report. Ternium prepares its consolidated financial statements according to International Financial Reporting Standards (IFRS), which differ in certain significant respects from Generally Accepted Accounting Principles in the United States (US GAAP) and other accounting standards.

It is important to note that as a consequence of the consolidation of results and other financial data of Amazonia (Ternium Sidor's controlling company) as from February 15, 2005, and of Ternium Hylsa as from August 22, 2005, Ternium's 2005 results vary significantly from those of the year 2006. In 2005, only Ternium Siderar has been consolidated for the full fiscal year and results for Ternium Sidor and Ternium Hylsa were consolidated as from the aforementioned dates, when Ternium's control over each company became effective.

The operating and financial review focuses on the main trends observed at Ternium and in the steel industry at large in 2006, rather than on changes over the comparable periods. The review also will provide details on the key performance variables observed during 2006.

**Results of Operations**

The following table sets forth, for the periods indicated, selected financial data from Ternium's consolidated income statement and the Company's operating costs and other expenses.

| US\$ million  | 2006           | 2005 <sup>(1)</sup> |
|---|----------------|---------------------|
| Net sales   | 6,569.0        | 4,447.7             |
| Cost of sales   | (4,301.4)      | (2,489.0)           |
| <b>Gross profit</b>                                   | <b>2,267.6</b> | <b>1,958.7</b>      |
| Selling, general and administrative expenses          | (623.8)        | (500.6)             |
| Other operating expenses, net                         | (7.3)          | (65.9)              |
| <b>Operating income</b>                               | <b>1,636.6</b> | <b>1,392.2</b>      |
| Financial expenses, net                               | (382.8)        | (310.7)             |
| Excess of fair value of net assets acquired over cost |                | 188.4               |
| Equity in earnings of associated companies            | 4.5            | 21.5                |
| <b>Income before income tax expense</b>               | <b>1,258.3</b> | <b>1,291.3</b>      |
| Income tax expense                                    | (262.4)        | (218.5)             |
| <b>Net income for the year</b>                        | <b>996.0</b>   | <b>1,072.8</b>      |
| Attributable to:                                      |                |                     |
| <b>Equity holders of the Company</b>                  | <b>795.4</b>   | <b>704.4</b>        |
| Minority interest                                     | 200.5          | 368.4               |
|   | 996.0          | 1,072.8             |

<sup>(1)</sup> Combined consolidated financial information on the basis of common control.

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### **Net Sales**

Net sales for the fiscal year 2006 were US\$6.6 billion on shipments of 9.0 million tons. The average price was US\$698 per ton shipped (including flat and long products). The sales volume achieved in 2006 benefited from the full-year inclusion of Ternium Sidor and of Ternium Hylsa, as well as from a strong environment in the main markets that Ternium serves.

The first half of 2006 was characterized by a strong U.S. steel market associated with the economic growth observed in that country and continued economic growth worldwide. This environment created favorable conditions for improved steel pricing. During the second part of 2006, a decrease in the rate of growth in the U.S., coupled with a higher level of imports, constrained shipments to the North America Region as distributors focused on reducing their inventories. Steel prices in the region experienced increases during the first half of 2006 but softened in the second half. However, they remained at healthy levels at year end.

Ternium's markets in South and Central America showed more consistent performance, producing high rates of growth derived from solid performance in the Andean Community and Mercosur. Prices in South and Central America were more stable and did not enjoy the rise observed during the first half of 2006, nor did they experience the decline observed in North America during the latter part of 2006.

### **Flat Product Sales**

Flat steel sales in 2006 totaled US\$5.0 billion on 6.9 million tons shipped. The average price was US\$736 per ton shipped. The shipment level achieved in 2006 reflected the ability of Ternium to profit from the better demand conditions, by means of increasing utilization of mill capacity in Mexico. In this regard, the hot strip mill #1 operated throughout 2006 processing slabs from the South and Central America Region and third parties.

Ternium recorded better production levels in the South and Central America Region despite lost production hours related to the work slowdowns and stoppages at Ternium Sidor in the fourth quarter of 2006. While prices remained relatively stable throughout 2006 in the South and Central America Region, steel prices in the North America Region grew during the first part of 2006, peaked in August and softened later in the year due to increased import pressure in the U.S. and a de-stocking process in Mexico and the U.S.

### **Long Product Sales**

Long steel sales reached US\$1.3 billion in 2006 on shipments of 2.2 million tons. The average price was US\$581 per ton shipped. Strong construction activity, particularly in Venezuela, contributed to long product sales in the South and Central America Region. The North America Region also performed well due to strong construction activity that, together with a temporary reduction in the supply of long products in Mexico, tightened the market for these products during the first half of the year, with a consequent increase in prices.

### **Sales by Region**

Sales of flat and long products in the North America Region were US\$2.7 billion in 2006 on shipments of 3.6 million tons. Sales of flat and long products were higher due to a better utilization of mill #1 at Ternium Hylsa, which is now being fed with slab from the South and Central America Region and third parties. Flat and long product sales also benefited from higher shipments of long products resulting from a strong construction market in Mexico and a temporary reduction in the production of long products in the country during the first half of the year.

Sales of flat and long products in the South and Central America Region were US\$3.6 billion on shipments of 5.3 million tons. Ternium capitalized on the healthy steel market in the main economies of the region, which grew at double digit rates. Steel prices were relatively stable throughout 2006.

**Table of Contents**Shipments, Revenue per Ton and Net Sales in the Year 2006

|                                  | Shipments       | Revenue / ton | Net Sales          |
|----------------------------------|-----------------|---------------|--------------------|
|                                  | (thousand tons) | (US\$/ton)    | (US\$ million)     |
| South & Central America          | 4,360.6         | 697           | 3,038.4            |
| North America                    | 2,412.6         | 813           | 1,960.8            |
| Europe & other                   | 88.2            | 548           | 48.4               |
| <br>Total flat products          | <br>6,861.4     | <br>736       | <br>5,047.5        |
| South & Central America          | 948.3           | 555           | 526.8              |
| North America                    | 1,225.4         | 600           | 735.8              |
| <br>Total long products          | <br>2,173.7     | <br>581       | <br>1,262.6        |
| <br>Total flat and long products | <br>9,035.1     | <br>698       | <br>6,310.1        |
| Other products <sup>(1)</sup>    |                 |               | 258.8              |
| <br><b>Total net sales</b>       |                 |               | <br><b>6,569.0</b> |

<sup>(1)</sup> Includes iron ore and pig iron.

**Cost of Sales**

Cost of sales reached US\$4.3 billion in 2006, or 65% of net sales. Ternium experienced higher iron ore and coal costs in 2006 related to the annual increases in the international prices for those commodities.

Furthermore, 2006 results included three items that affected the year's cost of sales: a charge related to an increase in pension plan benefits at Ternium Sidor; lower efficiencies that resulted from the work slowdowns and stoppages at Ternium Sidor that ended on November 8, 2006; and costs associated with the relining of blast furnace #1 at Ternium Siderar, which resumed operations on January 31, 2007.

Natural gas and electricity prices for the South and Central America operations were relatively stable. Energy for the Venezuelan operations is tied to long-term contracts, and prices of electricity and natural gas under such contracts were relatively stable. Operations in Argentina are largely self-sufficient in electricity through their self-generation capabilities. Most of the energy input at this operation is obtained from metallurgical coal and pet coke, the balance being fulfilled with fuel oil and natural gas. Natural gas prices in Argentina showed only slight fluctuations.

The natural gas consumption for the operations in Mexico was largely fixed through hedging mechanisms, which prevented major cost changes associated with natural gas prices. Electricity prices in Mexico experienced slight increases due to the higher finished steel production that required the use of additional electricity at higher peak hour rates.

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### **Selling, General and Administrative Expenses (SG&A)**

Selling, general and administrative (SG&A) expenses in 2006 were US\$623.8 million, or 9.5% of net sales. A significant rationalization in white collar headcount and improved efficiencies generated substantial savings during the year.

### **Other Operating Expenses, net**

Net other operating expenses largely reflect provisions for legal claims and de-recognition of property, plant and equipment, offset by other operating income accrued. Net other operating expenses in 2006 were US\$7.3 million.

### **Operating Income and EBITDA<sup>3</sup>**

A positive environment for improved volumes and healthy steel pricing, partially offset by higher input costs, contributed to operating income of US\$1.6 billion, or 25% of net sales. EBITDA for 2006 was US\$2.1 billion, or 32% of net sales.

### **Financial Expenses, net**

Net financial expense totaled US\$382.8 million in 2006. Net interest expense in the year was US\$60.4 million, while the recognition of payments to minority shareholders of Ternium Sidor related to the participation account resulted in expenses of US\$270.2 million. The remaining US\$52.2 million was relatively evenly spread in debt issuance costs, mainly in connection with the Ternium Hylsa acquisition; net foreign exchange transactions and changes in the fair value of derivatives associated with interest rate hedging; and other financial costs, such as those associated with the issuance of letters of credit and payment of commissions.

Ternium Sidor's excess cash distribution related to the participation account recognized in 2006 was US\$670.9 million. Ternium's subsidiaries recognized US\$400.7 million during the year, while the recognition of payments to minority shareholders of Ternium Sidor resulted in expenses of US\$270.2 million in 2006. The outstanding recognized payments to Ternium's subsidiaries and minority shareholders of Ternium Sidor as of December 31, 2006, were paid on February 15, 2007.

### **Income Tax Expense**

Income tax expense for 2006 was US\$262.4 million, or 21% of income before income tax and minority interest. This expense included a current tax loss of US\$387.7 million, a recovery for tax losses of US\$14.0 million and a deferred tax gain of US\$111.4 million. The deferred tax gain resulted primarily from Ternium Sidor's lower deferred tax liability, which was mainly due to the inflation effect in the value of fixed assets for tax purposes in accordance with Venezuelan tax laws.

### **Income Attributable to Minority Interest**

Income attributable to minority interest during 2006 was US\$200.5 million. Of this total, US\$176.0 million is related to minority shareholders in Ternium Siderar, US\$17.7 million corresponds to minority interest in Ternium Sidor, and US\$5.3 million relates to minorities in the Peña Colorado mine and Acerex, the service center now wholly owned by Ternium.

### **Liquidity and Financial Resources**

Our financing strategy is to maintain adequate financial resources at hand and access to additional liquidity. During 2006, cash flow from operations was the principal source of funding.

We are confident that our cash flow from operations and our access to external borrowings are sufficient to meet our needs for working capital and that we have ample debt coverage to service our obligations for the foreseeable future. Contributors to our strong balance sheet and cash

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<sup>3</sup> 2006 EBITDA equals operating income of US\$1.6 billion plus depreciation and amortization of US\$0.4 billion and other non-cash transactions of US\$13.3 million.

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position are our successful initial public offering (IPO) in February 2006, the subsequent conversion of subordinated convertible loans from certain shareholders of the Company and an ample cash flow from 2006 operations. This has allowed Ternium to reduce financial debt to US\$1.1 billion and net debt to US\$413.7 million. We believe that our liquidity and access to capital and international bank markets give us significant flexibility to execute our planned capital expenditures and to carry out strategic acquisitions if such opportunities arise.

We hold money market investments and variable rate or fixed rate securities from investment grade issuers. We concentrate our cash in major financial centers, mainly New York. We hold our cash primarily in U.S. dollars and limit our holdings of other currencies to the minimum required to fund our cash operating needs. Liquid financial assets as a whole represented 7% of our total assets at the end of 2006.

### **Historical Cash Flows**

#### Operating Activities

Net cash from operations in 2006 was US\$1.2 billion. Net cash provided by operations was comprised of net income of US\$1.0 billion, adding back depreciation and amortization of US\$424.5 million and other adjustments, which contributed an additional US\$100.7 million. This was partially offset by an increase in working capital needs of US\$276.2 million resulting primarily from the increased operating activity by the Company during 2006.

#### Investing Activities

Net cash used in investing activities during 2006 was US\$610.4 million. Cash was mainly utilized for capital expenditures, which totaled US\$405.8 million, and for acquisitions of businesses, in the amount of US\$210.5 million.

Ternium's US\$405.8 million capital expenditures included the following investments:

Mexico: the installation of facilities for storing and handling slabs, a new reheating furnace and the upgrading of the hot strip mill #1 at Ternium Hylsa;

Argentina: the relining of blast furnace #1 as well as improvements and enhancements in the areas of sinter production, coking facilities and the hot strip mill at Ternium Siderar; and

Venezuela: new oxygen production facilities, the revamping and expansion of the Midrex direct reduction of iron modules and disbursements associated with the installation of a new ladle furnace at Ternium Sidor.

In addition, US\$210.5 million was invested to acquire businesses, primarily with respect to three transactions:

The purchase for US\$44.6 million of the remaining 50% equity interest in the 540,000 tons per year service center Acerex from Worthington Industries. The transaction made Acerex a wholly owned subsidiary of Ternium Hylsa and was subsequently merged with the Company;

The US\$55.2 million acquisition by Ternium Siderar of tube manufacturing assets from Acindar with a capacity of 140,000 tons per year; and

Ternium's purchase of the 4.85% equity stake in Ternium Siderar owned by CVRD for US\$107.5 million. The transaction increased Ternium's ownership interest in Ternium Siderar from 56% to 61%.



**Table of Contents****Financing Activities**

Net cash used in financing activities in 2006 was US\$756.3 million. Funds totaling US\$692.3 million resulted from the net proceeds of US\$525.0 million from Ternium's IPO and from bank loans of US\$167.3 million.

In 2006, Ternium took advantage of its high liquidity position to reduce its financial indebtedness. Throughout the year, the Company effected scheduled payments and prepayments of bank indebtedness totaling US\$1,424.5 million. Dividends paid in cash and other distributions to minority shareholders were US\$27.2 million in 2006, mainly corresponding to the share of minorities in a dividend paid by Ternium Siderar during the year.

**Non-cash transactions (conversion of debt instruments into shares)**

Concurrently with the issuance of its IPO, Ternium paid down an additional US\$605.9 million of convertible loans owed to certain shareholders of Ternium through the conversion of the debt into Ternium shares at the IPO price.

**Cash and Equivalents**

Cash and cash equivalents at the end of 2006 were US\$643.4 million.

| US\$ million  | 2006    | 2005 <sup>(1)</sup> |
|---|---------|---------------------|
| Net cash provided by operating activities           | 1,245.0 | 1,262.5             |
| Net cash used in investing activities               | (610.4) | (2,352.0)           |
| Net cash (used in) provided by financing activities | (756.3) | 1,163.4             |
| (Decrease) Increase in cash and cash equivalents    | (121.7) | 73.8                |
| <b>Movements in cash and cash equivalents</b>       |         |                     |
| At January 1  | 755.0   | 194.9               |
| Acquisition of business                             |         | 520.8               |
| Effect of exchange rate changes                     | (0.3)   | (34.5)              |
| (Decrease) increase in cash and cash equivalents    | (121.7) | 73.8                |
| Cash and cash equivalents at December 31,           | 633.0   | 755.0               |
| <b>Non-cash transactions</b>                        |         |                     |
| Conversion of debt instruments into shares          | 605.9   | 127.6               |

<sup>(1)</sup> Combined consolidated financial information on the basis of common control.

**Principal Sources of Funding****Funding Policy**

Our policy is to maintain a high degree of flexibility in our operating and investment activities by maintaining adequate liquidity levels and ensuring our access to readily available sources of financing. Most of our financing is conducted in U.S. dollars. We select the type of facility, associated rate and term after considering the intended use of proceeds.

**Financial Liabilities**

Ternium's borrowings as of December 31, 2006, consisted of different bank loans and facilities. Outstanding financial debt amounted to US\$1.1 billion at year end, compared with US\$2.9 billion dollars as of December 31, 2005, a reduction of US\$1.8 billion. During 2006, Ternium made scheduled payments and prepayments of debt, taking advantage of the net inflows from the IPO, the conversion of subordinated convertible debt subscribed by certain shareholders and a large positive cash flow from operations.



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The dollar denominated portion of the US\$1.1 billion of Ternium's outstanding financial debt is 90.9%. For 2006, the average interest rate, which incorporates instruments denominated in various currencies, was 6.82%. The Company has in place interest rate swaps for an amount of US\$590.6 million paying an average interest rate of 5.10% and receiving LIBOR (see note 26 in the financial statements section). Reflecting Ternium's sizable cash reserves at the end of 2006, net financial debt was US\$413.7 million.

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**TERNIUM S.A.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**As of December 31, 2006 and 2005 and**

**for the years ended December 31, 2006, 2005 and 2004**

46a, Avenue John F. Kennedy, 2<sup>nd</sup> floor

L - 1855

R.C.S. Luxembourg : B 98 668

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**TERNIUM S.A.**

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**Consolidated Financial Statements**

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| <u>Consolidated income statements for the years ended December 31, 2006, 2005 and 2004</u>                             | 2           |
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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Ternium S.A.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in shareholders' equity present fairly, in all material respects, the financial position of Ternium S.A. and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with International Financial Reporting Standards. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

International Financial Reporting Standards vary in certain significant respects from the accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 34 to the consolidated financial statements.

Buenos Aires, Argentina

February 27, 2007

PRICE WATERHOUSE & CO. S.R.L.  
by (Partner)  
Marcelo D. Pfaff

**Table of Contents****TERNIUM S.A.****Consolidated financial statements**

as of December 31, 2006 and 2005 and

for the years ended December 31, 2006, 2005 and 2004

(All amounts in USD thousands)

**CONSOLIDATED INCOME STATEMENTS**

|   | Notes              | Year ended December 31, |               |               |
|---|--------------------|-------------------------|---------------|---------------|
|   |                    | 2006                    | 2005          | 2004          |
| Net sales   | <b>30</b>          | 6,568,975               | 4,447,680     | 1,598,925     |
| Cost of sales   | <b>6 &amp; 30</b>  | (4,301,384)             | (2,488,980)   | (965,004)     |
| Gross profit  |                    | 2,267,591               | 1,958,700     | 633,921       |
| Selling, general and administrative expenses  | <b>7</b>           | (623,772)               | (500,590)     | (116,626)     |
| Other operating expenses, net   | <b>9</b>           | (7,250)                 | (65,949)      | (3,124)       |
| Operating income  |                    | 1,636,569               | 1,392,161     | 514,171       |
| Interest expense  | <b>30 &amp; 31</b> | (112,918)               | (81,608)      | (18,257)      |
| Interest income   | <b>30</b>          | 52,554                  | 32,324        | 8,911         |
| Other financial (expenses) income, net  | <b>10 &amp; 30</b> | (322,417)               | (261,452)     | 211,635       |
| Excess of fair value of net assets acquired over cost   | <b>3</b>           |                         | 188,356       |               |
| Equity in earnings of associated companies  | <b>11</b>          | 4,534                   | 21,524        | 209,201       |
| Income before income tax expense  |                    | 1,258,322               | 1,291,305     | 925,661       |
| Income tax expense  | <b>12</b>          | (262,356)               | (218,492)     | (177,486)     |
| Net income for the year   |                    | 995,966                 | 1,072,813     | 748,175       |
| Attributable to:  |                    |                         |               |               |
| Equity holders of the Company   | <b>29</b>          | 795,424                 | 704,406       | 457,339       |
| Minority interest   |                    | 200,542                 | 368,407       | 290,836       |
|   |                    | 995,966                 | 1,072,813     | 748,175       |
| Weighted average number of shares outstanding   | <b>29</b>          | 1,936,833,060           | 1,209,476,609 | 1,168,943,632 |
| Basic earnings per share for profit attributable to the equity holders of the Company, (expressed in USD per share)   |                    | 0.41                    | 0.58          | 0.39          |
| Diluted earnings per share for profit attributable to the equity holders of the Company, (expressed in USD per share) |                    | 0.41                    | 0.54          | 0.39          |

The accompanying notes are an integral part of these consolidated financial statements.

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as of December 31, 2006 and 2005 and

for the years ended December 31, 2006, 2005 and 2004

(All amounts in USD thousands)

**CONSOLIDATED BALANCE SHEETS**

|  | Notes   | December 31, 2006 |                  | December 31, 2005 |           |
|--|---------|-------------------|------------------|-------------------|-----------|
| <b>ASSETS</b>  |         |                   |                  |                   |           |
| <b>Non-current assets</b>  |         |                   |                  |                   |           |
| Property, plant and equipment, net                                       | 13      | 5,420,683         |                  | 5,463,871         |           |
| Intangible assets, net   | 14      | 551,587           |                  | 552,882           |           |
| Investments in associated companies                                      | 15      | 16,285            |                  | 9,122             |           |
| Other investments, net   | 16 & 30 | 13,387            |                  | 12,607            |           |
| Deferred tax assets  | 24      | 36,439            |                  | 29,126            |           |
| Receivables, net   | 17 & 30 | 78,903            | 6,117,284        | 48,815            | 6,116,423 |
| <b>Current assets</b>  |         |                   |                  |                   |           |
| Receivables  | 18 & 30 | 175,818           |                  | 291,302           |           |
| Derivative financial instruments   | 26      | 7,852             |                  | 5,402             |           |
| Inventories, net   | 19      | 1,241,325         |                  | 1,000,119         |           |
| Trade receivables, net   | 20 & 30 | 577,866           |                  | 472,760           |           |
| Other investments  | 21 & 30 |                   |                  | 5,185             |           |
| Cash and cash equivalents  | 21      | 643,352           | 2,646,213        | 765,630           | 2,540,398 |
| Non-current assets classified as held for sale                           |         |                   | 7,042            |                   | 3,160     |
| <b>Total assets</b>  |         |                   | <b>8,770,539</b> | <b>8,659,981</b>  |           |
| <b>EQUITY</b>  |         |                   |                  |                   |           |
| <b>Capital and reserves attributable to the company's equity holders</b> |         |                   | 3,757,558        | 1,842,454         |           |
| <b>Minority interest</b>   |         |                   | 1,729,583        | 1,733,465         |           |
| <b>Total equity</b>  |         |                   | 5,487,141        | 3,575,919         |           |
| <b>LIABILITIES</b>   |         |                   |                  |                   |           |
| <b>Non-current liabilities</b>   |         |                   |                  |                   |           |
| Provisions   | 22      | 60,543            |                  | 54,138            |           |
| Deferred income tax  | 24      | 985,155           |                  | 1,048,188         |           |
| Other liabilities  | 25      | 274,566           |                  | 187,917           |           |
| Trade payables   |         | 7,229             |                  | 1,167             |           |
| Borrowings   | 27      | 548,401           | 1,875,894        | 2,399,878         | 3,691,288 |
| <b>Current liabilities</b>   |         |                   |                  |                   |           |
| Current tax liabilities  |         |                   | 103,195          | 126,972           |           |
| Other liabilities  | 25 & 30 | 158,374           |                  | 194,073           |           |
| Trade payables   | 30      | 621,754           |                  | 555,330           |           |
| Derivative financial instruments   | 26      | 15,487            |                  |                   |           |

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|                                     |    |         |           |         |           |
|-------------------------------------|----|---------|-----------|---------|-----------|
| Borrowings                          | 27 | 508,694 | 1,407,504 | 516,399 | 1,392,774 |
| <b>Total liabilities</b>            |    |         | 3,283,398 |         | 5,084,062 |
| <b>Total equity and liabilities</b> |    |         | 8,770,539 |         | 8,659,981 |

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****TERNIUM S.A.****Consolidated financial statements****as of December 31, 2006 and 2005 and****for the years ended December 31, 2006, 2005 and 2004**

(All amounts in USD thousands)

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**

|  | Attributable to the Company's equity holders (1) |                                  |                                |                                  |                                 |                   | Total     | Minority interest | Total Equity at December 31, 2006 | Total Equity at December 31, 2005 | Total Equity at December 31, 2004 |
|--|--|----------------------------------|--------------------------------|----------------------------------|---------------------------------|-------------------|-----------|-------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|  | Capital stock (2)                                | Initial public offering expenses | Revaluation and other reserves | Capital stock issue discount (3) | Currency translation adjustment | Retained earnings |           |                   |                                   |                                   |                                   |
| Balance at January 1   | 1,396,552  | (5,456)                          | 1,462,137                      | (2,298,048)                      | (92,691)                        | 1,379,960         | 1,842,454 | 1,733,465         | 3,575,919                         | 1,771,851                         | 1,252,085                         |
| Currency translation adjustment  |  |                                  |                                |                                  | (28,917)                        |                   | (28,917)  | (7,990)           | (36,907)                          | (120,246)                         | (77,246)                          |
| Net income for the year  |  |                                  |                                |                                  |                                 | 795,424           | 795,424   | 200,542           | 995,966                           | 1,072,813                         | 748,175                           |
| Total recognized income for the year                                   |  |                                  |                                |                                  | (28,917)                        | 795,424           | 766,507   | 192,552           | 959,059                           | 952,567                           | 670,929                           |
| Dividends paid in cash and other distributions                         |  |                                  |                                |                                  |                                 |                   |           |                   |                                   | (238,652)                         | (80,887)                          |
| Dividends paid in cash and other distributions by subsidiary companies |  |                                  |                                |                                  |                                 |                   |           | (27,175)          | (27,175)                          | (130,571)                         | (70,276)                          |
| Acquisition of business (see Note 3)                                   |  |                                  | (32,429)                       |                                  |                                 |                   | (32,429)  | (122,261)         | (154,690)                         | 864,415                           |                                   |
| Contributions from shareholders (see Note 1)                           | 33,801   |                                  | 43,100                         | (26,818)                         |                                 |                   | 50,083    | (46,998)          | 3,085                             | 54,758                            |                                   |
| Conversion of Subordinated Convertible Loans (see Note 1)              | 302,962  |                                  | 302,962                        |                                  |                                 |                   | 605,924   |                   | 605,924                           |                                   |                                   |
|  | 271,429  | (17,839)                         | 271,429                        |                                  |                                 |                   | 525,019   |                   | 525,019                           | (5,456)                           |                                   |

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|                                      |                  |                 |                  |                    |                  |                  |                  |                  |                  |                  |  |                  |
|--------------------------------------|------------------|-----------------|------------------|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|--|------------------|
| Initial Public Offering (see Note 1) |                  |                 |                  |                    |                  |                  |                  |                  |                  |                  |  |                  |
| Other reserves (see Note 3)          |                  |                 |                  |                    |                  |                  |                  |                  |                  |                  |  | 307,007          |
| Balance at December 31               | <b>2,004,744</b> | <b>(23,295)</b> | <b>2,047,199</b> | <b>(2,324,866)</b> | <b>(121,608)</b> | <b>2,175,384</b> | <b>3,757,558</b> | <b>1,729,583</b> | <b>5,487,141</b> | <b>3,575,919</b> |  | <b>1,771,851</b> |

(1) Shareholders' equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 28 (iv).

(2) At December 31, 2006, the Capital Stock adds up to 2,004,743,442 shares at a nominal value of USD1 each.

(3) Represents the difference between book value of non-monetary contributions received from shareholders under Luxembourg GAAP and IFRS.

Dividends may be paid by Ternium to the extent distributable retained earnings calculated in accordance with Luxembourg law and regulations exist. Therefore, retained earnings included in these consolidated condensed financial statements may not be wholly distributable. See Note 28 (iv). The accompanying notes are an integral part of these consolidated financial statements.

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as of December 31, 2006 and 2005 and

for the years ended December 31, 2006, 2005 and 2004

(All amounts in USD thousands)

**CONSOLIDATED CASH FLOW STATEMENTS**

|  | Notes   | Year ended December 31, |                    |                  |
|--|---------|-------------------------|--------------------|------------------|
|  |         | 2006                    | 2005               | 2004             |
| <b>Cash flows from operating activities</b>                              |         |                         |                    |                  |
| Net income for the year  |         | 995,966                 | 1,072,813          | 748,175          |
| Adjustments for:   |         |                         |                    |                  |
| Depreciation and amortization  | 13&14   | 424,495                 | 316,405            | 99,192           |
| Income tax accruals less payments  | 31      | (18,075)                | (44,008)           | 120,210          |
| Derecognition of property, plant and equipment                           | 9 (iii) | 13,323                  | 54,348             |                  |
| Excess of fair value of net assets acquired over cost                    | 3       |                         | (188,356)          |                  |
| Changes to pension plan  | 25      | 46,947                  |                    |                  |
| Equity in earnings of associated companies                               | 11      | (4,534)                 | (21,524)           | (209,201)        |
| Interest accruals less payments  | 31      | 4,197                   | 24,523             | 9,083            |
| Changes in provisions  | 22&23   | 33,802                  | 19,046             | (798)            |
| Changes in working capital   | 31      | (276,153)               | 54,420             | (204,670)        |
| Others   |         | 25,005                  | (25,212)           | (44,426)         |
| <b>Net cash provided by operating activities</b>                         |         | <b>1,244,973</b>        | <b>1,262,455</b>   | <b>517,565</b>   |
| <b>Cash flows from investing activities</b>                              |         |                         |                    |                  |
| Capital expenditures   | 13&14   | (405,817)               | (244,939)          | (92,563)         |
| Changes in trust funds   |         | 5,185                   | 83,570             |                  |
| Acquisition of business  |         | (210,548)               | (2,196,678)        |                  |
| Investments in associated companies                                      |         | (2,598)                 |                    |                  |
| Proceeds from the sale of property, plant and equipment                  |         | 3,425                   | 6,063              | 862              |
| <b>Net cash (used in) investing activities</b>                           |         | <b>(610,353)</b>        | <b>(2,351,984)</b> | <b>(91,701)</b>  |
| <b>Cash flows from financing activities</b>                              |         |                         |                    |                  |
| Dividends paid in cash and other distributions to company's shareholders |         |                         | (238,652)          | (80,887)         |
| Dividends paid in cash and other distributions to minority shareholders  |         | (27,175)                | (130,571)          | (70,276)         |
| Net proceeds from Initial Public Offering                                |         | 525,019                 |                    |                  |
| Contributions from shareholders  |         | 3,085                   | 54,758             |                  |
| Proceeds from borrowings   |         | 167,283                 | 2,135,430          | 52,309           |
| Repayments of borrowings   |         | (1,424,495)             | (657,597)          | (261,033)        |
| <b>Net cash (used in) provided by financing activities</b>               |         | <b>(756,283)</b>        | <b>1,163,368</b>   | <b>(359,887)</b> |
| <b>(Decrease) Increase in cash and cash equivalents</b>                  |         | <b>(121,663)</b>        | <b>73,839</b>      | <b>65,977</b>    |
| <b>Movement in cash and cash equivalents</b>                             |         |                         |                    |                  |
| At January 1,(1)   |         | 754,980                 | 194,875            | 129,020          |
| Acquisition of business  | 3       |                         | 520,753            |                  |

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|  |                |                |                |
|--|----------------|----------------|----------------|
| Effect of exchange rate changes                  | (315)          | (34,487)       | (122)          |
| (Decrease) Increase in cash and cash equivalents | (121,663)      | 73,839         | 65,977         |
| <b>Cash and cash equivalents at December 31,</b> | <b>633,002</b> | <b>754,980</b> | <b>194,875</b> |
| <b>Non-cash transactions</b>                     |                |                |                |
| Conversion of debt instruments into shares       | 605,924        | 127,576        |                |

(1) In addition, the Company has restricted cash for USD 10,350 and USD 10,650 at December 30, 2006 and December 31, 2005, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

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**TERNIUM S.A.**

**Consolidated financial statements**

**as of December 31, 2006 and 2005 and**

**for the years ended December 31, 2006, 2005 and 2004**

(All amounts in USD thousands)

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**TERNIUM S.A.**

**Notes to the Consolidated Financial Statements (Contd.)**

**1 Business of the Company, Initial Public Offering and corporate reorganization**

Ternium S.A. (the Company or Ternium ), a Luxembourg Corporation (Société Anonyme), was incorporated on December 22, 2003 to hold investments in flat and long steel manufacturing and distributing companies.

Near the end of 2004, Ternium was acquired by its ultimate parent company San Faustín N.V. ( San Faustín ), a Netherlands Antilles company, to serve as a vehicle in the restructuring of San Faustín s investments in the flat and long steel manufacturing and distribution business. This restructuring was carried out by means of a corporate reorganization through which Ternium was assigned the equity interests previously held by San Faustín and its subsidiaries in various flat and long steel manufacturing and distributing companies (the Corporate Reorganization ). The Corporate Reorganization took place in fiscal year 2005. Until that date, Ternium was a dormant company.

On January 11, 2006, the Company successfully completed its registration process with the United States Securities and Exchange Commission ( SEC ) and announced the commencement of its offer to sell 24,844,720 American Depositary Shares ( ADS ) representing 248,447,200 shares of common stock through Citigroup Global Markets Inc., Deutsche Bank Securities Inc., JP Morgan Securities Inc., Morgan Stanley & Co. Incorporated, BNP Paribas Securities Corp., Caylon Securities (USA) Inc. and Bayerische Hypo-und Vereinsbank AG (collectively, the Underwriters ) and the offering thereunder, the Initial Public Offering ). The Company s Initial Public Offering was priced at USD20 per ADS. The gross proceeds from the Initial Public Offering totaled USD 496.9 million and have been used to fully repay Tranche A of the Ternium Credit Facility (see Note 3 e)), after deducting related expenses.

Ternium s ADSs began trading on the New York Stock Exchange under the symbol TX on February 1, 2006. The Company s Initial Public Offering was settled on February 6, 2006.

In addition, during 2005, the Company entered into the Subordinated Convertible Loan Agreements for a total aggregate amount of USD594 million to fund the acquisition of Hylsamex. As per the provisions contained in the Subordinated Convertible Loan Agreements, the Subordinated Convertible Loans would be converted into shares of the Company upon delivery of Ternium s ADSs to the Underwriters. On February 6, 2006, the Subordinated Convertible Loans (including interest accrued through January 31, 2006) were converted into shares at a conversion price of USD2 per share, resulting in the issuance of 302,962,261 new shares on February 9, 2006.

Furthermore, in November 2005, Siderúrgica del Turbio Siderur S.A. ( Siderur ), a subsidiary of Siderúrgica Venezolana Sivensa S.A. ( Sivensa ), exchanged with Inversora Siderúrgica Limited ( ISL , a wholly-owned subsidiary of Ternium s majority shareholder) its 3.42% equity interest in Consorcio Siderurgia Amazonia Ltd. ( Amazonia ) and USD 3.1 million in cash for shares of the Company. On February 9, 2006, ISL contributed all of its assets and liabilities (including its interest in Amazonia) to the Company in exchange for 959,482,775 newly issues shares of the Company after the settlement of the Initial Public Offering. The increase in equity resulting from this transaction is reflected under Contributions from shareholders line items in the Statement of changes in shareholders equity and amounts to USD 50,083.

Also, the Company granted the Underwriters an option, exercisable for 30 days from January 31, 2006, to purchase up to 3,726,708 additional ADSs at the public offering price of USD20 per ADS less an underwriting discount of USD0.55 per ADS. On February 23, 2006 the Underwriters exercised partially this over-allotment option granted by the Company. In connection with this option, on March 1, 2006, the Company issued 22,981,360 new shares. The gross proceeds from this transaction totaled USD46.0 million.

After the completion of the Initial Public Offering, the conversion of the Subordinated Convertible Loans, the exercise of the option granted to the Underwriters and the consummation of the transactions contemplated in the Corporate Reorganization agreement, 2,004,743,442 shares (including shares in the form of ADSs) were outstanding.

**2 Basis of presentation**

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These consolidated financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (February 2007). The consolidated financial statements are presented in thousands of United States dollars ( USD ).

As mentioned in Note 1, Ternium was assigned the equity interests previously held by San Faustín and its subsidiaries in various flat and long steel manufacturing and distributing companies. As these transactions were carried out among entities under common control, the assets and liabilities contributed to the Company have been accounted for at the relevant predecessor's cost, reflecting the carrying amount of such assets and liabilities. Accordingly, the consolidated financial statements for the years ended December 31, 2005 and 2004 include the financial statements of the above-mentioned companies on a combined basis at historical book values on a carryover basis as though the contribution had taken place on January 1, 2003, and no adjustment has been made to reflect fair values at the time of the contribution.

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****2 Basis of presentation (continued)**

Detailed below are the companies whose consolidated financial statements have been included in these consolidated financial statements.

| Company  | Country of Organization | Main activity  | Percentage of ownership at December 31, |         |
|--|-------------------------|--|---|---------|
|  |                         |  | 2006                                    | 2005    |
| Ternium S.A.   | Luxembourg              | Holding of investments in flat and long steel manufacturing and distributing companies | 100.00%                                 | 100.00% |
| Hylsamex S.A. de C.V. (1)  | Mexico                  | Holding company  | 88.22%                                  | 86.68%  |
| Siderar S.A.I.C.   | Argentina               | Manufacturing of flat steel products   | 60.93%                                  | 56.07%  |
| Sidor C.A. (2)   | Venezuela               | Manufacturing and selling of steel products  | 56.38%                                  | 53.20%  |
| Ternium Internacional S.A.<br>(formerly Techintrade Uruguay S.A.)            | Uruguay                 | Holding company and marketing of steel products  | 100.00%                                 | 100.00% |
| III Industrial Investments Inc. (B.V.I.)                                     | British Virgin Islands  | Holding company  | 100.00%                                 | 100.00% |
| Inversiones Siderúrgicas S.A.  | Panama                  | Holding company  | 100.00%                                 | 100.00% |
| Ylopa - Servicios de Consultadoria Lda. (3)                                  | Madeira - Free zone     | Participation in the debt restructuring process of Amazonia and Sidor C.A.             | 95.66%                                  | 95.12%  |
| Consorcio Siderurgia Amazonia Ltd.(4)  | Cayman Islands          | Holding of investments in Venezuelan steel companies                                   | 94.39%                                  | 89.07%  |
| Fasnet International S.A.  | Panama                  | Holding company  | 100.00%                                 | 100.00% |
| Alvory S.A.  | Uruguay                 | Holding of investment in procurement services companies                                | 100.00%                                 | 100.00% |
| Comesi San Luis S.A.I.C. (5)   | Argentina               | Production of cold or hot rolled prepainted, formed and skelped steel sheets           | 61.32%                                  | 56.07%  |
| Inversiones Basilea S.A. (6)   | Chile                   | Purchase and sale of real estate and other   | 60.93%                                  | 56.07%  |
| Prosid Investments S.C.A.(6)   | Uruguay                 | Holding company  | 60.93%                                  | 56.07%  |
| Impeco S.A. (6)  | Argentina               | Manufacturing of pipe products   | 60.93%                                  | 60.93%  |
| Socominter de Guatemala S.A. (7)   | Guatemala               | Marketing of steel products  | 100.00%                                 | 100.00% |
| Ternium Internacional España S.A. (formerly Socominter de España S.A.U.) (7) | Spain                   | Marketing of steel products  | 100.00%                                 | 100.00% |
| Ternium Internacional Ecuador S.A. (formerly Socotrading S.A.) (7)           | Ecuador                 | Marketing of steel products  | 100.00%                                 | 100.00% |
| Ternium International USA Corporation (formerly Techintrade Corporation) (7) | USA                     | Marketing of steel products  | 100.00%                                 | 100.00% |

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|  |             |                             |         |         |
|--|-------------|-----------------------------|---------|---------|
| Ternium Internationaal B.V. (formerly Techint Engineering Company B.V.)(7) | Netherlands | Marketing of steel products | 100.00% | 100.00% |
|--|-------------|-----------------------------|---------|---------|

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**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****2 Basis of presentation (continued)**

| Company  | Country of Organization | Main activity   | Percentage of ownership at December 31, |         |
|--|-------------------------|---|---|---------|
|  |                         |   | 2006                                    | 2005    |
| Ternium Internacional Perú S.A.C. (formerly Techintrade del Perú S.A.C.) (7) | Peru                    | Marketing of steel products                           | 100.00%                                 | 100.00% |
| Ternium International Inc.(7)  | Panama                  | Marketing of steel products                           | 100.00%                                 |         |
| Hylsa S.A. de C.V. (8)   | Mexico                  | Manufacturing and selling of steel products           | 88.22%                                  | 86.68%  |
| Express Anahuac S.A. de C.V. (8)   | Mexico                  | Freight services                                      | 88.22%                                  | 86.68%  |
| Ferropak Comercial S.A. de C.V. (8)  | Mexico                  | Scrap company   | 88.22%                                  | 86.68%  |
| Ferropak Servicios S.A. de C.V. (8)  | Mexico                  | Services  | 88.22%                                  | 86.68%  |
| Galvaccer America Inc (8)  | USA                     | Distributing company                                  | 88.22%                                  | 86.68%  |
| Galvamet America Corp (8)  | USA                     | Manufacturing and selling of insulates panel products | 88.22%                                  | 86.68%  |
| Transamerica E. & I. Trading Corp (8)  | USA                     | Scrap company   | 88.22%                                  | 86.68%  |
| Galvatubing Inc. (8)   | USA                     | Manufacturing and selling of pipe products            | 88.22%                                  | 86.68%  |
| Las Encinas S.A. de C.V. (8)   | Mexico                  | Exploration, exploitation and pelletizing of iron ore | 88.22%                                  | 86.68%  |
| Técnica Industrial S.A. de C.V. (8)  | Mexico                  | Services  | 88.22%                                  | 86.68%  |
| Acerex S.A. de C.V. (9)  | Mexico                  | Tooling services                                      |   | 43.34%  |
| Acerex Servicios S.A. de C.V. (9)  | Mexico                  | Services  |   | 43.34%  |
| Consorcio Minero Benito Juarez Peña Colorada S.A.de C.V. (9)                 | Mexico                  | Exploration, exploitation and pelletizing of iron ore | 44.11%                                  | 43.34%  |
| Peña Colorada Servicios S.A. de C.V. (9)                                     | Mexico                  | Services  | 44.11%                                  | 43.34%  |

(1) Indirectly through the participation of III BVI (70.00%) and Siderar S.A.I.C. (29.91%). Total voting rights held: 99.91%.

(2) Indirectly through the participation in Amazonia (59.73%). Total voting rights held: 59.73%.

(3) Directly (54.62%), indirectly through Inversiones Siderúrgicas S.A (34.27%) and Prosid Investments S.C.A. (11.11%). Total voting rights held: 100.00%.

(4) Directly (60.63%) and indirectly through the participation in Prosid Investments S.C.A. (14.38%) and Inversiones Siderúrgicas S.A. (25.00%). Total voting rights held: 100.00%.

(5) Indirectly through Siderar S.A.I.C. (99.00%) and Ternium Internacional Uruguay S.A. (1.00%). Total voting rights held: 100.00%.

(6) Indirectly through Siderar S.A.I.C. Total voting rights held 100.00%.

(7) Indirectly through Ternium Internacional S.A. Uruguay.

(8) Indirectly through the participation in Hylsamex. Total voting rights held: 99.91%. See Note 3 e).

(9) Indirectly through the participation in Hylsamex. Total voting rights held: 50.00%.

At December 31, 2006, Hylsa Latin LLC (dissolved on January 9, 2006), Ternium Internazionale Italia S.R.L., Galvaccer Chile S.A. and Galvaccer Costa Rica were in process of liquidation.

Eliminations of all material intercompany transactions and balances between the Company and their respective subsidiaries have been made in consolidation.

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The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****2 Basis of presentation (continued)**

The preparation of financial statements requires management to make estimates and assumptions that might affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet dates, and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from these estimates.

These consolidated financial statements have been approved for issue by the board of directors on February 27, 2007.

**3 Acquisition of business****(a) Impeco S.A.**

On November 18, 2005, Ternium's Argentine subsidiary, Siderar, agreed to acquire assets and facilities of Acindar Industria Argentina de Aceros S.A. related to the production of welded steel pipes in the province of Santa Fe in Argentina, as well as 100% of the issued and outstanding shares of Impeco S.A., which in turn owns a plant located in the province of San Luis in Argentina. Purchase price paid totaled USD 55.2 million, subject to subsequent adjustments. These two plants have a production capacity of 140 thousand tons per year of tubes to be used in the construction, agricultural and manufacturing industries. The acquisition has been approved by the Argentine competition authorities and was completed on January 31, 2006. This acquisition did not give rise to goodwill.

The acquired business contributed revenues of USD 73.3 million in the year ended December 31, 2006. The fair value of assets and liabilities arising from acquisition are as follows:

|                                    | <b>USD thousands</b> |
|------------------------------------|----------------------|
| Property, plant and equipment      | 47,825               |
| Inventories                        | 8,180                |
| Deferred tax liabilities           | (875)                |
| Others assets and liabilities, net | 53                   |
| <b>Net</b>                         | <b>55,183</b>        |

**(b) Acerex S.A. de C.V.**

In April 2006, the Company acquired a 50% equity interest in Acerex S.A. de C.V. (Acerex) through its subsidiary Hylsa S.A. de C.V. for a total purchase price of USD 44.6 million. Upon completion of this transaction Hylsa S.A. de C.V. owns 100% of Acerex. Acerex is a service center dedicated to processing steel to produce short-length and steel sheets in various widths. Acerex operates as a cutting and processing plant for Ternium's Mexican operations and as an independent processor for other steel companies. On August 31, 2006 Acerex S.A. de C.V. was merged into Hylsa S.A. de C.V.

As permitted by IFRS 3 Business Combinations (IFRS 3), the Company accounted for this acquisition under the economic entity model, which requires that the acquisition of an additional equity interest in a controlled subsidiary be accounted for at its carrying amount, with the difference arising on purchase price allocation (amounting to USD 24.3 million) being recorded directly in equity.

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(c) Additional shares of Hylsamex bought by Siderar

On June 19, 2006, Siderar completed the acquisition of 940,745 additional shares of Hylsamex, representing 0.2% of that company's issued and outstanding common stock, for a total consideration of USD 3.3 million. This acquisition was effected through a trust fund established by Siderar in 2005 in connection with the initial acquisition of Hylsamex (see note 3(e)). Goodwill resulting from this acquisition totaled USD 0.7 million.

(d) Additional shares of Siderar bought by Ternium S.A.

On December 28, 2006, Ternium S.A. acquired from CVRD International S.A. 16,860,000 shares of Siderar S.A.I.C, representing 4.85% of that company, for an aggregate purchase price of USD 107.5 million. After this acquisition Ternium has increased its ownership in Siderar to 60.93%.

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****3 Acquisition of business (continued)**

As permitted by IFRS 3, the Company accounted for this acquisition under the economic entity model, which requires that the acquisition of an additional equity interest in a controlled subsidiary be accounted for at its carrying amount, with the difference arising on purchase price allocation (amounting to USD 8.1 million) being recorded directly in equity.

**(e) Hylsamex**

On May 18, 2005, III BVI, Hylsamex S.A. de C.V. and Alfa entered into the Hylsamex Acquisition Agreement. Pursuant to the terms of the Hylsamex Acquisition Agreement, on July 26, 2005, III BVI launched a cash tender offer in Mexico for the acquisition of all the outstanding shares of Hylsamex. On August 22, 2005, the acquisition by III BVI of a controlling interest in Hylsamex and of Alfa's minority interests in Amazonia, Ylopa and Hylsa Latin was consummated. The Company acquired an indirect controlling interest in Hylsamex and its subsidiaries, and the indirect equity stakes owned by Hylsamex's former controlling shareholder, Alfa, in Amazonia and Ylopa. III BVI and Siderar acquired 70.0% and 29.3% of the shares of Hylsamex, respectively by a total amount of USD 2,095 million. III BVI also acquired an additional 10.5% direct and indirect interest in Amazonia and an additional 11.1% interest in Ylopa by USD 91.9 million. Subsequently, Siderar purchased additional shares of Hylsamex in the open market for a total amount of USD 9.7 million, thus reaching a 29.9% equity interest in that company.

Hylsamex's main business is the production of flat and long steel products, with manufacturing plants located in the cities of Monterrey and Puebla, Mexico, and is a leader in the production of coated steel.

The acquired business contributed revenues of USD 723.8 million and net income of USD 25.4 million to the Company in the year ended December 31, 2005. The book value of net assets acquired totals USD 1,492 million. The fair value of assets and liabilities arising from acquisition are as follows:

|                                    | <b>USD thousands</b> |
|------------------------------------|----------------------|
| Property, plant and equipment      | 2,129,325            |
| Inventories                        | 345,053              |
| Cash and cash equivalents          | 215,411              |
| Deferred tax liabilities           | (449,537)            |
| Pension benefits                   | (116,860)            |
| Borrowings                         | (751,730)            |
| Others assets and liabilities, net | 488,297              |
| Minority interest                  | (156,651)            |
| <b>Net</b>                         | <b>1,703,308</b>     |

Goodwill, representing the excess of the purchase price paid over the fair value of identifiable assets, liabilities and contingent liabilities acquired, totaled USD 399.7 million.

As part of the financing for the acquisition, the Company and its affiliates entered into the following loan agreements:

- i) an amended and restated credit agreement, dated as of August 16, 2005 among I.I.I. BVI and lenders for an aggregate principal amount of USD1,000 million (the Ternium Credit Facility). The Ternium Credit Facility is comprised of two equal tranches:

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- Tranche A with a maturity of three years and bearing interest at the annual rate of LIBOR plus an applicable margin that ranges from 75 to 400 basis points. This tranche has been fully repaid in February 2006.
  
  - Tranche B with a maturity of five years and bearing interest at the annual rate of LIBOR plus an applicable margin that ranges from 137.5 to 300 basis points. The outstanding debt amount is USD 233 million as of December 31, 2006.
- ii) an amended and restated credit agreement, dated as of August 16, 2005, for an aggregate principal amount of USD380 million among Siderar, as borrower, and the lenders (the Siderar Credit Facility ). The Siderar Credit Facility is payable in five equal and consecutive semi-annual installments with a grace period of 12 months and bears interest at LIBOR plus 200 basis points; and

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**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****3 Acquisition of business (continued)**

iii) several convertible and subordinated loan agreements, dated as of various dates, for an aggregate principal amount of USD594 million, each among the Company, I.I.I. BVI, as borrowers, and Usiminas, Tenaris, or other Techint Group companies (collectively, the Subordinated Lenders), the agreements, the Subordinated Convertible Loan Agreements and the loans thereunder, the Subordinated Convertible Loans). Pursuant to the terms of the Subordinated Convertible Loan Agreements, on February 6, 2006, the Subordinated Convertible Loans have been converted into shares of the Company at a price per share equal to the price per share paid by the investors in the offering.

Under the credit agreements mentioned in i) and ii) above, the Company and its affiliates are subject to certain covenants that limit their ability to, among other thing, pay dividends to their shareholders in excess of certain amounts or make other restricted payments, make capital expenditures in excess of certain amounts, grant certain liens, borrow additional money or prepay principal or interest on subordinated debt over certain limits, change their business or amend certain significant agreements, effect a change of control, merge, acquire or consolidate with another company, make additional investments or dispose of their assets.

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

**(f) Amazonia**

On February 3, 2005, Ylopa exercised its option to convert the outstanding balance of the Amazonia convertible debt instrument into newly issued shares of that company. On February 15, 2005, new shares of Amazonia were issued in exchange for the convertible instrument. As a result, Ternium's indirect participation in Amazonia increased from 31.03% to 53.47%, thereby increasing its indirect participation in Sidor from 18.53% to 31.94%. This acquisition has been accounted for following the provisions contained in IFRS 3 and, accordingly, assets acquired and liabilities assumed have been valued at fair value. Total purchase consideration, representing the carrying amount of the convertible debt instrument at the date of conversion, accounted for USD127.6 million, of which USD82.0 million correspond to the majority shareholders. The excess of Ternium's interest in the net fair value of Amazonia's identifiable assets, liabilities and contingent liabilities over the purchase price (amounting to USD 188.4 million) has been recognized in income for the year. The main factor that contributed to a purchase price significantly below the fair value of net assets acquired is the downturn experienced by steel prices until 2003. Thus, the convertible debt instrument was issued at a time when Amazonia was undergoing a severe crisis affecting its business and financial condition, this situation being opposite to the current business condition on the date the conversion feature was exercised and the business combination was effected. In addition, as also required by IFRS 3, the Company recorded in equity the excess of the fair value of its pre-acquisition interest in Amazonia's net assets over their corresponding carrying amounts.

The acquired business contributed revenues of USD 1,863.5 million to the Company in the year ended December 31, 2005. The book value of net assets acquired totals USD 928 million. The fair value of assets and liabilities arising from acquisition are as follows:

|                               | <b>USD Thousand</b> |
|-------------------------------|---------------------|
| Property, plant and equipment | 2,444,289           |
| Inventories                   | 284,676             |
| Cash and cash equivalents     | 305,342             |
| Deferred Tax Liabilities      | (284,242)           |
| Pension Benefits              | (78,425)            |
| Provisions                    | (37,163)            |
| Borrowings                    | (656,658)           |

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|                                    |                  |
|------------------------------------|------------------|
| Others assets and liabilities, net | (13,459)         |
| Minority Interest                  | (795,178)        |
| <b>Net</b>                         | <b>1,169,182</b> |

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**TERNIUM S.A.**

**Notes to the Consolidated Financial Statements (Contd.)**

**4 Accounting policies**

The following is a summary of the principal accounting policies followed in the preparation of these consolidated financial statements:

**(a) Group accounting**

*(1) Subsidiary companies*

Subsidiary companies are those entities in which the Company has an interest of more than 50% of the voting rights or otherwise has the power to exercise control over the operating decisions. Subsidiaries are consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the acquisition cost over the Company's share of the fair value of net assets acquired is recorded as goodwill. Acquisition of minority interests in subsidiaries is accounted for following the economic entity model and, accordingly, assets acquired and liabilities assumed are valued at book value and the difference arising on purchase price allocation is recorded in equity under "Revaluation and other reserves" line item. Material intercompany transactions, balances and unrealized gains on transactions among the Company and its subsidiaries are eliminated; unrealized losses are also eliminated unless cost cannot be recovered. However, the fact that the functional currency of some subsidiaries is their respective local currency, generates some financial gains (losses) arising from intercompany transactions, that are included in the consolidated income statement under Financial (expenses) income, net.

*(2) Associated companies*

Associated companies are entities in which Ternium generally has between 20% and 50% of the voting rights, or over which Ternium has significant influence, but which it does not control. Investments in associated companies are accounted for using the equity method of accounting. Under this method the Company's share of the post-acquisition profits or losses of an associated company is recognized in the income statement and its share of post-acquisition changes in reserves is recognized in reserves. The cumulative post-acquisition changes are adjusted against the cost of the investment. Unrealized gains on transactions among the Company and its associated companies are eliminated to the extent of the Company's interest in such associated company; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When the Company's share of losses in an associated company equals or exceeds its interest in such associate, the Company does not recognize further losses unless it has incurred obligations or made payments on behalf of such associated company.

*(3) First-time application of IFRS*

The Company's transition date is January 1, 2003. Ternium prepared its opening IFRS balance sheet at that date.

In preparing its financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS, as detailed below:

**3.1. Exemptions from full retrospective application elected by the Company**

The Company has elected to apply the following optional exemptions from full retrospective application.

*(a) Fair value as deemed cost exemption*

Ternium has elected to measure its property, plant and equipment at fair value as of January 1, 2003.

*(b) Cumulative translation differences exemption*

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Ternium has elected to set the previously accumulated cumulative translation to zero at January 1, 2003. This exemption has been applied to all subsidiaries in accordance with IFRS 1.

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**TERNIUM S.A.**

**Notes to the Consolidated Financial Statements (Contd.)**

**4 Accounting policies (continued)**

**(a) Group accounting (continued)**

**3.2 Exceptions from full retrospective application followed by the Company**

Ternium has applied the following mandatory exceptions from retrospective application.

*(a) Derecognition of financial assets and liabilities exception*

Financial assets and liabilities derecognized before January 1, 2003 are not re-recognized under IFRS. However, this exception had no impact on these financial statements as it was not applicable since the Company did not derecognize any financial assets or liabilities before the transition date that qualified for recognition.

*(b) Hedge accounting exception*

The Company has no derivatives that qualify for hedge accounting. This exception is therefore not applicable.

*(c) Estimates exception*

Estimates under IFRS at January 1, 2003 should be consistent with estimates made for the same date under previous GAAP.

*(d) Assets held for sale and discontinued operations exception*

Ternium did not have assets that met the held-for-sale criteria (as defined by IFRS 5) at the transition date (January 1, 2003).

**(b) Foreign currency translation**

*(1) Functional and presentation currency*

Items included in the financial statements of each of the Company's subsidiaries and associated companies are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of the Company is the U.S. dollar. Although Ternium is located in Luxembourg, it operates in several countries with different currencies. The USD is the currency that best reflects the economic substance of the underlying events and circumstances relevant to Ternium as a whole.

*(2) Subsidiary companies*

The results and financial position of all the group entities (none of which operates in a hyperinflationary economy) that have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

- (i) assets and liabilities are translated at the closing rate of each balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates; and
- (iii) all resulting translation differences are recognized as a separate component of equity.

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In the case of a sale or other disposition of any such subsidiary, any accumulated translation differences would be recognized in the income statement as part of the gain or loss on sale.

### *(3) Transactions in currencies other than the functional currency*

Transactions in currencies other than the functional currency are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in currencies other than the functional currency are recognized in the income statement, including the foreign exchange gains and losses from intercompany transactions.

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****4 Accounting policies (continued)****(c) Property, plant and equipment**

Land and buildings comprise mainly factories and offices. All property, plant and equipment are recognized at historical acquisition or construction cost less accumulated depreciation and accumulated impairment (if applicable), except for land, which is carried at acquisition cost less accumulated impairment (if applicable). Nevertheless, as mentioned in Note 4(a), property, plant and equipment have been valued at its deemed cost at the transition date to IFRS.

Major overhaul and rebuilding expenditures are recognized as a separate asset when future economic benefits are expected from the item, and the cost can be measured reliably.

Ordinary maintenance expenses on manufacturing properties are recorded as cost of products sold in the period in which they are incurred.

In accordance with IAS 23, borrowing costs that are attributable to the acquisition or construction of certain capital assets could be capitalized as part of the cost of the assets. Capital assets for which borrowing costs may be capitalized are those that require a substantial period of time to prepare for their intended use. At December 31, 2006, no borrowing costs recorded have been capitalized.

Where a tangible fixed asset comprises major components having different useful lives, these components are accounted for as separate items.

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Depreciation method is reviewed at each balance sheet date. Depreciation is calculated using the straight-line method to amortize the cost of each asset to its residual value over its estimated useful life as follows:

|   |                 |
|---|-----------------|
| Land  | No Depreciation |
| Buildings and improvements  | 20-40 years     |
| Production equipment  | 15-25 years     |
| Vehicles, furniture and fixtures and other equipment  | 5-15 years      |
| The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. |                 |

Gains and losses on disposals are determined by comparing the proceeds with the corresponding carrying amounts and are included in the income statement.

If the carrying amount of an asset were greater than its estimated recoverable amount, it would be written down to its recoverable amount. (see Note 4 (e) Impairment ).

**(d) Intangible assets***(1) Information systems projects*

Generally, costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. However, costs directly related to the acquisition and implementation of information systems are recognized as intangible assets if they have a probable

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economic benefit exceeding the cost beyond one year.

Information systems projects recognized as assets are amortized using the straight-line method over their useful lives, not exceeding a period of 3 years. Amortization charges are included in cost of sales, selling, general and administrative expenses.

### *(2) Mining concessions and exploration costs*

Mining license was recognized as a separate intangible asset upon the acquisition of Hylsamex and comprises the right to exploit or explore the mines and is recognized at its fair value less accumulated amortization. Amortization charge is calculated according to the mineral extracted in each period and is included in cost of sales.

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**TERNIUM S.A.**

**Notes to the Consolidated Financial Statements (Contd.)**

**4 Accounting policies (continued)**

**(d) Intangible assets (continued)**

Exploration costs are classified as intangible assets until the production begins. Exploration costs are tested for impairment annually.

*(3) Goodwill*

Goodwill represents the excess of the acquisition cost over the fair value of Ternium's participation in acquired companies' net assets at the acquisition date. Under IFRS 3, goodwill is considered to have an indefinite life and not amortized, but is subject to annual impairment testing.

*(4) Research and development*

Research expenditures are recognized as expenses as incurred. Development costs are recorded as cost of sales in the income statement as incurred because they do not fulfill the criteria for capitalization. Research and development expenditures for the years ended December 31, 2006, 2005 and 2004 totaled USD 1.8 million, USD 2.1 million and USD 0.3 million, respectively.

**(e) Impairment**

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization and investments in affiliates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 levels for which there are separately identifiable cash flows (cash-generating units). For these purposes, each associate has been considered a cash generating unit.

At December 31, 2006 and 2005, no impairment provisions were recorded. The impairment provision recorded in previous years on the investment in Amazonia was reversed in 2004 and included in equity in earnings of associated companies, as explained in Note 11.

**(f) Other investments**

Other investments consist primarily of investments in financial debt instruments and equity investments where the Company holds less than 20% of the outstanding equity and does not exert significant influence.

Under IAS 39 Financial Instruments: Recognition and Measurement, investments have to be classified into the following categories: financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

All purchases and sales of investments are recognized on the trade date, which is not significantly different from the settlement date, which is the date that Ternium commits to purchase or sell the investment.

Income from financial instruments is recognized in Financial (expenses) income, net in the income statement. Interest receivable on investments in debt securities is calculated using the effective rate. Dividends from investments in equity instruments are recognized in the income statement when the Company's right to receive payments is established.

**(g) Inventories**

Inventories are stated at the lower of cost (calculated using the first-in-first-out (FIFO) method) or net realizable value. The cost of finished goods and goods in process comprises raw materials, direct labor, depreciation, other direct costs and related production overhead costs. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Goods acquired in transit at year end are valued at supplier's invoice cost.

For purposes of determining net realizable value, the Company establishes an allowance for obsolete or slow-moving inventory in connection with finished goods and goods in process. The provision for slow-moving inventory is recognized for finished goods and goods in process based on management's analysis of their aging.

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**TERNIUM S.A.**

**Notes to the Consolidated Financial Statements (Contd.)**

**4 Accounting policies (continued)**

**(g) Inventories (continued)**

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.

**(h) Trade receivables**

Trade and other receivables are carried at face value less a provision for impairment, if applicable. This amount does not differ significantly from fair value.

A provision for impairment is established when there is objective evidence that a financial asset or group of assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about a loss event, such as a significant financial difficulty of the obligor or a breach of contract. The amount of the impairment is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognized in the income statement.

**(i) Cash and cash equivalents**

Cash and cash equivalents and highly liquid short-term securities are carried at fair market value.

For purposes of the cash flow statement, cash and cash equivalents comprise cash, bank current accounts and short-term highly liquid investments (original maturity of less than 90 days).

In the consolidated balance sheet, bank overdrafts are included in borrowings within current liabilities.

**(j) Non current assets (disposal group) classified as held for sale**

Non-current assets (disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less cost to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

The carrying value of non-current assets classified as held for sale at December 31, 2006, totals USD 7.0 million and includes principally land and other real estate items. Sale is expected to be completed within a one-year period.

**(k) Shareholders' equity**

The consolidated statement of changes in shareholders' equity for the years 2006, 2005 and 2004 was prepared based on the following criteria:

Currency translation differences arising from the translation of financial statements expressed in currencies other than the U.S. dollar are shown in a separate line.

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Expenses incurred in connection with the Initial Public Offering at December 31, 2006 and 2005 totaled USD 17.8 million and USD 5.5 million, respectively, and have been deducted from equity, since they directly relate to a transaction which itself is to be recorded in equity.

For purposes of preparing the combined statement of changes in shareholders' equity shown as comparative information, dividends include the dividends paid by III (BVI) to San Faustín, and dividends paid by Ylopa to Tenaris, as if they had been paid by Ternium to San Faustín or Tenaris. Other distributions comprise loans granted by Ylopa and Amazonia to its shareholders that are in substance capital nature transactions. These loans are non-interest bearing facilities granted by Ylopa to its shareholders based on their respective stockholdings. These loans mature in one year, although debtors are allowed to make partial or full prepayments at any time. However Ylopa's intention is to offset the outstanding balance of such facilities against future dividend distributions. Accordingly, these credits have been shown as a reduction to equity.

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**TERNIUM S.A.**

**Notes to the Consolidated Financial Statements (Contd.)**

**4 Accounting policies (continued)**

**(l) Borrowings**

Borrowings are recognized initially for an amount equal to the proceeds received. In subsequent periods, borrowings are stated at amortized cost; any difference between proceeds and the redemption value is recognized in the income statement over the period of the borrowings.

Capitalized borrowing costs are amortized over the life of their respective debt.

**(m) Income taxes current and deferred**

Under present Luxembourg law, so long as the Company maintains its status as a holding company, no income tax, withholding tax (including with respect to dividends), or capital gain tax is payable in Luxembourg by the Company.

The Company is subject to subscription tax of 0.2%. The Company has qualified for, and was admitted to, the Billionaire holding company tax regime in conjunction with the financing holding company tax regime in Luxembourg starting January 1, 2006.

On December 29, 2006, the Grand-Duchy of Luxembourg announced the decision to terminate its 1929 holding company regime, effective January 1, 2007. However, under the implementing legislation, pre-existing publicly listed companies (including Ternium S.A.) will be entitled to continue benefiting from their current tax regime until December 31, 2010.

The current income tax charge is calculated on the basis of the tax laws in force in the countries in which Ternium's subsidiaries operate. Management evaluates positions taken in tax returns with respect to situations in which applicable tax regulation could be subject to interpretation. A liability is recorded for tax benefits that were taken in the applicable tax return but have not been recognized for financial reporting.

Deferred income taxes are calculated, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise on fixed assets, originated in different valuation and useful lives considered by accounting standards and tax regulations, tax loss carry-forwards, inventories valuation and provisions for pensions. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date. Under IFRS, deferred income tax assets (liabilities) are classified as non-current assets (liabilities).

Deferred tax assets are recognized to the extent it is probable that future taxable income will be available to offset temporary differences.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Under Mexican law, Ternium's subsidiaries are required to pay their employees an annual benefit calculated on a basis similar to that used for local income tax purposes. Employee statutory profit sharing is calculated using the liability method, and is recorded in current other liabilities and non current other liabilities on the balance sheet. Because Mexican employee statutory profit sharing is determined on a basis similar to that used for determining local income taxes, the Company accounts for temporary differences arising between the statutory calculation and the reported expense determined under IFRS in a manner similar to calculation of deferred income tax.

**(n) Employee liabilities**

*(1) Pension obligations*

The Company has defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

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**TERNIUM S.A.**

**Notes to the Consolidated Financial Statements (Contd.)**

**4 Accounting policies (continued)**

**(n) Employee liabilities (continued)**

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the employees' expected average remaining working lives.

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

**Sidor**

In compliance with the requirements established by the share purchase agreement subscribed in connection with the acquisition of Sidor, and as provided by the agreement entered into with the union representing Sidor's employees, on July 6, 1998, Sidor has established a defined contribution plan providing for certain pension and other post-retirement benefits for qualifying employees. This plan is financed through contributions made by that company and active employees. Although the plan does not provide for the amounts to be paid to employees upon retirement, for purposes of International Accounting Standard No. 19 "Employee Benefits", Sidor's obligations have been calculated based on actuarial calculations prepared assuming this plan qualifies as a defined benefit plan.

**Hylsamex**

The valuation of the liabilities for employee retirement plans (pensions and seniority premiums) covers all employees and is based primarily on their years of service, their present age and their remuneration at the date of retirement.

The cost of the employee retirement plans (pension, health-care expenses and seniority premiums) is recognized as an expense in the year in which services are rendered in accordance with actuarial studies made by independent actuaries.

The formal retirement plans are congruent with and complementary to the retirement benefits established by the Mexican Institute of Social Security. Additionally, the Company has established a plan to cover health-care expenses of retired employees.

The Company has established irrevocable trust funds for the payment of pensions and seniority premiums, as well as for health-care expenses.

**Siderar**

Siderar implemented an unfunded defined benefit employee retirement plan for certain officers on August 1, 1995. The plan is designed to provide retirement, termination and other benefits to those officers.

For its main plan, Siderar is accumulating assets for the ultimate payment of those benefits in the form of investments that carry time limitations for their redemption. The investments are not part of a particular plan, nor are they segregated from Siderar's other assets, and therefore this plan is classified as "unfunded" under IFRS definitions. Benefits provided by the plan are denominated in U.S. Dollars and are calculated based on a seven-year salary average.

**(2) Termination benefits**

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Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy.

### *(3) Other compensation obligations*

Employee entitlements to annual leave and long-service leave are accrued as earned.

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**TERNIUM S.A.**

**Notes to the Consolidated Financial Statements (Contd.)**

**4 Accounting policies (continued)**

**(n) Employee liabilities (continued)**

*(4) Social security contributions*

Social security laws in force in Argentina, Mexico and Venezuela provide for pension benefits to be paid to retired employees from government pension plans and/or private fund managed plans to which employees may elect to contribute. As stipulated by the respective laws, Siderar, Hylsamex and Sidor make monthly contributions calculated based on each employee's salary to fund such plans. The related amounts are expensed as incurred. No additional liabilities exist once the contributions are paid.

**(o) Provisions and other liabilities**

Ternium has certain contingencies with respect to existing or potential claims, lawsuits and other proceedings. Unless otherwise specified, Ternium accrues a provision for a present legal or constructive obligation as a result of a past event, when it is probable that future cost could be incurred and that cost can be reasonably estimated. Generally, accruals are based on developments to date, Ternium's estimates of the outcomes of these matters and the advice of Ternium's legal advisors.

**(p) Revenue recognition**

Revenues are recognized as sales when revenue is earned and is realized or realizable. This includes satisfying all of the following criteria: the arrangement with the customer is evident, usually through the receipt of a purchase order; the sales price is fixed or determinable; delivery as defined by the risk transfer provision of the sales contracts has occurred, and collectibility is reasonably assured.

Interest income is recognized on an effective yield basis.

Income from participation account is recognized when earned according to its contractual terms (see Note 10).

**(q) Cost of sales, selling, general and administrative expenses**

Cost of sales and expenses are recognized in the income statement on the accrual basis of accounting.

**(r) Earnings per share**

Earnings per share are calculated by dividing the net income attributable to shareholders by the daily weighted average number of ordinary shares issued during the year (see Note 29).

**(s) Derivative financial instruments**

Information about accounting for derivative financial instruments and hedging activities is included in Note 33 Financial risk management .

**(t) Segment information**

Business segments: for management purposes, the Company is organized on a worldwide basis into the following segments: flat steel products, long steel products and others.

The flat steel products segment comprises the manufacturing and marketing of flat steel products. Flat steel products include hot rolled coils and sheets, cold rolled coils and sheets, tin plate, welded pipes, hot dipped galvanized and electrogalvanized sheets, pre-painted sheets and other tailor-made products to serve its customers' requirements.

The long steel products segment comprises the manufacturing and marketing of long steel products. Long steel products include billets (steel in its basic, semifinished state), wire rod and bars.

The other products segment includes the products other than flat and long steel, mainly pig iron and pellets.

The secondary reporting format is based on a geographical location. Ternium sells its products to three main geographical areas: South and Central America, North America, and Europe and Other. The North American segment comprises principally United States, Canada and Mexico. The South and Central American segment comprises principally Argentina, Brazil, Colombia, Venezuela and Ecuador.

Allocation of net sales is based on the customers' location. Allocation of assets, liabilities and capital expenditures is based on their corresponding location.

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****5 Segment information****Primary reporting format business segments**

| <b>Year ended December 31, 2006</b>          | <b>Flat steel products</b> | <b>Long steel products</b> | <b>Other</b>   | <b>Unallocated</b> | <b>Total</b>     |
|--|----------------------------|----------------------------|----------------|--------------------|------------------|
| Net sales                                    | 5,047,527                  | 1,262,603                  | 258,845        |                    | 6,568,975        |
| Cost of sales                                | (3,285,569)                | (857,753)                  | (158,062)      |                    | (4,301,384)      |
| <b>Gross profit</b>                          | <b>1,761,958</b>           | <b>404,850</b>             | <b>100,783</b> |                    | <b>2,267,591</b> |
| Selling, general and administrative expenses | (477,216)                  | (118,367)                  | (28,189)       |                    | (623,772)        |
| Other operating (expenses) income, net       | (9,837)                    | 803                        | 1,784          |                    | (7,250)          |
| <b>Operating income</b>                      | <b>1,274,905</b>           | <b>287,286</b>             | <b>74,378</b>  |                    | <b>1,636,569</b> |
| Capital expenditures PP&E                    | 358,541                    | 17,730                     | 7,401          |                    | 383,672          |
| Depreciation PP&E                            | 356,518                    | 46,426                     | 1,240          |                    | 404,184          |
| <b>Segment assets</b>                        |                            |                            |                |                    |                  |
| Inventories                                  | 1,078,954                  | 109,143                    | 53,228         |                    | 1,241,325        |
| Trade receivables                            | 407,684                    | 141,228                    | 28,954         |                    | 577,866          |
| PP&E   | 4,632,273                  | 732,131                    | 56,279         |                    | 5,420,683        |
| Other assets                                 |                            |                            |                | 1,530,665          | 1,530,665        |
| <b>Segment liabilities</b>                   | <b>592,734</b>             | <b>109,870</b>             | <b>24,820</b>  | <b>2,555,974</b>   | <b>3,283,398</b> |
|  |                            |                            |                |                    |                  |
| <b>Year ended December 31, 2005</b>          | <b>Flat steel products</b> | <b>Long Steel products</b> | <b>Other</b>   | <b>Unallocated</b> | <b>Total</b>     |
| Net sales                                    | 3,660,427                  | 625,368                    | 161,885        |                    | 4,447,680        |
| Cost of sales                                | (2,002,299)                | (386,757)                  | (99,924)       |                    | (2,488,980)      |
| <b>Gross profit</b>                          | <b>1,658,128</b>           | <b>238,611</b>             | <b>61,961</b>  |                    | <b>1,958,700</b> |
| Selling, general and administrative expenses | (403,815)                  | (80,444)                   | (16,331)       |                    | (500,590)        |
| Other operating (expenses), net              | (56,281)                   | (2,163)                    | (7,505)        |                    | (65,949)         |
| <b>Operating income</b>                      | <b>1,198,032</b>           | <b>156,004</b>             | <b>38,125</b>  |                    | <b>1,392,161</b> |
| Capital expenditures PP&E                    | 208,772                    | 14,587                     |                |                    | 223,359          |
| Depreciation PP&E                            | 267,975                    | 32,604                     | 1,387          |                    | 301,966          |
| <b>Segment assets</b>                        |                            |                            |                |                    |                  |
| Inventories                                  | 859,270                    | 126,536                    | 14,313         |                    | 1,000,119        |
| Trade receivables                            | 363,573                    | 74,925                     | 34,262         |                    | 472,760          |
| PP&E   | 4,653,192                  | 749,305                    | 61,374         |                    | 5,463,871        |
| Other assets                                 |                            |                            |                | 1,723,231          | 1,723,231        |
| <b>Segment liabilities</b>                   | <b>717,855</b>             | <b>193,247</b>             | <b>31,117</b>  | <b>4,141,843</b>   | <b>5,084,062</b> |



**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****5 Segment information (continued)**

|  | Flat steel<br>products | Trading   | Other   | Unallocated | Total     |
|--|------------------------|-----------|---------|-------------|-----------|
| <b>Year ended December 31, 2004</b>          |                        |           |         |             |           |
| Net sales                                    | 1,266,197              | 325,227   | 7,501   |             | 1,598,925 |
| Cost of sales                                | (647,815)              | (312,447) | (4,742) |             | (965,004) |
| Gross profit                                 | 618,382                | 12,780    | 2,759   |             | 633,921   |
| Selling, general and administrative expenses | (110,232)              | (5,070)   | (1,324) |             | (116,626) |
| Other operating (expenses), net              | (2,953)                | (136)     | (35)    |             | (3,124)   |
| Operating income                             | 505,197                | 7,574     | 1,400   |             | 514,171   |
| Capital expenditures PP&E                    | 83,763                 |           |         |             | 83,763    |
| Depreciation PP&E                            | 92,596                 | 86        |         |             | 92,682    |
| Segment assets                               |                        |           |         |             |           |
| Inventories, net                             | 233,624                | 20,100    | 562     |             | 254,286   |
| Trade receivables                            | 111,945                | 58,877    | 783     |             | 171,605   |
| PP&E   | 1,244,294              | 397       |         |             | 1,244,691 |
| Investment in Amazonia                       | 309,195                |           |         |             | 309,195   |
| Other assets                                 | 468,673                | 95,047    |         | 103,133     | 666,853   |
| Segment liabilities                          | 635,461                | 143,629   |         | 95,689      | 874,779   |

**Secondary reporting format geographical segments**

|                                     | South and<br>Central<br>America | North<br>America | Europe and<br>other | Total     |
|-------------------------------------|---------------------------------|------------------|---------------------|-----------|
| <b>Year ended December 31, 2006</b> |                                 |                  |                     |           |
| Net sales                           | 3,704,294                       | 2,768,755        | 95,926              | 6,568,975 |
| Segment assets                      |                                 |                  |                     |           |
| Trade receivables                   | 202,784                         | 355,631          | 19,451              | 577,866   |
| Property, plant and equipment       | 3,450,176                       | 1,970,420        | 87                  | 5,420,683 |
| Depreciation PP&E                   | 270,453                         | 133,688          | 43                  | 404,184   |
| Capital expenditures PP&E           | 286,008                         | 97,662           | 2                   | 383,672   |
| <b>Year ended December 31, 2005</b> |                                 |                  |                     |           |
| Net sales                           | 2,805,214                       | 1,290,353        | 352,113             | 4,447,680 |
| Segment assets                      |                                 |                  |                     |           |
| Trade receivables                   | 64,837                          | 335,795          | 72,128              | 472,760   |
| Property, plant and equipment       | 3,409,045                       | 2,054,687        | 139                 | 5,463,871 |
| Depreciation PP&E                   | 249,808                         | 52,132           | 26                  | 301,966   |
| Capital expenditures PP&E           | 180,867                         | 42,473           | 19                  | 223,359   |



**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****5 Segment information (continued)**

| Year ended December 31, 2004  | South and<br>Central<br>America | North<br>America | Europe and<br>other | Total     |
|-------------------------------|---------------------------------|------------------|---------------------|-----------|
| Net sales                     | 1,123,692                       | 230,829          | 244,404             | 1,598,925 |
| Segment assets                |                                 |                  |                     |           |
| Trade receivables             | 50,956                          | 42,563           | 78,086              | 171,605   |
| Property, plant and equipment | 1,244,428                       | 93               | 170                 | 1,244,691 |
| Depreciation PP&E             | 92,626                          | 25               | 31                  | 92,682    |
| Capital expenditures PP&E     | 83,763                          |                  |                     | 83,763    |

**6 Cost of sales**

|  | Year ended December 31, |                  |                |
|--|-------------------------|------------------|----------------|
|  | 2006                    | 2005             | 2004           |
| <b>Inventories at the beginning of the year</b>        | 1,000,119               | 254,286          | 144,307        |
| Acquisition of business                                | 8,180                   | 629,729          |                |
| <b>Plus: Charges for the year</b>                      |                         |                  |                |
| Raw materials and consumables used and other movements | 3,019,408               | 1,642,793        | 781,337        |
| Services and fees                                      | 152,978                 | 119,155          | 42,277         |
| Labor cost   | 520,717                 | 306,215          | 89,362         |
| Depreciation of property, plant and equipment          | 377,808                 | 279,480          | 89,836         |
| Amortization of intangible assets                      | 14,470                  | 10,488           | 5,400          |
| Maintenance expenses                                   | 350,903                 | 207,490          | 62,488         |
| Office expenses  | 8,135                   | 8,020            | 1,145          |
| Freight and transportation                             | 25,451                  | 22,746           | 18,746         |
| Insurance  | 10,041                  | 4,749            | 815            |
| Provision for obsolescence                             | 30,320                  | 7,927            |                |
| Recovery from sales of scrap and by-products           | (48,488)                | (35,266)         | (23,315)       |
| Others   | 72,667                  | 31,287           | 6,892          |
| <b>Less: Inventories at the end of the year</b>        | (1,241,325)             | (1,000,119)      | (254,286)      |
| <b>Cost of Sales</b>                                   | <b>4,301,384</b>        | <b>2,488,980</b> | <b>965,004</b> |

**7 Selling, general and administrative expenses**

|  | Year ended December 31, |         |        |
|--|-------------------------|---------|--------|
|  | 2006                    | 2005    | 2004   |
| Services and fees                            | 52,169                  | 48,668  | 15,728 |
| Labor cost                                   | 157,155                 | 119,960 | 24,249 |
| Depreciation of property plant and equipment | 26,376                  | 22,486  | 2,846  |
| Amortization of intangible assets            | 5,841                   | 3,951   | 1,110  |

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|   |                |                |                |
|---|----------------|----------------|----------------|
| Maintenance and expenses                                  | 17,397         | 7,316          | 2,162          |
| Taxes   | 44,781         | 45,108         | 21,911         |
| Office expenses   | 29,722         | 24,529         | 1,540          |
| Freight and transportation                                | 271,286        | 217,368        | 42,354         |
| Insurance   | 1,234          | 475            | 529            |
| Recovery of provision for impairment of trade receivables | (5,207)        | (2,467)        | (2,326)        |
| Others  | 23,018         | 13,196         | 6,523          |
| <b>Selling, general and administrative expenses</b>       | <b>623,772</b> | <b>500,590</b> | <b>116,626</b> |

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**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****8 Labor costs (included in cost of sales, selling, general and administrative expenses)**

|   | Year ended December 31, |                |                |
|---|-------------------------|----------------|----------------|
|   | 2006                    | 2005           | 2004           |
| Wages, salaries and social security costs           | 558,800                 | 361,250        | 104,268        |
| Termination benefits                                | 18,176                  | 40,364         | 7,969          |
| Pension benefits defined benefit plan (Note 25 (i)) | 100,896                 | 24,561         | 1,374          |
|   | <b>677,872</b>          | <b>426,175</b> | <b>113,611</b> |

**9 Other operating expenses, net**

|   | Year ended December 31, |                 |                |
|---|-------------------------|-----------------|----------------|
|   | 2006                    | 2005            | 2004           |
| <b>(i) Other operating income</b>                           | <b>16,716</b>           | <b>6,543</b>    | <b>502</b>     |
| <b>(ii) Other operating expenses</b>                        |                         |                 |                |
| Provision for legal claims and other matters                | (8,645)                 | (13,586)        | (2,714)        |
| Others  | (1,998)                 | (4,558)         | (912)          |
| <b>Total other operating expenses</b>                       | <b>(10,643)</b>         | <b>(18,144)</b> | <b>(3,626)</b> |
| <b>(iii) Derecognition of property, plant and equipment</b> | <b>(13,323)</b>         | <b>(54,348)</b> |                |
| <b>Total other operating expenses, net</b>                  | <b>(7,250)</b>          | <b>(65,949)</b> | <b>(3,124)</b> |

**10 Other financial (expenses) income, net**

|   | Year ended December 31 |                  |                |
|---|------------------------|------------------|----------------|
|   | 2006                   | 2005             | 2004           |
| Debt issue costs  | (13,686)               | (3,171)          |                |
| Net foreign exchange transaction gains and change in fair value of derivative instruments | (16,541)               | (28,828)         | 9,845          |
| Income from Participation Account (i)   |                        | 44,050           | 203,429        |
| Loss from Participation Account (i)   | (270,161)              | (265,207)        |                |
| Others  | (22,029)               | (8,296)          | (1,639)        |
| <b>Other financial (expenses) income, net</b>   | <b>(322,417)</b>       | <b>(261,452)</b> | <b>211,635</b> |

(i)

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As a result of the debt restructuring process carried out by Sidor in 2003, Ylopa became Sidor's creditors in a Participation Account Agreement. This agreement provides for a compensation in the form of cash payments to be paid on a quarterly basis and has a term of 14 years, or until the fiscal year prior to the date of the settlement in full of certain bank borrowings (BANDES) due by Sidor. Until February 15, 2005, the Company accounted for its investment in Amazonia under the equity method of accounting. Thus, income arising from the Participation Account Agreement described in above has been recorded under Income from Participation Account within Financial income, net. Upon conversion of the Amazonia Convertible Debt Instrument on February 15, 2005, the Company acquired control over Amazonia and began accounting for such investment on a consolidated basis. Accordingly, income resulting from Ternium's share of the Participation Account has been offset against Amazonia's loss for the same concept and shown net under Loss from Participation Account line item.

### 11 Equity in earnings of associated companies

|  | Year ended December 31, |               |                |
|--|-------------------------|---------------|----------------|
|  | 2006                    | 2005          | 2004           |
| Equity in earnings of associated companies (Note 15) | 4,534                   | 21,524        | 60,908         |
| Impairments (i)                                      |                         |               | 148,293        |
| <b>Equity in earnings of associated companies</b>    | <b>4,534</b>            | <b>21,524</b> | <b>209,201</b> |

- (i) The accumulated impairment loss over the Company's investment in Amazonia at December 31, 2003 (totaling USD 148,293) was fully reversed in fiscal year 2004.

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****12 Income tax expense****Income tax**

Income tax expense for each of the years presented is as follows:

|   | Year ended December 31, |                  |                  |
|---|-------------------------|------------------|------------------|
|   | 2006                    | 2005             | 2004             |
| Current tax   | (387,741)               | (246,024)        | (209,147)        |
| Deferred tax (Note 24)  | 111,418                 | 24,990           | 31,661           |
| Utilization of previously unrecognized tax losses (see Note 24) | 13,967                  | 2,542            |                  |
|   | <b>(262,356)</b>        | <b>(218,492)</b> | <b>(177,486)</b> |

Income tax expense for the years ended December 31, 2006, 2005 and 2004 differed from the amount computed by applying the statutory income tax rate in force in each country in which the company operates to pre-tax income as a result of the following:

|   | Year ended December 31, |                  |                  |
|---|-------------------------|------------------|------------------|
|   | 2006                    | 2005             | 2004             |
| Income before income tax                          | 1,258,322               | 1,291,305        | 925,661          |
| Income tax expense at statutory tax rate          | (383,498)               | (271,953)        | (179,827)        |
| Non taxable income / (losses)                     | 156,008                 | 70,115           | 2,341            |
| Non deductible expenses                           | (36,050)                | (19,196)         |                  |
| Utilization of previously unrecognized tax losses | 13,967                  | 2,542            |                  |
| Provisions for tax loss carry-forwards            | (12,783)                |                  |                  |
| <b>Income tax expense</b>                         | <b>(262,356)</b>        | <b>(218,492)</b> | <b>(177,486)</b> |

**13 Property, plant and equipment, net**

| Year ended December 31, 2006        | Land    | Building and<br>improvements | Production<br>equipment | Vehicles,<br>furniture<br>and fixtures | Work in<br>progress | Spare<br>Parts | Total     |
|-------------------------------------|---------|------------------------------|-------------------------|--|---------------------|----------------|-----------|
| <b>Cost</b>                         |         |                              |                         |  |                     |                |           |
| Values at the beginning of the year | 314,467 | 1,441,769                    | 5,257,096               | 187,207                                | 190,356             | 18,619         | 7,409,514 |
| Translation differences             | (3,807) | (11,287)                     | (43,129)                | (1,644)                                | (770)               | (155)          | (60,792)  |
| Acquisition of business             | 2,624   | 42,603                       | 2,598                   |  |                     |                | 47,825    |
| Additions                           |         |                              | 21,275                  | 3,424                                  | 351,744             | 7,229          | 383,672   |
| Disposals / Consumptions            | (19)    | (40)                         | (1,374)                 | (2,500)                                |                     | (106)          | (4,039)   |
| Derecognition                       |         |                              | (38,950)                | (17)                                   | (192)               |                | (39,159)  |
| Transfers                           | (1,749) | 83,648                       | 87,448                  | 5,588                                  | (189,855)           |                | (14,920)  |

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|  |                |                  |                  |               |                |               |                  |
|--|----------------|------------------|------------------|---------------|----------------|---------------|------------------|
| Values at the end of the year            | 311,516        | 1,556,693        | 5,284,964        | 192,058       | 351,283        | 25,587        | 7,722,101        |
| <b>Depreciation</b>                      |                |                  |                  |               |                |               |                  |
| Accumulated at the beginning of the year |                | (386,021)        | (1,442,682)      | (116,019)     |                | (921)         | (1,945,643)      |
| Translation differences                  |                | 3,706            | 13,403           | 1,097         |                | 12            | 18,218           |
| Depreciation charge                      |                | (83,357)         | (305,320)        | (15,397)      |                | (110)         | (404,184)        |
| Disposals / Consumptions                 |                | 20               | 388              | 1,582         |                | 85            | 2,075            |
| Derecognition                            |                |                  | 25,836           |               |                |               | 25,836           |
| Transfers                                |                | 2,280            |                  |               |                |               | 2,280            |
| Accumulated at the end of the year       |                | (463,372)        | (1,708,375)      | (128,737)     |                | (934)         | (2,301,418)      |
| <b>At December 31, 2006</b>              | <b>311,516</b> | <b>1,093,321</b> | <b>3,576,589</b> | <b>63,321</b> | <b>351,283</b> | <b>24,653</b> | <b>5,420,683</b> |

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****13 Property, plant and equipment, net (continued)**

| Year ended December 31, 2005             | Land           | Building and improvements | Production equipment | Vehicles, furniture and fixtures | Work in progress | Spare parts   | Total            |
|--|----------------|---------------------------|----------------------|----------------------------------|------------------|---------------|------------------|
| <b>Cost</b>                              |                |                           |                      |                                  |                  |               |                  |
| Values at the beginning of the year      | 23,427         | 682,576                   | 2,217,688            | 141,212                          | 36,865           | 16,331        | 3,118,099        |
| Translation differences                  | (6,243)        | (98,975)                  | (266,065)            | (6,484)                          | (10,094)         | (382)         | (388,243)        |
| Acquisition of business                  | 290,765        | 819,850                   | 3,230,621            | 47,863                           | 184,515          |               | 4,573,614        |
| Additions                                | 266            | 7,539                     | 42,747               | 2,633                            | 165,966          | 4,208         | 223,359          |
| Disposals / Consumptions                 |                | (52)                      | (8,021)              | (1,331)                          |                  | (1,538)       | (10,942)         |
| Derecognition                            |                | (28,977)                  | (75,331)             | (2,065)                          |                  |               | (106,373)        |
| Transfers                                | 6,252          | 59,808                    | 115,457              | 5,379                            | (186,896)        |               |                  |
| Values at the end of the year            | 314,467        | 1,441,769                 | 5,257,096            | 187,207                          | 190,356          | 18,619        | 7,409,514        |
| <b>Depreciation</b>                      |                |                           |                      |                                  |                  |               |                  |
| Accumulated at the beginning of the year |                | (392,996)                 | (1,368,813)          | (109,797)                        |                  | (1,802)       | (1,873,408)      |
| Translation differences                  |                | 61,210                    | 107,768              | 3,773                            |                  | (2)           | 172,749          |
| Depreciation charge                      |                | (68,442)                  | (221,566)            | (11,801)                         |                  | (157)         | (301,966)        |
| Disposals / Consumptions                 |                | 35                        | 3,086                | 796                              |                  | 1,040         | 4,957            |
| Derecognition                            |                | 14,172                    | 36,843               | 1,010                            |                  |               | 52,025           |
| Accumulated at the end of the year       |                | (386,021)                 | (1,442,682)          | (116,019)                        |                  | (921)         | (1,945,643)      |
| <b>At December 31, 2005</b>              | <b>314,467</b> | <b>1,055,748</b>          | <b>3,814,414</b>     | <b>71,188</b>                    | <b>190,356</b>   | <b>17,698</b> | <b>5,463,871</b> |

**14 Intangible assets, net**

| Year ended December 31, 2006             | Mining                      |                                   |          | Total    |
|--|-----------------------------|-----------------------------------|----------|----------|
|  | Information System Projects | Concessions and Exploration Costs | Goodwill |          |
| <b>Cost</b>                              |                             |                                   |          |          |
| Values at the beginning of the year      | 50,385                      | 126,934                           | 399,694  | 577,013  |
| Translation differences                  | (409)                       | (1,159)                           | (2,426)  | (3,994)  |
| Additions                                | 18,350                      | 3,795                             | 675      | 22,820   |
| Values at the end of the year            | 68,326                      | 129,570                           | 397,943  | 595,839  |
| <b>Amortization</b>                      |                             |                                   |          |          |
| Accumulated at the beginning of the year | (19,807)                    | (4,324)                           |          | (24,131) |
| Translation differences                  | 147                         | 43                                |          | 190      |
| Amortization charge                      | (11,216)                    | (9,095)                           |          | (20,311) |

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|                                    |               |                |                |                |
|------------------------------------|---------------|----------------|----------------|----------------|
| Accumulated at the end of the year | (30,876)      | (13,376)       | (44,252)       |                |
| <b>At December 31, 2006</b>        | <b>37,450</b> | <b>116,194</b> | <b>397,943</b> | <b>551,587</b> |

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**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****14 Intangible assets, net (continued)**

| Year ended December 31, 2005             | Information<br>System<br>Projects | Mining                               |  | Goodwill       | Total          |
|--|-----------------------------------|--------------------------------------|--|----------------|----------------|
|  |                                   | Concessions and<br>Exploration Costs |  |                |                |
| <b>Cost</b>                              |                                   |                                      |  |                |                |
| Values at the beginning of the year      | 20,547                            |                                      |  |                | 20,547         |
| Translation differences                  | (1,767)                           | (603)                                |  | (5,694)        | (8,064)        |
| Acquisition of business                  | 10,538                            | 127,101                              |  |                | 137,639        |
| Additions                                | 21,144                            | 436                                  |  | 405,388        | 426,968        |
| Disposals                                | (77)                              |                                      |  |                | (77)           |
| Values at the end of the year            | 50,385                            | 126,934                              |  | 399,694        | 577,013        |
| <b>Amortization</b>                      |                                   |                                      |  |                |                |
| Accumulated at the beginning of the year | (10,498)                          |                                      |  |                | (10,498)       |
| Translation differences                  | 806                               |                                      |  |                | 806            |
| Amortization charge                      | (10,115)                          | (4,324)                              |  |                | (14,439)       |
| Accumulated at the end of the year       | (19,807)                          | (4,324)                              |  |                | (24,131)       |
| <b>At December 31, 2005</b>              | <b>30,578</b>                     | <b>122,610</b>                       |  | <b>399,694</b> | <b>552,882</b> |

**15 Investments in associated companies**

|  | Year ended December 31, |              |
|--|-------------------------|--------------|
|  | 2006                    | 2005         |
| At the beginning of the year               | 9,122                   | 309,318      |
| Translation adjustment                     | 31                      | (3,554)      |
| Acquisition of associated companies        | 2,598                   |              |
| Equity in earnings of associated companies | 4,534                   | 21,524       |
| Consolidation of Amazonia (see Note 3)     |                         | (318,166)    |
| <b>At the end of the year</b>              | <b>16,285</b>           | <b>9,122</b> |

The principal associated companies, all of which are unlisted, are:

| Company                 | Country of<br>incorporation | Voting rights           |      | Value at December 31, |      |
|-------------------------|-----------------------------|-------------------------|------|-----------------------|------|
|                         |                             | at December 31,<br>2006 | 2005 | 2006                  | 2005 |
| Lomond Holdings BV. (1) | Holanda                     | 50.00%                  |      | 2,747                 |      |

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|  |           |        |        |               |              |
|--|-----------|--------|--------|---------------|--------------|
| Matesi Materiales Siderúrgicos S.A. (2)                  | Venezuela | 49.80% | 49.80% | 12,866        | 9,002        |
| Compañía Afianzadora de Empresas Siderúrgicas S.G.R. (3) | Argentina | 38.89% | 38.89% | 120           | 120          |
| Finma S.A.I.F. (4)                                       | Argentina | 33.33% |        | 552           |              |
|  |           |        |        | <b>16,285</b> | <b>9,122</b> |

- 
- (1) Holding Company. Indirectly through the participation in Alvory.
  - (2) Manufacturing and marketing of briquettes. Indirectly through the participation in Sidor.
  - (3) Granting of guarantees to participating partners to facilitate or permit access to credits for purchase of national raw material. Indirectly through the participation in Siderar.
  - (4) Consulting and financial services. Indirectly through the participation in Siderar.

**16 Other investments, net non-current**

|  | As of December 31, |               |
|--|--------------------|---------------|
|  | 2006               | 2005          |
| Investments in companies under cost method                               | 243                | 243           |
| Time deposits with related parties (i)                                   | 11,249             | 10,450        |
| Guarantee fund Compañía Afianzadora de Empresas Siderúrgicas S.G.R. (ii) | 2,978              | 3,402         |
| Provision for impairment of other investments (Note 22 )                 | (1,083)            | (1,488)       |
| <b>Total</b>   | <b>13,387</b>      | <b>12,607</b> |

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****16 Other investments, net non-current (continued)***(i) Time deposits with related parties*

The Company holds a savings fund denominated in U.S. dollars. Withdrawal of investments before certain dates is subject to penalties on amounts invested.

*(ii) Guarantee fund Compañía Afianzadora de Empresas Siderúrgicas S.G.R.*

Corresponds to the Company's portion of the risk funds sponsored by Compañía Afianzadora de Empresas Siderúrgicas S.G.R., which acts as guarantor of third parties' debts.

**17 Receivables, net non-current**

|   | <b>As of December 31,</b> |               |
|---|---------------------------|---------------|
|   | <b>2006</b>               | <b>2005</b>   |
| Receivables with related parties (Note 30)      | 63,323                    | 39,285        |
| Employee advances and loans                     | 12,616                    | 6,323         |
| Trade receivables                               | 1,373                     | 3,474         |
| Receivables from sale of fixed assets           | 1,542                     | 1,729         |
| Others  | 1,422                     | 1,028         |
| Provision for impairment receivables (Note 22 ) | (1,373)                   | (3,024)       |
|   | <b>78,903</b>             | <b>48,815</b> |

**18 Receivables current**

|  | <b>As of December 31,</b> |                |
|--|---------------------------|----------------|
|  | <b>2006</b>               | <b>2005</b>    |
| Value added tax                            | 8,513                     | 55,326         |
| Asset tax                                  | 15,892                    | 60,312         |
| Prepaid taxes                              | 3,550                     | 2,894          |
| Employee advances and loans                | 6,222                     | 5,943          |
| Advances to suppliers                      | 27,583                    | 58,839         |
| Expenses paid in advance                   | 12,175                    | 15,172         |
| Government tax refunds on exports          | 43,531                    | 36,425         |
| Receivables with related parties (Note 30) | 42,619                    | 35,548         |
| Others, net                                | 15,733                    | 20,843         |
|  | <b>175,818</b>            | <b>291,302</b> |

**19 Inventories, net**

|  | <b>As of December 31,</b> |                  |
|--|---------------------------|------------------|
|  | <b>2006</b>               | <b>2005</b>      |
| Raw materials, materials and spare parts | 519,530                   | 509,266          |
| Goods in process                         | 458,839                   | 298,847          |
| Finished goods                           | 262,873                   | 201,085          |
| Goods in transit                         | 78,862                    | 43,740           |
| Provision for obsolescence (Note 23)     | (78,779)                  | (52,819)         |
|  | <b>1,241,325</b>          | <b>1,000,119</b> |

**20 Trade receivables, net**

|   | <b>As of December 31,</b> |                |
|---|---------------------------|----------------|
|   | <b>2006</b>               | <b>2005</b>    |
| Current accounts                                      | 592,800                   | 487,952        |
| Trade receivables with related parties (Note 30)      | 10,149                    | 14,659         |
| Provision for impairment trade receivables (Note 23 ) | (25,083)                  | (29,851)       |
|   | <b>577,866</b>            | <b>472,760</b> |

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****21 Cash, cash equivalents and other investments**

|   | As of December 31, |                |
|---|--------------------|----------------|
|   | 2006               | 2005           |
| <b>(i) Other investments</b>                  |                    |                |
| Trust funds with specific objective (Note 30) |                    | 5,185          |
|   |                    | <b>5,185</b>   |
| <b>(ii) Cash and cash equivalents</b>         |                    |                |
| Cash at banks and in hand                     | 65,035             | 117,737        |
| Deposits and foreign private sector bonds     | 567,967            | 637,243        |
| Restricted cash                               | 10,350             | 10,650         |
|   | <b>643,352</b>     | <b>765,630</b> |

**22 Provisions non current**

|                                     | Deducted from assets<br>Provision for Impairment<br>Other |              | Liabilities<br>Legal claims<br>and<br>other matters |
|-------------------------------------|---|--------------|---|
|                                     | Receivables   | investments  |   |
| <b>Year ended December 31, 2006</b> |   |              |   |
| Values at the beginning of the year | 3,024   | 1,488        | 54,138  |
| Translation differences             | (27)  | (17)         | (137)   |
| Additional provisions               |   |              | 9,966   |
| Reversals                           | (1,624)   | (388)        | (1,321)   |
| Used                                |   |              | (2,103)   |
| <b>At December 31, 2006</b>         | <b>1,373</b>  | <b>1,083</b> | <b>60,543</b>                                       |
| <b>Year ended December 31, 2005</b> |   |              |   |
| Values at the beginning of the year | 3,404   | 2,001        | 12,885  |
| Translation differences             | (47)  | (17)         | (4,355)   |
| Acquisition of business             |   |              | 37,163  |
| Additional provisions               |   |              | 13,586  |
| Reversals                           | (333)   |              |   |
| Used                                |   | (496)        | (5,141)   |
| <b>At December 31, 2005</b>         | <b>3,024</b>  | <b>1,488</b> | <b>54,138</b>                                       |

## 23 Provisions current

|                                     | Deducted from assets |               |
|-------------------------------------|----------------------|---------------|
|                                     | Provision for        |               |
|                                     | impairment           | Provision for |
|                                     | trade receivables    | obsolescence  |
| <b>Year ended December 31, 2006</b> |                      |               |
| Values at the beginning of the year | 29,851               | 52,819        |
| Translation differences             | (420)                | (513)         |
| Reversals                           | (3,937)              | (19,300)      |
| Additional provisions               | 354                  | 49,620        |
| Used                                | (765)                | (3,847)       |
| <b>At December 31, 2006</b>         | <b>25,083</b>        | <b>78,779</b> |
| <b>Year ended December 31, 2005</b> |                      |               |
| Values at the beginning of the year | 10,754               | 12,524        |
| Translation differences             | (418)                | (1,802)       |
| Reversals                           | (3,987)              |               |
| Acquisition of business             | 30,617               | 37,897        |
| Additional provisions               | 1,853                | 7,927         |
| Used                                | (8,968)              | (3,727)       |
| <b>At December 31, 2005</b>         | <b>29,851</b>        | <b>52,819</b> |

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****24 Deferred income tax**

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rate of the applicable country.

Changes in deferred income tax are as follows:

|                                 | <b>Year ended December 31,</b> |                    |
|---------------------------------|--------------------------------|--------------------|
|                                 | <b>2006</b>                    | <b>2005</b>        |
| At beginning of the year        | (1,019,062)                    | (337,473)          |
| Acquisition of business         | (1,067)                        | (711,028)          |
| Translation differences         | 9,705                          | 4,449              |
| Uses of tax loss carry-forwards | (63,677)                       |                    |
| Income statement credit         | 125,385                        | 24,990             |
| <b>At end of the year</b>       | <b>(948,716)</b>               | <b>(1,019,062)</b> |

The changes in deferred tax assets and liabilities (prior to offsetting the balances within the same tax jurisdiction) during the year are as follows:

|                                  |                   |                    |                   |                 | <b>Total at</b>     |
|----------------------------------|-------------------|--------------------|-------------------|-----------------|---------------------|
|                                  | <b>Fixed</b>      |                    | <b>Intangible</b> |                 | <b>December 31,</b> |
| <b>Deferred tax liabilities</b>  | <b>assets</b>     | <b>Inventories</b> | <b>assets</b>     | <b>Other</b>    | <b>2006</b>         |
| At beginning of year             | (1,054,020)       | (107,175)          | (45,849)          | (43,476)        | (1,250,520)         |
| Acquisition of business          | (1,140)           | 3                  |                   |                 | (1,137)             |
| Translation differences          | 9,876             | 1,816              | 684               | (48)            | 12,328              |
| Income statement credit (charge) | 78,056            | 20,908             | 3,902             | (27,468)        | 75,398              |
| <b>At end of year</b>            | <b>(967,228)</b>  | <b>(84,448)</b>    | <b>(41,263)</b>   | <b>(70,992)</b> | <b>(1,163,931)</b>  |
|                                  |                   |                    | <b>Tax loss</b>   |                 |                     |
|                                  |                   |                    | <b>Trade</b>      | <b>carry-</b>   | <b>Total at</b>     |
| <b>Deferred tax assets</b>       | <b>Provisions</b> | <b>Receivables</b> | <b>forwards</b>   | <b>Other</b>    | <b>December 31,</b> |
| At beginning of year             | 36,312            | 20,322             | 98,213            | 76,611          | 231,458             |
| Acquisition of business          | 39                |                    |                   | 31              | 70                  |
| Translation differences          | (385)             | (133)              | (1,486)           | (620)           | (2,624)             |
| Uses of tax loss carry-forwards  |                   |                    | (63,677)          |                 | (63,677)            |
| Income statement credit          | 1,533             | 3,394              | 13,967            | 31,094          | 49,988              |
| <b>At end of year</b>            | <b>37,499</b>     | <b>23,583</b>      | <b>47,017</b>     | <b>107,116</b>  | <b>215,215</b>      |

Deferred tax assets and liabilities are offset when the entity a) has a legally enforceable right to set off the recognized amounts; and b) intends to settle the tax on a net basis or to realize the asset and settle the liability simultaneously.

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As December 31, 2006 and 2005, USD 36,439 and USD 29,126, respectively, have been classified as non-current assets and USD 985,155 and USD 1,048,188, respectively, have been classified as non-current liabilities.

The amounts shown in the balance sheet include the following:

|  | <b>As of December 31,</b> |
|--|---------------------------|
|  | <b>2006</b>               |
| Deferred tax assets to be recovered after more than 12 months    | 158,205                   |
| Deferred tax liabilities to be settled after more than 12 months | (1,078,181)               |
|  | <b>(919,976)</b>          |

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****25 Other liabilities**

|  | <b>As of December 31,</b> |                |
|--|---------------------------|----------------|
|  | <b>2006</b>               | <b>2005</b>    |
| <b>(i) Other liabilities non-current</b> |                           |                |
| Termination benefits                     | 3,716                     | 3,118          |
| Pension benefits                         | 263,454                   | 177,899        |
| Related Parties (Note 30)                | 1,149                     |                |
| Other                                    | 6,247                     | 6,900          |
|  | <b>274,566</b>            | <b>187,917</b> |

*Pension benefits*

The amounts recognized in the consolidated balance sheet are determined as follows:

|                                       | <b>Year ended December 31,</b> |                |
|---------------------------------------|--------------------------------|----------------|
|                                       | <b>2006</b>                    | <b>2005</b>    |
| Present value of unfunded obligations | 304,922                        | 172,394        |
| Unrecognized actuarial (losses) gains | (16,282)                       | 8,594          |
| Unrecognized prior service costs      | (25,186)                       | (3,089)        |
| <b>Liability in the balance sheet</b> | <b>263,454</b>                 | <b>177,899</b> |

The amounts recognized in the consolidated income statement are as follows:

|   | <b>Year ended December 31,</b> |               |
|---|--------------------------------|---------------|
|   | <b>2006</b>                    | <b>2005</b>   |
| Current service cost                                | 8,079                          | 7,227         |
| Interest cost                                       | 36,549                         | 17,785        |
| Changes to pension plan (1)                         | 46,947                         |               |
| Amortization of prior service costs                 | 593                            | 443           |
| Net actuarial losses (gains) recognized in the year | 8,728                          | (894)         |
| <b>Total included in labor costs</b>                | <b>100,896</b>                 | <b>24,561</b> |

- (1) In December 2006, Sidor decided a change in the benefits associated to the pension plan which became effective on January 1, 2007. This change consists mainly of an increase of the minimum pension benefit to be provided to retired employees. Consequently, the pension plan actuarial liability was accordingly adjusted.

Changes in the liability recognized in the consolidated balance sheet are as follows:

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|  | <b>Year ended December 31,</b> |                |
|--|--------------------------------|----------------|
|  | <b>2006</b>                    | <b>2005</b>    |
| At the beginning of the year               | 177,899                        | 6,117          |
| Acquisition of business - Amazonia         |                                | 195,285        |
| Transfers and new participants of the plan | (130)                          | (25,153)       |
| Total expense                              | 100,896                        | 24,561         |
| Translation differences                    | (1,355)                        | (9,550)        |
| Contributions paid                         | (13,856)                       | (13,361)       |
| <b>At the end of year</b>                  | <b>263,454</b>                 | <b>177,899</b> |

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****25 Other liabilities (continued)**

The principal actuarial assumptions used were as follows:

| Venezuela                           | Year ended December 31, |                |
|-------------------------------------|-------------------------|----------------|
|                                     | 2006                    | 2005           |
| Discount rate                       | 26.81%                  | 23.32%         |
| Rate of compensation increase       | 16.34%                  | 16.34%         |
| Mexico                              | Year ended December 31, |                |
|                                     | 2006                    | 2005           |
| Discount rate                       | 9.50%                   | 8.67%          |
| Rate of compensation increase       | 4.00%                   | 4.54%          |
| Argentina                           | Year ended December 31, |                |
|                                     | 2006                    | 2005           |
| Discount rate                       | 7.00%                   | 7.00%          |
| Rate of compensation increase       | 2.00%                   | 2.00%          |
| (ii) Other liabilities current      | As of December 31,      |                |
|                                     | 2006                    | 2005           |
| Payroll and social security payable | 81,841                  | 67,639         |
| Termination benefits                | 2,885                   | 18,966         |
| Participation account               | 54,454                  | 90,186         |
| Related Parties (Note 30)           | 15,090                  | 17             |
| Others                              | 4,104                   | 17,265         |
|                                     | <b>158,374</b>          | <b>194,073</b> |

**26 Derivative financial instruments****Net fair values of derivative financial instruments**

The net fair values of derivative financial instruments at December 31, 2006 and 2005 were as follows:

| Contracts with positive fair values: | Year ended December 31, |              |
|--------------------------------------|-------------------------|--------------|
|                                      | 2006                    | 2005         |
| Interest rate swap contracts         | 6,857                   | 5,316        |
| Foreign exchange contracts           | 995                     | 86           |
|                                      | <b>7,852</b>            | <b>5,402</b> |

**Contracts with negative fair values:**

|                       |                 |
|-----------------------|-----------------|
| Commodities contracts | (15,487)        |
|                       | <b>(15,487)</b> |

Derivative financial instruments breakdown is as follows:

a) Interest rate contracts

Fluctuations in market interest rates create a degree of risk by affecting the amount of the Company's interest payments and the value of its fixed rate debt. As of December 31, 2006, most of the Company's long-term borrowings were at variable rates.

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****26 Derivative Financial Instruments (continued)**

On September 1, 2005, III BVI entered into a USD 250 million interest rate swap agreement with Citibank N.A., New York to manage the impact of the floating interest rate changes on the Ternium Credit Facility by setting the interest rate to 4.235% per annum. This interest rate swap is due on August 22, 2010 and provides for semi-annual payments on February 22 and August 22 of each year, commencing on August 22, 2006 through and including the termination date. At December 31, 2006 the notional amount totaled USD 226.2 million.

On September 1, 2005, Siderar entered into two interest rate swap agreements with JP Morgan Chase Bank N.A. and Deutsche Bank AG with a notional amount of USD 100 million each to manage its exposure to changes in market rates associated with the Siderar Credit Facility by setting the interest rate to 4.18% and 4.20% per annum, respectively. These interest rate swaps are due on August 22, 2008 and provide for semi-annual payments on February 22 and August 22 of each year, commencing on August 22, 2006 through and including the termination date. At December 31, 2006 the notional amount totaled USD 160 million.

In March 2003, Hylsa entered into several interest rate cap agreements to manage the impact of the floating interest rate changes on its financial debt. As of December 31, 2006, Hylsa has an agreement, with a notional amount of USD 179.9 million and a fixed interest rate of 7.00% per annum; and another agreement with a notional amount of USD 24.5 million and a fixed interest rate of 5.0% per annum, both with Credit Suisse. These two agreements are due on January 2, 2008 and on January 22, 2007, respectively.

| Contract                             | Average rate | Notional amount<br>at December 31, 2006 | Fair value at December 31, |       |
|--------------------------------------|--------------|---|----------------------------|-------|
|                                      |              |   | 2006                       | 2005  |
| Interest rate contracts              | 5.10%        | 590,640                                 | 6,857                      | 5,316 |
| <i>b) Foreign exchange contracts</i> |              |   |                            |       |

During 2006, Siderar entered into several exchange rate derivative contracts to manage its exposure to changes in the Argentine Peso against the US Dollar. As of December 31, 2006, Siderar had 10 non-deliverable forward agreements with JP Morgan Chase Bank N.A. with a notional amount of ARS 10 million each at an average exchange rate of 3.0918 Argentine Pesos per US Dollar. These forwards are due between January and March, 2007.

| Currencies | Contract                           | Notional amount<br>at December 31, 2006 | Fair value at December 31, |           |
|------------|------------------------------------|---|----------------------------|-----------|
|            |                                    |   | 2006                       | 2005      |
| USD/EUR    | Euro forward sales                 |   |                            | 86        |
| MXN/USD    | Mexican peso forward purchases (1) |   | 817                        |           |
| ARS/USD    | Argentine peso forward purchases   | ARS 100,000                             | 178                        |           |
|            |                                    | <b>ARS 100,000</b>                      | <b>995</b>                 | <b>86</b> |

- (1) Hylsa has a contract for half of its electricity purchases with an affiliate of Iberdrola, S.A., a Spanish utility company, up to the year 2027. Prices in this contract are mostly denominated in U.S. dollars, while payments to its alternative provider CFE are in Mexican pesos. Under the contract, Hylsa is allowed to terminate this agreement under specified price-related circumstances. The fair value of this embedded derivative as of December 31, 2006, was USD 0.8 million.

*c) Commodities contracts*

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Hylsa entered into several derivative contracts with JP Morgan Chase Bank N.A., Citibank N.A. and Deutsche Bank AG to manage the impact of the fluctuation on the natural gas price. The contracts outstanding at December 31, 2006, are due between January 2007 and March 2008.

| Contract |           | Average price    | Notional amount in MMBtu | Fair value at December 31, |      |
|----------|-----------|------------------|--------------------------|----------------------------|------|
|          |           |                  | at December 31, 2006     | 2006                       | 2005 |
| Call     | Purchases | 7.65/7.45        | 12,000                   | 13,167                     |      |
| Call     | Sales     | 9.00/10.00       | 18,000                   | (6,716)                    |      |
| Put      | Sales     | 7.65@KI /7.45@KI | 12,000                   | (12,505)                   |      |
| Swaps    | Purchases | 7.36             | 6,000                    | (9,433)                    |      |
|          |           |                  |                          | <b>(15,487)</b>            |      |

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****27 Borrowings**

|   | Year ended<br>December 31, |                  |
|---|----------------------------|------------------|
|   | 2006                       | 2005             |
| <b>(i) Non-current</b>                    |                            |                  |
| Bank borrowings                           | 551,990                    | 1,810,910        |
| Borrowings with related parties (Note 30) |                            | 603,683          |
|   | <b>551,990</b>             | <b>2,414,593</b> |
| Less: debt issue costs                    | (3,589)                    | (14,715)         |
|   | <b>548,401</b>             | <b>2,399,878</b> |
| <b>(ii) Current</b>                       |                            |                  |
| Bank borrowings                           | 509,201                    | 518,629          |
| Borrowings with related parties (Note 30) | 2,161                      | 3,789            |
|   | <b>511,362</b>             | <b>522,418</b>   |
| Less: debt issue costs                    | (2,668)                    | (6,019)          |
|   | <b>508,694</b>             | <b>516,399</b>   |
| <b>Total Borrowings</b>                   | <b>1,057,095</b>           | <b>2,916,277</b> |

The maturity of borrowings is as follows:

|               | Expected Maturity Date |                |                |               |              |               | At December 31, (1) |                  |
|---------------|------------------------|----------------|----------------|---------------|--------------|---------------|---------------------|------------------|
|               | 2007                   | 2008           | 2009           | 2010          | 2011         | Thereafter    | 2006                | 2005             |
| Fixed Rate    | 150,918                |                |                |               |              | 7,206         | 158,124             | 56,257           |
| Floating Rate | 357,776                | 290,804        | 120,021        | 94,923        | 1,358        | 34,089        | 898,971             | 2,860,020        |
| <b>Total</b>  | <b>508,694</b>         | <b>290,804</b> | <b>120,021</b> | <b>94,923</b> | <b>1,358</b> | <b>41,295</b> | <b>1,057,095</b>    | <b>2,916,277</b> |

(1) As most borrowings incorporate floating rates that approximate market rates and the contractual repricing occurs every 3 to 6 months, the fair value of the borrowings approximates its carrying amount and is not disclosed separately.

The weighted average interest rates which incorporate instruments denominated in various currencies at the balance sheet date were as follows:

|                 | December 31, |       |
|-----------------|--------------|-------|
|                 | 2006         | 2005  |
| Bank borrowings | 6.82%        | 6.08% |

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The nominal average interest rates shown above were calculated using the rates set for each instrument in its corresponding currency and weighted using the dollar-equivalent outstanding principal amount of said instruments at December 31, 2006 and 2005, respectively.

Breakdown of long-term borrowings by currency is as follows:

| Currency                     | Interest rates | December 31,     |                  |
|------------------------------|----------------|------------------|------------------|
|                              |                | 2006             | 2005             |
| USD                          | Floating       | 898,971          | 2,795,144        |
| USD                          | Fixed          | 62,179           | 14,692           |
| EUR                          | Fixed          |                  | 404              |
| ARS                          | Floating       |                  | 54               |
| ARS                          | Fixed          | 55,845           |                  |
| MXN                          | Floating       |                  | 64,822           |
| VEB                          | Fixed          | 40,100           | 41,161           |
| <b>Total bank borrowings</b> |                | <b>1,057,095</b> | <b>2,916,277</b> |

EUR: Euro; ARS: Argentine pesos; MXN: Mexican pesos; VEB: Venezuelan Bolivar

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****28 Contingencies, commitments and restrictions on the distribution of profits**

Ternium is involved in litigation arising from time to time in the ordinary course of business. Based on management's assessment and the advice of legal counsel, it is not anticipated that the ultimate resolution of existing litigation will result in amounts in excess of recorded provisions that would be material to Ternium's consolidated financial position or results of operations.

*(i) Consorcio Siderurgia Amazonia Ltd. PDVSA-Gas C.A. claim*

In June 2004, the arbitration proceedings brought by Sidor against PDVSA Gas, C.A. (on the basis that PDVSA Gas had charged Sidor higher than agreed-upon prices in its supplies of gas against the application of the most favored client clause) were resolved in Sidor's favor. Accordingly, in its financial statements at December 31, 2004, Sidor reversed the USD41.4 million provision it had recorded at December 31, 2003. In July 2004, PDVSA Gas, C.A. filed an appeal with the Venezuelan courts seeking to void the arbitral award. Sidor believes that applicable Venezuelan law does not allow the courts to void an arbitral award under the circumstances and that the likelihood of loss thereunder is remote. Accordingly, Sidor did not record any liabilities in connection with the appeal. At December 31, 2006, Sidor's potential exposure under this litigation amounted to USD125.7 million.

*(ii) Tax claims**(a) Siderar. AFIP Income tax claim for fiscal years 1995 to 1999*

The *Administración Federal de Ingresos Públicos* (AFIP - the Argentine tax authority) has challenged the charge to income of certain disbursements that Siderar has treated as expenses necessary to maintain industrial installations, which as such should be deducted in the year in which they take place. The AFIP asserts that these are investments or improvements that must be capitalized and, therefore, it made a jeopardy assessment of income tax due on a nominal tax basis plus fines and interest in fiscal years 1995 to 1999 amounting to approximately USD 20.4 million.

The Company appealed these assessments before the National Tax Court, as in the view of its legal and tax advisors, based on existing evidence and the work performed by the Tax Authorities, the Company would likely obtain a favorable ruling.

On April 13, 2005 the Company was notified of a ruling issued by the National Tax Court reducing the assessments made by the AFIP for fiscal years 1995 and 1996 by 13.9 million and instructing the recalculation of taxes in accordance with this ruling. The Company questioned the recalculation conducted by the AFIP, generating an incident that had favorable resolution to the criteria exposed by the Company. Consequently, in December, 2006 there was a payment of USD 0.1 million according to the Company's filing and the Fiscal Court's approval, which was then appealed by the AFIP.

Based on the above, the Company recognized a provision amounting to USD 4.6 million as of December 31, 2006 as management considers there is a probable cash outflow.

*(b) Sidor*

The Company recorded a provision for a total amount of USD26.3 million in connection with tax matters arising from compensations of tax credits made by the Company since the implementation of the V.A.T. law in June, 1999. The SENIAT, the Venezuelan tax and customs authority, is claiming the interest accrued on the application of those tax credits as payment on account of tax obligations.

*(iii) Commitments*

The following are the Company's main off-balance sheet commitments:

(a) In March 2003, Siderar entered into an agreement with Tecpetrol, a related company of Ternium, under which Siderar paid USD17.3 million for the advance purchase of a total of 725 million cubic meters (up to 400 thousand daily cubic meters) of natural gas to be delivered over a

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maximum period of 5 years on pricing terms that will enable it to share through discounts the impact of any increase in natural gas prices over that period with Tecpetrol. Under the terms of the agreement, Siderar will have a minimum guaranteed return on this advance payment equal to LIBOR plus 3.5%. At December 31, 2006 there is no residual advanced payment.

(b) Siderar entered into a contract with Tenaris, a related company of Ternium, for the supply of steam generated at the power generation facility that Tenaris owns in the compound of the Ramallo facility of Siderar. Under this contract, Tenaris has to provide 250 tn/hour of steam, and Siderar has the obligation to take or pay this volume. Tenaris detected technical problems at this facility that impeded the delivery of certain steam volume, between October 2004 and September 2005. This outsourcing contract is due to terminate in 2018.

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****28 Contingencies, commitments and restrictions on the distribution of profits (continued)**

(c) On August 20, 2004, Sidor entered into a contract with its associated company Matesi Materiales Siderúrgicos S.A., for the supply of hot briquetted iron (HBI). Sidor commits to purchase 29.9% of Matesi's HBI production volume for the term of ten years. In addition, Sidor has the right to increase its proportion on Matesi's production by an extra 19.9 % until reaching a 49.8% of Matesi's HBI production. Under the contract, the sale price is determined on a cost-plus basis. The contract is renewable for additional three year periods unless Sidor or Matesi object to its renewal more than one year prior to its termination.

(d) Siderar entered into a contract with Transportadora de Gas del Norte (TGN) for gas transportation service. TGN charges Siderar a price that is equivalent on a comparable basis to prices paid by other industrial users, and the Argentine government regulates the general framework under which TGN operates. Siderar pays a monthly fee for reserved cubic meter (1,070 thousand m<sup>3</sup>/day), whether it uses it or not.

(e) Sidor's production process requires a large amount of electricity. On August 21, 1997, that company entered into a twenty-year contract with EDELCA, a Venezuelan state-owned company, for the supply of all of Sidor's electricity needs. This contract will terminate in 2018.

(f) Sidor's production process is heavily reliant upon supplies of natural gas. Sidor buys 100% of its natural gas from PDVSA-Gas, a Venezuelan state-owned natural gas supply company. In 1997, Sidor signed a twenty-year contract with PDVSA-Gas for the supply of natural gas.

(g) In 1998, Sidor signed a contract with Ternium's related company TAVSA Tubos de Acero de Venezuela S.A. (a Venezuelan seamless steel pipe producer controlled by Tenaris), under which it committed to sell up to 90,000 tons of blooms or 130,000 tons of liquid steel per year, until 2013. Purchase price varies in relation to changes in the costs of production.

(h) In 1997 Sidor entered into a twenty-year contract with Ferrominera del Orinoco ( FMO ) for the supply of iron ore. Pursuant to this contract, FMO will supply Sidor up to a maximum annual volume of iron ore needed to produce 6.6 million tons of pellets until 2017. Sidor and FMO entered into an amendment to the 1997 contract on November 11, 2005. The revised contract sets the iron ore price at the lower of the price charged by FMO to its customers (other than certain newly-created state-owned steel producers) in the Venezuelan domestic market, and 80% of a market reference price (that percentage may drop to 70%).

In connection with the iron ore contract, in 1997 Sidor and FMO entered into another agreement under which Sidor committed to sell, upon the request of FMO, up to 2 million tons per year of pellets to FMO, at a price based on the sale price at which FMO sells iron ore to Sidor plus an applicable margin paid to Sidor for the production of pellets, which is determined using market references.

(i) Hylsa's production process requires a large amount of electricity. On December 20, 2000, Hylsa entered into a 25-year contract with Iberdrola Energía Monterrey, S.A. de C.V. ( Iberdrola ), a Mexican subsidiary of the Spanish Company Iberdrola Energía, S.A., for the supply of a contracted electrical demand of 143.2 MW. This contract currently supplies approximately 42% of Hylsa's electricity needs with the remainder supplied by CFE, the Mexican state-owned utility. The contract with Iberdrola will terminate in 2027.

(j) Hylsamex S.A. de C.V. and subsidiaries entered into 21 long-term operating lease agreements for the rental of machinery, materials handling equipment, earth moving equipment, computers and assorted vehicles. Total amounts due, from 2007 to 2010, include USD24.9 million in lease payments. Total loss for lease payments recorded in the year ended December 31, 2006 accounts for USD 16.6 million.

Future minimum lease payments under non-cancellable operating leases are as follows:

| Year      | USD<br>Thousands |
|-----------|------------------|
| 2007      | 12,394           |
| 2008-2010 | 12,477           |

|              |               |
|--------------|---------------|
| <b>Total</b> | <b>24,871</b> |
|--------------|---------------|

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****28 Contingencies, commitments and restrictions on the distribution of profits (continued)**

(k) On October 24, 2003, Siderar entered into a joint gas purchase agreement with Repsol-YPF. Under the agreement, which includes certain take-or-pay clauses, Siderar committed to purchase up to 400 million cubic meters of gas during the life of the four year contract, expiring at the end of 2006 at a price to be negotiated by the parties on an annual basis. At December 31, 2004, the parties to the joint agreement fulfilled the purchase commitments originated therein, as a result of which all outstanding obligations resulting from the take-or-pay provisions have ceased to exist. There is an agreement with Repsol-YPF to continue with the supply of natural gas up to February 28, 2007 under the same contractual conditions.

(l) On April 6, 2006, Sidor entered into a slag removal and raw material handling services contract with Sidernet de Venezuela C.A., for a total estimate amount of USD 155.9 million. The agreement is due to terminate in June 2016.

*(iv) Restrictions on the distribution of profits*

Under the credit agreements that financed the acquisition of Hylsamex, the Company and its affiliates have some restrictions to the payment of dividends in excess of certain amounts, among other limitations (see Note 3e)).

Under Luxembourg law, at least 5% of net income per year calculated in accordance with Luxembourg law and regulations must be allocated to a reserve until such reserve has reached an amount equal to 10% of the share capital.

Ternium may pay dividends to the extent that it has distributable retained earnings and distributable reserves calculated in accordance with Luxembourg law and regulations. Therefore, retained earnings included in the consolidated financial statements may not be wholly distributable.

Shareholders' equity under Luxembourg law and regulations comprises the following captions:

|  | <b>At December 31,<br/>2006</b> |
|--|---------------------------------|
| Share capital  | 2,004,744                       |
| Legal reserve  | 200,474                         |
| Distributable reserves                                 | 402,149                         |
| Non distributable reserves                             | 1,414,122                       |
| Accumulated profit at January 1, 2006                  | 107,612                         |
| Profit for the year                                    | 392,230                         |
| <b>Total shareholders equity under Luxembourg GAAP</b> | <b>4,521,331</b>                |

**29 Earnings per share**

On December 30, 2004, the Company converted the currency in which its share capital is expressed from EUR to USD. The share capital of EUR 31,000, represented by 31 shares of EUR 1,000 nominal value each, was converted into USD 41,471.80, represented by 31 shares with no nominal value. On June 17, 2005, the share capital of the Company was restructured by setting the nominal value per share at USD 1 and dividing the 31 issued shares into 41,471 shares of USD 1 nominal value each, and further transferring USD 0.80 to the share premium account of the Company.

On June 29, 2005, ISL contributed all of its assets (including 41,470 shares of the Company) and liabilities to the Company, in exchange for 959,482,775 new shares of the Company.

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Upon consummation of this contribution, the 41,470 shares contributed by ISL to the Company were cancelled and the Company's issued share capital was increased to USD 959,482,776 represented by 959,482,776 shares of 1 USD nominal value each.

On September 15, 2005, ISL made a second contribution of all of its assets (including 750,021,919 shares of the Company) and liabilities to the Company, in exchange for 959,482,775 new shares of the Company.

Upon consummation of this second contribution, the 750,021,919 shares contributed by ISL to the Company were cancelled and the Company's issued share capital was increased to USD 1,168,943,632 represented by 1,168,943,632 shares of 1 USD nominal value each.

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****29 Earnings per share (continued)**

In October 2005, Usiminas exchanged its 5.32% equity interest in Siderar, its 16.58% equity interest in Amazonia and its 19.11% equity interest in Ylopa and other items for 227,608,254 new shares of the Company.

Upon the consummation of this exchange, as of December 31, 2005 the capital was increased to USD 1,396,552,887 represented by 1,396,551,887 shares of 1 USD nominal value each.

Furthermore, in November 2005, Sidetur, a subsidiary of Sivensa, exchanged with ISL its 3.42% equity interest in Amazonia and USD 3.1 million in cash for shares of the Company.

As mentioned in Note 1, on January 11, 2006, the Company launched an Initial Public Offering of 24,844,720 ADSs (each representing 10 shares of the Company) in the United States. The Company's Initial Public Offering was settled on February 6, 2006.

As per the provisions contained in the Subordinated Convertible Loan Agreement, on February 6, 2006 the Company exchanged the Subordinated Convertible Loans (including interest accrued through January 31, 2006) held by ISL and converted them into shares at a conversion price of USD2 per share, resulting in the issuance of 302,962,261 new shares on February 9, 2006.

As provided in the Corporate Reorganization Agreement, on February 9, 2006, ISL contributed all of its assets and liabilities (including its interest in Amazonia) to the Company in exchange for 959,482,775 newly-issued shares of the Company after the settlement of the Initial Public Offering.

In connection with the over-allotment described in Note 1, on March 1, 2006, the Company issued 22,981,360 new shares.

Upon consummation of the transactions mentioned, as of December 31, 2006, the capital was increased to USD 2,004,743,442 represented by 2,004,743,442 shares, each having a nominal value of USD 1.00 each.

The Company's combined earnings per share for the year ended December 31, 2004 have been calculated based on the assumption that 1,168,943,632 shares were issued and outstanding in that period. For fiscal years 2006 and 2005, the weighted average of shares outstanding totaled 1,936,833,060 and 1,209,476,609 shares, respectively.

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the daily weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares assumes that 1,168,943,632 shares were issued and outstanding as of January 1, 2003. Diluted earnings per share have been calculated giving effect to the conversion of the Subordinated Convertible Loans on the date each one was entered into.

|  | 2006          | 2005          | 2004          |
|--|---------------|---------------|---------------|
| Profit attributable to equity holders of the Company | 795,424       | 704,406       | 457,339       |
| Weighted average number of ordinary shares in issue  | 1,936,833,060 | 1,209,476,609 | 1,168,943,632 |
| Basic earnings per share (USD per share)             | 0.41          | 0.58          | 0.39          |
| Diluted earnings per share (USD per share)           | 0.41          | 0.54          | 0.39          |

**30 Related party transactions**

The Company is controlled by San Faustín, which at December 31, 2006 indirectly owned 70.52% of Ternium's shares and voting rights. The ultimate controlling entity of the Company is Rocca & Partners S.A., a British Virgin Island Corporation. For commitments with Related Parties see Note 28.





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**(b) Other investments**

|              |        |        |
|--------------|--------|--------|
| Time deposit | 11,249 | 10,450 |
|--------------|--------|--------|

**(c) Other balances**

|   |  |       |
|---|--|-------|
| Trust fund with other related parties (Note 21) |  | 5,185 |
|---|--|-------|

5,185

**(d) Financial debt**

|   |         |           |
|---|---------|-----------|
| Borrowings with other related parties (Note 27) | (2,161) | (607,472) |
|---|---------|-----------|

**(iii) Officers and Directors compensation**

The aggregate compensation of Officers and Directors earned during the years ended December 31, 2006, 2005 and 2004 amounts to USD 10,276 thousand, USD 4,485 thousand and USD 3,050 thousand, respectively.

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****31 Cash flow disclosures**

|   | At December 31,  |                 |                  |
|---|------------------|-----------------|------------------|
|   | 2006             | 2005            | 2004             |
| <b>(i) Changes in working capital (i)</b>     |                  |                 |                  |
| Inventories                                   | (271,480)        | (133,995)       | (114,686)        |
| Receivables and prepayments                   | 122,917          | 3,103           | (138,248)        |
| Trade receivables                             | (96,122)         | 97,814          | (55,273)         |
| Other liabilities                             | (93,472)         | 46,117          | 10,233           |
| Trade payables                                | 62,004           | 41,381          | 93,304           |
|   | <b>(276,153)</b> | <b>54,420</b>   | <b>(204,670)</b> |
| <b>(ii) Income tax accruals less payments</b> |                  |                 |                  |
| Tax accrued                                   | 262,356          | 218,492         | 177,486          |
| Taxes paid                                    | (280,431)        | (262,500)       | (57,276)         |
|   | <b>(18,075)</b>  | <b>(44,008)</b> | <b>120,210</b>   |
| <b>(iii) Interest accruals less payments</b>  |                  |                 |                  |
| Interest accrued                              | 112,918          | 81,608          | 18,257           |
| Debt issue costs                              | 13,686           | 3,171           |                  |
| Interest paid                                 | (122,407)        | (60,256)        | (9,174)          |
|   | <b>4,197</b>     | <b>24,523</b>   | <b>9,083</b>     |

(i) Changes in working capital are shown net of the effect of exchange rate changes.

**32 Recently issued accounting pronouncements****1. International Financial Reporting Standard 8, Operating Segments**

In November 2006, the International Accounting Standards Board issued International Financial Reporting Standard 8, Operating Segments (IFRS 8). IFRS 8 sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers.

An entity shall apply IFRS 8 in its annual financial statements for periods beginning on or after January 1, 2009. Earlier application is permitted. If an entity applies IFRS 8 in its financial statements for a period before January 1, 2009, it shall disclose that fact.

The Company's management has not assessed the potential impact that the application of IFRS 8 may have on the Company's financial condition or results of operations.

**2. IFRIC Interpretation 11, Group and Treasury Share Transactions**

In November 2006, IFRIC issued IFRIC Interpretation 11 Group and Treasury Share Transactions (IFRIC 11). IFRIC 11 gives guidance on how to account for certain transactions involving share-based payment arrangements and is effective for annual periods beginning on or after

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March 1, 2007, although earlier application is permitted. If an entity applies the Interpretation for an annual period beginning before March 1, 2007, it shall disclose that fact.

The Company's management estimates that the application of this Interpretation will not have a material effect on the Company's financial condition or results of operations.

### **3. IFRIC Interpretation 12, Service Concession Arrangements**

In November 2006, IFRIC issued IFRIC Interpretation 12 Service Concession Arrangements ( IFRIC 12 ). IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements. This Interpretation sets out general principles on recognizing and measuring the obligations and related rights in service concession arrangements.

This Interpretation applies to public-to-private service concession arrangements if:

- (a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- (b) the grantor controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the term of the arrangement.

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**TERNIUM S.A.**

**Notes to the Consolidated Financial Statements (Contd.)**

**32 Recently issued accounting pronouncements (continued)**

**3. IFRIC Interpretation 12, Service Concession Arrangements (continued)**

This Interpretation applies to both:

(a) infrastructure that the operator constructs or acquires from a third party for the purpose of the service arrangement; and

(b) existing infrastructure to which the grantor gives the operator access for the purpose of the service arrangement.

An entity shall apply this Interpretation for annual periods beginning on or after January 1, 2008. Earlier application is permitted. If an entity applies this Interpretation for a period beginning before 1 January 2008, it shall disclose that fact.

The Company's management estimates that the application of this Interpretation will not have a material effect on the Company's financial condition or results of operations.

**33 Financial risk management**

**(1) Financial risk factors**

Ternium's activities expose the Company to a variety of risks, including the effects of changes in foreign currency exchange rates, interest rates and commodities prices. Ternium's subsidiaries may use derivative transactions to manage potential adverse effects of certain risk exposures on Ternium's financial performance.

*(i) Foreign exchange rate risk*

Ternium operates and sells its products in different countries, and as a result is exposed to foreign exchange rate volatility. Ternium's subsidiaries may use derivative contracts in order to hedge their exposure to exchange rate risk derived from their trade and financial operations.

Ternium aims to neutralize the negative impact of fluctuations in the value of other currencies with respect to the U.S. dollar. However, the fact that some subsidiaries have measurement currencies other than the U.S. dollar may, at times, distort the result of these efforts as reported under IFRS.

*(ii) Interest rate risk*

Ternium manages its exposure to interest rate volatility through its financing alternatives and hedging instruments. Borrowings issued at variable rates expose the Group to the risk of increased interest expense in the event of a raise in market interest rates, while borrowings issued at fixed rates expose the Group to a variation in its fair value. The Group's interest-rate risk mainly arises from long-term borrowings that bear variable-rate interest that is partially fixed through different derivative transactions, such as swaps and caps.

*(iii) Commodity price risk*

Ternium uses certain commodities and raw materials that are subject to price volatility caused by supply and weather conditions, political situations, financial variables and other unpredictable factors. As a result, the Company is exposed to the volatility in the prices of these commodities and raw materials. Ternium's policy is to manage this risk by partially fixing the underlying price or limiting its volatility for defined period.

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### *(iv) Concentration of credit risk*

Ternium has no significant concentrations of credit risk from customers. No single customer accounts for more than five percent of Ternium's sales.

Ternium's subsidiaries have policies in place to ensure that sales are made to customers with an appropriate credit history, and that credit insurances, letters of credit or other instruments are requested to reduce credit risk whenever deemed necessary. These subsidiaries maintain allowances for potential credit losses.

Ternium's subsidiaries also have credit guidelines in place to ensure that derivative and treasury counterparties are limited to high credit quality financial institutions.

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**TERNIUM S.A.**

**Notes to the Consolidated Financial Statements (Contd.)**

**33 Financial risk management (continued)**

**(1) Financial risk factors (continued)**

*(v) Liquidity risk*

Management maintains sufficient cash and marketable securities and credit facilities to finance normal operations. The company also has committed credit facilities to support its ability to close out market positions if needed.

**(2) Accounting for derivative financial instruments and hedging activities**

Derivative financial instruments are initially recognized in the balance sheet at cost and subsequently remeasured at fair value. Changes in fair value are disclosed under Financial income, net line item in the income statement. Ternium does not hedge its net investments in foreign entities.

Derivative transactions and other financial instruments, while providing economic hedges under risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognized immediately in the income statement. The fair value of derivative instruments is disclosed in Note 26.

**(3) Fair value estimation**

The estimated fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

For the purpose of estimating the fair value of financial assets and liabilities with maturities of less than one year, the Company uses the market value less any estimated credit adjustments. For other investments, including the trust fund, the Company uses quoted market prices.

As most borrowings include variable rates or fixed rates that approximate market rates and the contractual re-pricing occurs every 3 to 6 months, the fair value of the borrowings approximates its carrying amount and is not disclosed separately.

In assessing the fair value of derivatives and other financial instruments, Ternium uses a variety of methods, including, but not limited to, estimated discounted value of future cash flows using assumptions based on market conditions existing at each balance sheet date.

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****34 Reconciliation of net income and shareholders' equity to US GAAP****I. Differences in measurement methods**

The principal differences between IFRS and US GAAP as they relate to the Company are described below, together with an explanation, where appropriate, of the method used in the determination of the necessary adjustments.

|  | <b>For the year ended December 31,</b> |                |                |
|--|--|----------------|----------------|
|  | <b>2006</b>                            | <b>2005</b>    | <b>2004</b>    |
| Net income attributable to equity holders of the Company in accordance with IFRS | 795,424                                | 704,406        | 457,339        |
| US GAAP adjustments – income (expense)   |  |                |                |
| Valuation of fixed assets- PP&E (Note 34.a)                                      | 100,975                                | 123,824        | 79,493         |
| Troubled debt restructuring (Note 34.b)  | 8,923                                  | 14,820         |                |
| Accounting for pension plans (Note 34.c)   | (191)                                  | (991)          | (164)          |
| Inventory valuation (Note 34.d)  | 741                                    | (5,882)        | (1,628)        |
| Capitalization of interest cost- PP&E (Note 34.e)                                | 587                                    | (910)          | 152            |
| Capitalization of interest cost- Intangible assets (Note 34.e)                   | (185)                                  | (302)          | 313            |
| Changes in fair value of financial assets through profit and loss (Note 34.f)    |  | 50,819         | (1,361)        |
| Equity in investments in associated companies- Amazonia (Note 34.g)              |  |                | (76,926)       |
| Excess of fair value of assets acquired over cost (Note 34.h)                    | 20,395                                 | (170,510)      |                |
| Revaluation reserve over pre-acquisition interest in Amazonia (Note 34.i)        | 6,553                                  | 5,734          |                |
| Acquisition of minority interest in controlled subsidiaries (Note 34.j)          | (24,172)                               | (4,101)        |                |
| Valuation of intangible assets and other assets (Note 34.l)                      | (361)                                  | (674)          |                |
| Deferred income tax (Note 34.m)  | (39,004)                               | (51,315)       | (27,101)       |
| Minority interest (Note 34.n)  | (28,667)                               | (105,613)      | (5,462)        |
| <b>Net income in accordance with US GAAP</b>                                     | <b>841,018</b>                         | <b>559,305</b> | <b>424,655</b> |
| Weighted average number of shares outstanding (thousands)                        | 1,936,833                              | 1,209,477      | 1,168,944      |
| Consolidated basic earnings per share in accordance with U.S. GAAP               | 0.43                                   | 0.46           | 0.36           |
| Consolidated diluted earnings per share in accordance with U.S. GAAP             | 0.43                                   | 0.43           | 0.36           |

|   | <b>As of December 31,</b> |             |
|---|---------------------------|-------------|
|   | <b>2006</b>               | <b>2005</b> |
| Shareholders' equity in accordance with IFRS                              | 3,757,558                 | 1,842,454   |
| Valuation of fixed assets- PP&E (Note 34.a)                               | (1,300,420)               | (1,410,264) |
| Troubled debt restructuring (Note 34.b)                                   | (3,128)                   | (12,051)    |
| Accounting for pension plans (Note 34.c)                                  | (44,642)                  | 5,227       |
| Inventory valuation (Note 34.d)   | (14,596)                  | (14,854)    |
| Capitalization of interest cost- PP&E (Note 34.e)                         | 8,411                     | 7,083       |
| Capitalization of interest cost- Intangible assets (Note 34.e)            | 155                       | 344         |
| Excess of fair value of assets acquired over cost (Note 34.h)             | (247,147)                 | (267,542)   |
| Revaluation reserve over pre-acquisition interest in Amazonia (Note 34.i) | (79,409)                  | (85,962)    |
| Acquisition of minority interest in controlled subsidiaries (Note 34.j)   | 583,291                   | 470,850     |
| Equity securities issuance cost (Note 34.k)                               |                           | 5,456       |
| Valuation of intangible assets and other assets (Note 34.l)               | (1,871)                   | (1,300)     |
| Deferred income tax (Note 34.m)   | 448,134                   | 507,253     |
| Minority interest (Note 34.n)   | 329,180                   | 389,944     |

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|   |           |           |
|---|-----------|-----------|
| Shareholders' equity in accordance with US GAAP | 3,435,516 | 1,436,638 |
|---|-----------|-----------|

Changes in shareholders' equity under U.S. GAAP are as follows:

|   | Year ended December 31, |           |
|---|-------------------------|-----------|
|   | 2006                    | 2005      |
| Shareholders' equity at the beginning of the year in accordance with US GAAP                    | 1,436,638               | 954,255   |
| Net income for the year in accordance with US GAAP  | 841,018                 | 559,305   |
| Other comprehensive (loss) income   | (25,385)                | (424,116) |
| Capital increase  | 81,853                  | 54,758    |
| Conversion of Subordinated Convertible Loans  | 605,924                 |           |
| Initial public offering, net of offering costs of USD23,295                                     | 519,563                 |           |
| Cumulative effect adjustment due to the adoption of SFAS 158, net of tax and minority interests | (24,095)                |           |
| Usiminas exchange   |                         | 531,088   |
| Dividends paid in cash and other distributions  |                         | (238,652) |
| Shareholders' equity at the end of the year in accordance with US GAAP                          | 3,435,516               | 1,436,638 |

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****34 Reconciliation of net income and shareholders' equity to US GAAP (continued)***(a) Valuation of fixed assets - Property, plant and equipment*

Under IFRS, the Company applied the provisions of IFRS 1 for the revaluation of property, plant and equipment. Accordingly, the Company elected to use a technical revaluation as the deemed cost for its property, plant and equipment. This technical revaluation is not permitted under US GAAP and remains a difference between IFRS and US GAAP. Thus, no revaluations have been made for US GAAP purposes and historical cost has been used as the basis of accounting for these assets. The adjustment to net income represents the difference in depreciation expense under IFRS and U.S. GAAP.

*(b) Troubled debt restructuring*

In June 2003, Amazonia and Sidor concluded the restructuring of their financial indebtedness. Under IFRS, those companies accounted for their debt restructuring process in accordance with the guidelines set forth by IAS 39, which states that a substantial modification of the terms of an existing debt instrument (whether or not due to the financial difficulty of the debtor) should be accounted for as an extinguishment of the old debt. For purposes of IAS 39, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original debt instrument. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred are an adjustment to the carrying amount of the liability and are amortized over the remaining term of the modified loan. As the terms of Sidor's new debt were deemed to be substantially different (as this term is defined by IAS 39), that company recorded a USD59.5 million gain on restructuring in fiscal 2003.

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

*(c) Accounting for pension plans*

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

Under US GAAP, the Company adopted Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158) effective December 31, 2006. SFAS 158 requires an employer to recognize the funded status of each of its defined pension and postretirement benefit plans as a net asset or liability in its consolidated balance sheet and to recognize as a component of accumulated other comprehensive (loss) income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. Following the adoption of SFAS 158, additional minimum pension liabilities and related intangible assets are no longer recognized. The provisions of SFAS 158 are to be applied on a prospective basis; therefore, prior periods presented are not restated. The adoption of SFAS 158 resulted in the following impacts: the recognition of USD 46,243 in accrued pension liabilities, and a net charge of USD 24,095 (USD 51,279, net of income taxes of USD 17,801 and minority interest of USD 9,383) to accumulated other comprehensive (loss) income. Additionally, SFAS

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158 requires an employer to measure the funded status of each of its plans as of the date of its year-end balance sheet. This provision becomes effective for Ternium for its December 31, 2008 year-end. The funded status of Ternium's pension plans are currently measured as of December 31.

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**TERNIUM S.A.**

**Notes to the Consolidated Financial Statements (Contd.)**

**34 Reconciliation of net income and shareholders' equity to US GAAP (continued)**

Before the adoption of SFAS 158, as discussed above, the Company followed the guidance set forth by Statement of Financial Accounting Standard No. 87 Employers' Accounting for Pensions ( SFAS No. 87 ), which contains provisions substantially consistent with those provided by IAS No. 19. Nevertheless, differences arose as a consequence of the following:

- a. Under IFRS Venezuela was considered a hyperinflationary country through December 31, 2002 while under US GAAP Venezuela ceased being hyperinflationary as from January 1, 2002. The effect of such a divergence gave rise to differences in the accounting for employee benefits.
- b. Under IFRS, past-service costs are recognized immediately as expenses, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period. Under US GAAP, past service costs are recognized over the remaining service lives of active employees.

*(d) Inventory valuation*

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

As mentioned in Note 34.a above, under IFRS the value of property, plant and equipment has been determined based on a technical revaluation, while under US GAAP these assets have been stated at historical cost. Accordingly, the year-end balances and the annual depreciation charge under IFRS are higher than those determined under US GAAP. This US GAAP adjustment reflects the reversal of the difference between the amount of depreciation of property, plant and equipment allocated to inventories under IFRS and US GAAP.

*(e) Capitalization of interest cost*

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

Under US GAAP, the Company applies the provisions of Statement of Financial Accounting Standards No. 34, Capitalization of Interest Cost ( SFAS No. 34 ), which requires interest capitalization on assets which have a period of time to get them ready for their intended use. In accordance with these requirements, interest was capitalized during the years ended December 31, 2006, 2005 and 2004. The net US GAAP adjustment also includes amortization of the interest cost capitalized.

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

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

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Under US GAAP, the Company carried these investments at market value with material unrealized gains and losses, if any, included in Other comprehensive income in accordance with Statement of Financial Accounting Standards No. 115 Accounting for Certain Investments in Debt and Equity Securities ( SFAS No. 115 ). At December 31, 2005, the Company settled its available-for-sale investments and the unrealized gains recorded within other comprehensive (loss) income were reclassified into the statement of income.

### *(g) Equity in investments in associated companies*

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

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****34 Reconciliation of net income and shareholders' equity to US GAAP (continued)**

Ternium recorded an impairment provision on its investment in Amazonia in previous years. In 2004, and due to better conditions in the economic environment market of Sidor and based on projections of future cash flows estimated by the Company's management, the impairment provision was reversed under IFRS. No impairment provision has been recorded under US GAAP.

*(h) Excess of fair value of net assets acquired over cost*

As mentioned in Note 3(f), on February 3, 2005, Ylopa exercised its option to convert the outstanding balance of the Amazonia convertible debt instrument into newly issued shares of that company. As a result, Ternium's indirect participation in Amazonia increased from 31.03% to 53.47%. Under IFRS, this acquisition has been accounted for following the provisions contained in IFRS 3 Business Combinations (IFRS 3) and, accordingly, assets acquired and liabilities assumed have been valued at fair value. The excess of Ternium's interest in the net fair value of Amazonia's identifiable assets, liabilities and contingent liabilities over the purchase price (amounting to USD 188.4 million) has been recognized in income for the year.

Under US GAAP, the Company applied the provisions contained in Statement of Financial Accounting Standard No. 141 Business Combinations (SFAS No. 141), which states that the excess of fair value of acquired net assets over cost shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired assets except (a) financial assets other than investments accounted for by the equity method, (b) assets to be disposed of by sale, (c) deferred tax assets, (d) prepaid assets relating to pension or other postretirement benefit plans, and (e) any other current assets. Accordingly, under US GAAP, the Company reversed the gain recognized for IFRS purposes. This adjustment also reflects the effect of the above-mentioned difference on the depreciation of fixed assets, totaling USD 20.4 million and USD 17.8 million, in 2006 and 2005, respectively.

*(i) Revaluation reserve over pre-acquisition interest in Amazonia*

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

For US GAAP purposes, the Company applied the provisions contained in SFAS No. 141. Under SFAS No. 141, when a company increases its shareholding interest in an equity investee, no fair value revaluation shall be made on the pre-acquisition equity interest held. This adjustment also reflects the effect of the above-mentioned difference on the depreciation of fixed assets.

*(j) Acquisition of minority interest in controlled subsidiaries*

As discussed in notes 1, 2 and 3 to the financial statements (i) in August 2005, the Company acquired an additional equity interest in Amazonia through the acquisition of Hylsamex; (ii) in October 2005, the Company acquired an additional equity interest in Ylopa, Amazonia and Siderar through the exchange transaction entered into with Usiminas; (iii) in February 2006, the Company acquired an additional equity interest in Amazonia through the issuance of shares to ISL, (iv) in April 2006, the Company acquired a 50% interest in Acerex S.A. de C.V. through its subsidiary Hylsa S.A. de C.V., and (v) in December 2006, the Company acquired an additional 4.85% equity interest in Siderar. Under IFRS, these acquisitions have been accounted for following the economic entity model, which requires that the acquisition of an additional equity interest in a controlled subsidiary be accounted for at its carrying amount at the acquisition date, with the difference resulting from the purchase price allocation being deducted from equity.

Under US GAAP, the acquisition of noncontrolling equity interests of a subsidiary should be accounted for using the purchase method, which requires the acquiring entity to allocate the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Accordingly, under US GAAP, the Company (i) reversed the amounts charged to equity under IFRS in connection with the acquisition of additional equity interests in Amazonia, Ylopa, Siderar, and Acerex, and (ii) allocated the difference between fair value and carrying amount arising from the above mentioned acquisitions to net tangible and identifiable intangible assets and goodwill.

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As discussed in Note 3(f), on February 3, 2005, the Company increased its equity interest in Amazonia from 31.03% to 53.47%. Under IFRS, this acquisition has been accounted for following the provisions contained in IFRS 3 and, accordingly, the Company recorded the interest attributable to minority equity holders of Amazonia at fair value. Under IFRS, the remaining minority interest in Amazonia (representing 5.6% and 10.9% of this company's share capital as of December 31, 2006 and 2005, respectively) has been valued at fair value. Under US GAAP, the interest of minority equity holders of Amazonia has been valued at pre-acquisition carrying amount of net assets. No reconciling item has been shown as the difference does not affect shareholders' equity or net income under US GAAP.

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****34 Reconciliation of net income and shareholders' equity to US GAAP (continued)**

The chart below shows the net carrying amount of Property, plant and equipment and goodwill under IFRS and US GAAP after the application of all the above mentioned adjustments:

|                               | Net carrying amount at December 31, |           |           |           |
|-------------------------------|-------------------------------------|-----------|-----------|-----------|
|                               | 2006                                |           | 2005      |           |
|                               | IFRS                                | US GAAP   | IFRS      | US GAAP   |
| Property, plant and equipment | 5,420,683                           | 4,122,749 | 5,463,871 | 3,967,401 |
| Goodwill                      | 397,943                             | 659,818   | 399,694   | 610,330   |

(k) *Equity securities issuance cost*

Under IFRS, expenses incurred at December 31, 2005 in connection with the issuance of equity securities effected in 2006 (totaling USD 5.5 million) were deducted from shareholders' equity at that date.

Under U.S. GAAP, specific incremental costs directly attributable to a proposed or actual offering of securities may be deferred and charged against the gross proceeds of the offering. Accordingly, under US GAAP, this amount was deferred in 2005, and charged against the gross proceeds of the offering in 2006, together with additional costs of USD 17.8 million incurred in 2006, totaling USD 23.3 million.

(l) *Valuation of intangible assets and other assets*

Under both IFRS and US GAAP, the Company values intangible assets and other assets at historical cost. Nevertheless, as mentioned in Note 34.c above, under IFRS, Venezuela was considered a hyperinflationary country through December 31, 2002 while, under US GAAP, Venezuela ceased to be considered a hyperinflationary country as from January 1, 2002. Accordingly, for IFRS purposes, the historical cost of intangible assets and other assets has been adjusted to reflect the effects of inflation up to December 31, 2002, whereas under US GAAP, no inflation adjustment has been recorded.

(m) *Deferred income tax*

Under US GAAP the Company calculated the effect of all of the above mentioned adjustments on deferred income taxes.

(n) *Minority Interest*

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

(o) *Net income*

Under US GAAP, net income is shown net of the portion of the Company's gain (loss) for the year attributable to minority shareholders. Accordingly, for US GAAP purposes, net income represents the gain (loss) attributable only to majority equity holders. Under IFRS, net income represents total gain (loss) obtained by the Company in a given period before offsetting the portion attributable to minority shareholders.

(p) *Cumulative translation differences exemption*

As mentioned in Note 4.(a), Ternium applied the cumulative translation differences exemption provided by IFRS 1 and, accordingly, has set the previously cumulative translation differences to zero at January 1, 2003. This exemption is not available under US GAAP. Nevertheless, this circumstance does not give rise to a difference between total shareholders' equity under IFRS and US GAAP, but to a reclassification within

shareholders' equity.

**II. Other significant US GAAP disclosure requirements**

The following is a summary of additional financial statement disclosures required under US GAAP:

*(a) Statement of consolidated comprehensive income under US GAAP*

Ternium applies the provisions contained in SFAS No. 130, Reporting Comprehensive Income, which requires that an enterprise (i) classify items of other comprehensive (loss) income by their nature in a financial statement and (ii) display the accumulated balance of other comprehensive (loss) income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position.

**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****34 Reconciliation of net income and shareholders equity to US GAAP (continued)**

|   | <b>As of December 31,</b> |             |
|---|---------------------------|-------------|
|   | <b>2006</b>               | <b>2005</b> |
| Net income for the year                               | 841,018                   | 559,305     |
| Foreign currency translation adjustment               | (25,385)                  | (39,247)    |
| Change in fair value of available for sale securities |                           | (384,869)   |
| Total other comprehensive loss                        | (25,385)                  | (424,116)   |
| Comprehensive income                                  | 815,633                   | 135,189     |

The accumulated balances related to each component of other comprehensive (loss) income were as follows:

|                                  | <b>Foreign currency<br/>translation adjustment<br/>for the year ended<br/>December 31,</b> |             |
|----------------------------------|--|-------------|
|                                  | <b>2006</b>  | <b>2005</b> |
| Balance at beginning of the year | (183,834)  | (144,587)   |
| Decrease for the year            | (25,385)   | (39,247)    |
| Balance at end of the year       | (209,219)  | (183,834)   |

|   | <b>Changes in funded status<br/>of defined benefit plans<br/>for the year ended<br/>December 31,</b> |             |
|---|--|-------------|
|   | <b>2006</b>  | <b>2005</b> |
| Balance at beginning of the year  |  |             |
| Cumulative effect adjustment due to the adoption of SFAS 158, net of tax and minority interests | (24,095)   |             |
| Balance at end of the year  | (24,095)   |             |

|                                  | <b>Change in fair value of<br/>financial assets<br/><br/>for the year ended<br/>December 31,</b> |             |
|----------------------------------|--|-------------|
|                                  | <b>2006</b>  | <b>2005</b> |
| Balance at beginning of the year |  | 384,869     |
| Decrease for the year            |  | (384,869)   |
| Balance at end of the year       |  |             |



**Table of Contents****TERNIUM S.A.****Notes to the Consolidated Financial Statements (Contd.)****34 Reconciliation of net income and shareholders' equity to US GAAP (continued)***(b) Supplemental cash flow information***Details of acquisition of subsidiary companies and additional equity interests in controlled subsidiary companies:**

|   | For the year ended December 31, 2006 |              |               |                |         |
|---|--------------------------------------|--------------|---------------|----------------|---------|
|   | Impeco                               | Acerex       | Hylsamex      | Amazonia       | Siderar |
| <b>Non-cash assets acquired:</b>                                  |                                      |              |               |                |         |
| Inventories   | 8,180                                |              |               |                |         |
| Property, plant and equipment                                     | 47,825                               |              |               |                |         |
| Other assets  | 53                                   |              |               |                |         |
| <b>Total non-cash assets acquired</b>                             | <b>56,058</b>                        |              |               |                |         |
| <b>Liabilities assumed:</b>                                       |                                      |              |               |                |         |
| Deferred income tax   | (875)                                |              |               |                |         |
| <b>Total liabilities assumed</b>                                  | <b>(875)</b>                         |              |               |                |         |
| <b>Net non-cash assets acquired</b>                               | <b>55,183</b>                        |              |               |                |         |
| <b>Net assets acquired</b>  | <b>55,183</b>                        |              |               |                |         |
| <b>Net cash paid for acquired companies</b>                       | <b>55,183</b>                        |              |               |                |         |
| <b>Increase in shareholding interest in subsidiary companies:</b> |                                      |              |               |                |         |
| Minority interest   |                                      | 16,555       | 2,586         | 32,105         | 75,126  |
| Increase in fair value of net assets acquired                     |                                      |              |               | 23,473         | 32,374  |
| Goodwill  |                                      | 28,049       | 675           | 23,190         |         |
| <b>Purchase price paid</b>  | <b>44,604</b>                        | <b>3,261</b> | <b>78,768</b> | <b>107,500</b> |         |

|                                       | For the year ended December 31, 2005 |                  |         |
|---------------------------------------|--------------------------------------|------------------|---------|
|                                       | Hylsamex                             | Amazonia         | Siderar |
| <b>Non-cash assets acquired:</b>      |                                      |                  |         |
| Investments                           | 337,039                              | 9,875            |         |
| Trade accounts receivable             | 305,831                              | 188,978          |         |
| Other receivables                     | 72,069                               | 162,199          |         |
| Inventories                           | 345,053                              | 284,676          |         |
| Intangible assets                     | 133,079                              | 3,893            |         |
| Property, plant and equipment         | 2,129,325                            | 2,444,289        |         |
| Other assets                          | 7,032                                | 36,800           |         |
| <b>Total non-cash assets acquired</b> | <b>3,329,428</b>                     | <b>3,130,710</b> |         |

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**Liabilities assumed:**

|                         |           |           |
|-------------------------|-----------|-----------|
| Trade accounts payable  | (234,325) | (371,908) |
| Current tax liabilities | (19,000)  | (7,630)   |
| Borrowings              | (751,730) | (656,658) |
| Pension benefits        | (116,860) | (78,425)  |
| Deferred income tax     | (449,537) | (284,242) |
| Other liabilities       | (21,521)  | (35,666)  |
| Provisions              |           | (37,163)  |

**Total liabilities assumed** (1,592,973) (1,471,692)

**Net non-cash assets acquired** 1,736,455 1,659,018

Cash acquired 215,411 305,342

**Net assets acquired** 1,951,866 1,964,360

Minority interest (160,576) (1,338,320)

Pre-acquisition interest in Amazonia (323,229)

Goodwill (excess of fair value of net assets acquired over cost) 405,388 (220,767)

Non-cash assets surrendered (82,044)

**Purchase price paid for acquired companies** 2,196,678

Cash acquired (215,411) (305,342)

**Net cash paid (received) for acquired companies** 1,981,267 (305,342)

**Increase in shareholding interest in subsidiary companies:**

Minority interest 109,171 54,432

Increase in fair value of net assets acquired 116,424 38,404

Goodwill 149,391 61,244

**Purchase price paid** 374,986 154,080

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**TERNIUM S.A.**

**Notes to the Consolidated Financial Statements (Contd.)**

**34 Reconciliation of net income and shareholders' equity to US GAAP (continued)**

*(c) Recently issued accounting pronouncements*

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements, ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS 157 on the consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 ( FIN 48 ), which clarifies the accounting for uncertainty in tax positions. FIN 48 requires financial statement recognition of the impact of a tax position, if that position is more likely than not to be sustained on examination, based on the technical merits of the position. The provisions of FIN 48 will be effective for financial statements issued for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The company is currently evaluating the impact of FIN 48 on the consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140 (SFAS 156). SFAS 156 requires recognition of a servicing asset or liability at fair value each time an obligation is undertaken to service a financial asset by entering into a servicing contract. SFAS 156 also provides guidance on subsequent measurement methods for each class of servicing assets and liabilities and specifies financial statement presentation and disclosure requirements. This statement is effective for fiscal years beginning after September 15, 2006. The company is currently evaluating the impact of SFAS 156 on the consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for the Company on January 1, 2008. The Company is evaluating the impact that the adoption of SFAS No. 159 will have on its consolidated financial statements.

Roberto Philipps  
Chief Financial Officer

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**Audited Annual Accounts**

**as at December 31, 2006**

**Ternium S.A.**

**Société Anonyme**

46a, Avenue John F. Kennedy, 2<sup>nd</sup> floor

L-1855 Luxembourg

R.C.S. Luxembourg B-98-668

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### **Management Report**

The board of directors of Ternium S.A. (the Company) submits the annual accounts for the fiscal year ended December 31, 2006 in accordance with article 20 of the Company's articles of association and Luxembourg applicable laws and regulations.

### **The Company**

The Company has qualified for, and was admitted to, the *Billionaire* holding company tax regime in conjunction with the financing holding company tax regime in Luxemburg starting January 1, 2006.

On January 11, 2006, the Company announced that it had filed a registration statement on Form F-1 with the U.S. Securities and Exchange Commission related to its proposed initial public offering of 24,844,720 American Depositary Shares (ADSs), each representing ten shares of common stock.

The Company's initial public offering of 24,844,720 ADSs was priced at USD 20 per ADS.

The Company used all of the proceeds received from the offering to pay down the Company's indebtedness (Tranche A) under the Credit Agreement (see Note 2 (i)) after deducting related expenses.

Ternium's ADSs began trading on the New York Stock Exchange under the symbol TX on February 1, 2006. The Company's initial public offering was settled on February 6, 2006.

During 2005, the Company entered into the Subordinated Convertible Loan Agreements for a total aggregate amount of USD 594 million to fund the acquisition of Hylsamex. As per the provisions contained in the Subordinated Convertible Loan Agreements, the Subordinated Convertible Loans would be converted into shares of the Company upon delivery of Ternium's ADSs to the underwriters. On February 6, 2006 the Subordinated Convertible Loans (including interest accrued through January 31, 2006) were converted into shares at a conversion price of USD 2 per share, resulting in the issuance of 302,962,261 new shares on February 9, 2006.

On February 9, 2006, Inversora Siderúrgica Ltd (ISL) contributed all of its assets and liabilities (including 3.4% interest in Consorcio Siderurgia Amazonia Ltd.) to the Company in exchange for 959,482,775 newly-issued shares of the Company after the settlement of the Initial Public Offering. As a result of this transaction, the issued and outstanding share capital of the Company was set at USD 1,981,762,082 represented by 1,981,762,082 shares with a par value of USD 1 per share.

On February 23, 2006, the underwriters of the Company's initial public offering exercised partially the over-allotment option granted by the Company to purchase ADSs. In connection with this over-allotment option exercise, on March 1, 2006, the Company issued 22,981,360 new shares against payment in cash of an aggregate subscription price of USD 45,962,720.

Upon consummation of the transactions mentioned above, Share capital was increased to USD 2,004,743,442 represented by 2,004,743,442 shares, each having a nominal value of USD 1 each.

Following the positive business environment and its sound financial position, during the year ended December 31, 2006, the Company made prepayments, under Tranche B of the Credit Facility, for a total amount of USD 222 million. The outstanding debt amount, after prepayments and normal payments, is USD 233 million as of December 31, 2006.

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**Management Report (Contd.)**

**Results for the year**

Profit for the year ended December 31, 2006 totaled USD 392.2 million.

Income for the year 2006 totaled USD 450.5 million:

- a) Dividends obtained by the Company totaling USD 439.9 million, from its investments in Consorcio Siderurgia Amazonia Ltd (USD 232.9 million), Ylopa- Servicios de Consultadoria LTDA. (USD 24.3 million), Inversiones Siderurgicas S.A. (USD 113.3 million), Ternium International S.A. Uruguay (formely Techintrade Uruguay S.A.) (USD 5 million), Siderar S.A.I.C. (USD 22.6 million) and Hylsa Latin LLC (USD 41.8 million).
  - b) Interest earnings from financial investments totaling USD 10.6 million.
- Charges for the year 2006 totaled USD 58.3 million, principally due to:

- a) Interest expenses totaled USD 40.2 million, as a result of the amounts owed to: (i) financial institutions involved in the acquisition of Hylsamex SA de CV and its subsidiaries (USD 31.5 million), (ii) affiliated companies in connection with the acquisitions of investments (USD 6.5 million) as well as interest accrued on the Subordinated Convertible Loans (USD 2.2 million).
- b) Administration and general expenses totaled USD 8.7 million, amortization of formation expenses USD 4.7 million and taxes USD 4.6 million.

As of December 31, 2006, the Company had investments in affiliated companies for USD 4.8 billion.

Detailed below are modifications of investments in affiliated companies (not including dividends received):

As provided in the Corporate Reorganization Agreement, on February 9, 2006, ISL contributed to the Company a 3.4% equity interest in Consorcio Siderurgia Amazonia Ltd.

On March 28, 2006, the Company acquired from its affiliated company Hylsamex S.A. de C.V. 3,500,000 shares of Consorcio Siderurgia Amazonia Ltd and 12,831,079 shares of Hylsa Latin L.L.C. Hylsa Latin L.L.C. is a holding company whose main asset was an ownership interest in Consorcio Siderurgia Amazonia Ltd. As of that date, the Company acquired from its affiliated company Hylsa S.A. de C.V. 210,089,045 additional shares of Hylsa Latin L.L.C., thus reaching a 100% equity interest in that company.

On September 30, 2006, the Company made a cash contribution of USD 2,354,000 to Alvory S.A. ( Alvory ), a wholly owned subsidiary of the Company. The above mentioned contribution was used to purchase a 50% equity interest in Lommond Holdings B.V. from Tenaris S.A., a related entity under the common control of Ternium's majority shareholders. Purchase price for this acquisition totaled USD 2,254,000.

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On October 31, 2006, Hylsa Latin L.L.C transferred to the Company its entire investment in Consorcio Siderurgia Amazonia Ltd. Afterwards, the Company commenced the cancellation process of Hylsa Latin L.L.C.

As a result of the transactions mentioned above, at the end of the year, the Company increased its ownership in Consorcio Siderurgia Amazonia Ltd. up to 60.63 %.

**Table of Contents****Management Report (Contd.)**

On December 28 2006, the Company acquired from CVRD International S.A. 16,860,000 shares representing a 4.85% equity interest in Siderar S.A.I.C. (a subsidiary company). After this transaction, the Company increased its ownership in Siderar S.A.I.C. to 211,701,012 shares or 60.93% of its share capital.

As a result of the transactions detailed above, the financial assets of the Company as at December 31, 2006 consist of:

| Company   | Jurisdiction of Organization | % of ownership | Book value at        | Net                | Book value at        |
|---|------------------------------|----------------|----------------------|--------------------|----------------------|
|   |                              |                | 12.31.2005           | Additions          | 12.31.2006           |
|   |                              |                | USD                  | USD                | USD                  |
| <b>I.I.I.-Industrial Investments Inc</b>                              | British Virgin Islands       | 99.00%         | 1,490,636,610        |                    | 1,490,636,610        |
| <b>Consorcio Siderurgia Amazonia Ltd.</b>                             | Cayman Islands               | 60.63%         | 890,920,421          | 229,342,273        | 1,120,262,694        |
| <b>Hylsa Latin LLC</b>  | USA                          |                | 26,325,700           | (26,325,700)       |                      |
| <b>Inversiones Siderúrgicas S.A.</b>                                  | Panama                       | 100%           | 561,050,327          |                    | 561,050,327          |
| <b>Siderar S.A.I.C.</b>   | Argentina                    | 60.93%         | 1,367,654,500        | 107,500,000        | 1,475,154,500        |
| <b>Ternium Internacional S.A.</b> (formerly Techintrade Uruguay S.A.) | Uruguay                      | 100%           | 120,000,000          |                    | 120,000,000          |
| <b>Ylopa Serviços de Consultadoria Lda.</b>                           | Portugal                     | 54.62%         | 7,378,665            |                    | 7,378,665            |
| <b>Fasnet International SA</b>  | Panama                       | 99.00%         | 19,189,200           |                    | 19,189,200           |
| <b>Alvory S.A.</b>  | Uruguay                      | 100%           |                      | 2,354,000          | 2,354,000            |
| <b>Shares in subsidiary companies</b>                                 |                              |                | <b>4,483,155,423</b> | <b>312,870,573</b> | <b>4,796,025,996</b> |

Roberto Philipps

Chief Financial Officer

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### **Independent auditor's report**

To the Shareholders of

Ternium S.A.

### **Report on the annual accounts**

We have audited the accompanying annual accounts of Ternium S.A., which comprise the balance sheet as at December 31, 2006, and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Manager's responsibility for the annual accounts**

Manager is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Institut des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the Auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager, as well as evaluating the overall presentation of the annual accounts. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, these annual accounts give a true and fair view of the financial position of Ternium S.A. as of December 31, 2006, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

### **Report on other legal and regulatory requirements**

The management report, which is the responsibility of the Manager, is in accordance with the annual accounts.

PricewaterhouseCoopers S.à r.l.  
Réviseur d'entreprises

Luxembourg, February 27, 2007

Represented by

Mervyn R. Martins



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Ternium S.A.

Balance sheets as at December 31, 2006 and 2005

(expressed in United States Dollars)

|   |      | 12/31/2006           | 12/31/2005           |
|---|------|----------------------|----------------------|
|   | Note | USD                  | USD                  |
| <b>ASSETS</b>                                 |      |                      |                      |
| Formation expenses                            | 4    | 18,635,656           | 5,456,249            |
|   |      | 18,635,656           | 5,456,249            |
| <b>Fixed assets</b>                           |      |                      |                      |
| <b>Financial assets</b>                       |      |                      |                      |
| - Shares in affiliated undertakings           | 5    | 4,796,025,996        | 4,483,155,423        |
|   |      | 4,796,025,996        | 4,483,155,423        |
| <b>Current assets</b>                         |      |                      |                      |
| <b>Debtors</b>                                |      |                      |                      |
| - Receivables owed by affiliated undertakings | 6    |                      | 5,306,317            |
| - Other receivables                           |      | 8,405                | 8,270                |
|   |      | 8,405                | 5,314,587            |
| - Cash at banks and cash in hand              | 7    | 66,763,655           | 66,564,262           |
| <b>Total assets</b>                           |      | <b>4,881,433,712</b> | <b>4,560,490,521</b> |

The accompanying notes are an integral part of these annual accounts.

**Table of Contents****Ternium S.A.****Balance sheets as at December 31, 2006 and 2005 (Contd.)**

(expressed in United States Dollars)

|   |      | 12/31/2006           | 12/31/2005           |
|---|------|----------------------|----------------------|
|   | Note | USD                  | USD                  |
| <b>LIABILITIES</b>                                |      |                      |                      |
| Shareholders' equity                              | 8    |                      |                      |
| - Share capital                                   |      | 2,004,743,442        | 1,396,551,887        |
| - Legal reserve                                   | 9    | 200,474,346          | 139,655,189          |
| - Distributable reserves                          |      | 402,148,809          | 279,580,555          |
| - Non distributable reserves                      |      | 1,414,121,505        | 980,017,925          |
| - Retained earnings/(Accumulated deficit)         |      | 107,612,101          | (11,537)             |
| - Profit for the year                             |      | 392,230,475          | 107,623,638          |
|   |      | 4,521,330,678        | 2,903,417,657        |
| Provisions  |      |                      |                      |
| - Initial Public Offering expenses provision      |      |                      | 4,580,500            |
| - Tax provision                                   | 12   | 4,758,926            | 4,660,111            |
|   |      | 4,758,926            | 9,240,611            |
| Creditors   |      |                      |                      |
| - Amounts owed to affiliated undertakings         |      |                      |                      |
| becoming due and payable after more than one year | 10   | 117,245,291          | 603,683,346          |
| becoming due and payable within one year          | 10   | 3,763,818            | 24,260,873           |
| - Amounts owed to credit institutions             |      |                      |                      |
| becoming due and payable after more than one year | 11   | 181,188,895          | 872,500,000          |
| becoming due and payable within one year          | 11   | 51,835,596           | 146,896,667          |
| Other creditors                                   |      |                      |                      |
| - Others  |      | 1,310,508            | 491,367              |
|   |      | 355,344,108          | 1,647,832,253        |
| <b>Total liabilities</b>                          |      | <b>4,881,433,712</b> | <b>4,560,490,521</b> |

The accompanying notes are an integral part of these annual accounts.

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Ternium S.A.

Profit and loss accounts for the years ended

December 31, 2006 and 2005

(expressed in United States Dollars)

|                                     |      | 12/31/2006         | 12/31/2005         |
|-------------------------------------|------|--------------------|--------------------|
|                                     | Note | USD                | USD                |
| <b>CHARGES</b>                      |      |                    |                    |
| Amortization of formation expenses  | 4    | 4,659,163          | 828                |
| Administrative and general expenses | 13   | 8,709,577          | 57,558             |
| Interest expense                    | 14   | 40,233,956         | 21,348,194         |
| Realized loss on exchange           |      | 30,120             |                    |
| Taxes (other than income taxes)     | 12   | 4,640,297          | 5,173,275          |
| Profit for the year                 |      | 392,230,475        | 107,623,638        |
| <b>Total charges</b>                |      | <b>450,503,588</b> | <b>134,203,493</b> |
| <b>INCOME</b>                       |      |                    |                    |
| Realized gain on exchange           |      |                    | 6,939              |
| Other interest income               | 14   | 10,561,099         | 315,225            |
| Dividends income                    | 15   | 439,942,489        | 133,866,322        |
| Income for own shares cancellation  | 16   |                    | 15,007             |
| <b>Total income</b>                 |      | <b>450,503,588</b> | <b>134,203,493</b> |

The accompanying notes are an integral part of these annual accounts.

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**Ternium S.A.**

**Notes to the accounts**

**Note 1 Business of the Company and corporate reorganization**

*(a) Business of the Company*

Ternium S.A. (the Company or Ternium ) was incorporated on December 22, 2003 under the name Zoompart Holding S.A. as a Luxembourg *société anonyme holding* under the law of August 10, 1915 relating to commercial companies and the law of July 31, 1929 relating to holding companies for an unlimited period.

The registered office of the Company is established in Luxembourg. The Company's financial year starts on January 1 and ends on December 31 of each year.

The Company's objective is to invest in companies that manufacture, process and distribute flat and long steel products, providing raw materials for several industrial activities.

The Company also prepares consolidated financial statements, which are published according to the provisions of the law and that are available at the registered office of the Company, 46a, Avenue John F. Kennedy 2<sup>nd</sup> floor, L-1855, Luxembourg.

*(b) Corporate reorganization*

On January 11, 2006, the Company successfully completed its registration process with the United States Securities and Exchange Commission ( SEC ) and announced the commencement of its offer to sale 24,844,720 American Depositary Shares ( ADS ) representing 248,447,200 shares of common stock through Citigroup Global Markets Inc., Deutsche Bank Securities Inc., JP Morgan Securities Inc., Morgan Stanley & Co. Incorporated, BNP Paribas Securities Corp., Caylon Securities (USA) Inc. and Bayerische Hypo-und Vereinsbank AG (collectively, the Underwriters ) and the offering thereunder, the Initial Public Offering ). The Company's Initial Public Offering was priced at USD 20 per ADS. The gross proceeds from the Initial Public Offering totaled USD 496.9 million and have been used to fully repay Tranche A of the Ternium Credit Facility (as defined below) after deducting related expenses. See Note 2 (i).

On January 31, 2006, Inversora Siderúrgica Ltd ( ISL ) and the Company entered into a reorganization agreement (the Corporate Reorganization Agreement ) pursuant to which ISL committed to deliver shares of the Company to the Underwriters and to the Subordinated Lenders (as defined below) in an amount sufficient to satisfy the Company's obligation to deliver shares of the Company to the Underwriters (excluding any shares to be delivered in connection with the Underwriters' over-allotment option) and to the Subordinated Lenders pursuant to the terms of the Initial Public Offering and the Subordinated Convertible Loan Agreements. As provided in the Corporate Reorganization Agreement, after ISL's delivery of such shares, ISL will contribute all of its assets and liabilities (including the credit against the Company arising from such delivery of shares, its interest in Amazonia and any remaining shares of the Company) to the Company in exchange for 959,482,775 newly issued shares of the Company.

Ternium's ADS began trading on the New York Exchange under the symbol TX on February 1, 2006.

On February 6, 2006, the Company's initial public offering was settled, and on February 9, 2006 ISL delivered for and on behalf of the Company 248,447,200 Ternium shares to the Underwriters and 374,272,579 Ternium shares to the Subordinated Lenders.

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**Ternium S.A.**

**Notes to the accounts (Contd.)**

**Note 1- Business of the company and corporate reorganization (Contd.)**

As provided in the Corporate Reorganization Agreement, on February 9, 2006, ISL assigned and contributed to the Company all of its assets (then including the 3.4% interest in Amazonia, two notes issued by the Company in consideration of ISL's delivery of Company shares pursuant to the Corporate Reorganization Agreement and 374,272,579 shares of the Company) and liabilities in exchange for 959,482,775 newly-issued shares of the Company. Upon consummation of this contribution, the 374,272,579 Company shares contributed by ISL to the Company were cancelled and the Company's issued share capital was increased to USD 1,981,762,082 represented by 1,981,762,082 shares, each having a nominal value of USD 1.00.

Also, the Company granted to the Underwriters an option, exercisable for 30 days from January 31, 2006, to purchase up to 3,726,708 additional ADSs at the public offering price of USD 20 per ADS less an underwriting discount of USD 0.55 per ADS. On February 23, 2006, the Underwriters exercised in part the over-allotment option granted by the Company. In connection, with this over-allotment option exercise, on March 1, 2006, the Company issued 22,981,360 new shares against payment in cash of an aggregate subscription price of USD 45,962,720.

After completion of the Initial Public Offering, the conversion of the Subordinated Convertible Loans mentioned in Note 2(ii), the exercise of the option granted to the Underwriters and the consummation of the transactions contemplated in the Corporate Reorganization Agreement, 2,004,743,442 shares (including shares in the form of ADSs) were outstanding.

**Note 2- Acquisition of business**

On May 18, 2005, I.I.I. BVI, Hylsamex and Alfa S.A. de C.V. (Alfa) entered into the Hylsamex Acquisition Agreement. Pursuant to the terms of the Hylsamex Acquisition Agreement, on July 26, 2005, I.I.I. BVI launched a cash tender offer in Mexico for the acquisition of all the outstanding shares of Hylsamex. The Company acquired an indirect controlling interest in Hylsamex and its subsidiaries, and the indirect equity stakes owned by Hylsamex's former controlling shareholder, Alfa, in Amazonia and Ylopa.

As part of the transfer of rights and obligations of I.I.I. BVI, the Company assumed the following liabilities:

- i) an amended and restated credit agreement, dated as of August 16, 2005 among I.I.I. BVI and lenders (including affiliates of Citigroup Global Markets Inc., J.P. Morgan Securities Inc., BNP Paribas Securities Corp., Cylon Securities (USA) Inc. and Bayerische Hypo- und Vereinsbank AG) for an aggregate principal amount of USD 1,000 million (the Ternium Credit Facility). The Ternium Credit Facility is comprised of two equal tranches:

Tranche A with a maturity of three years and bearing interest at the annual rate of LIBOR plus an applicable margin that ranges from 75 to 400 basis points. This tranche has been fully repaid in February 2006.

Tranche B with a maturity of five years and bearing interest at the annual rate of LIBOR plus an applicable margin that ranges from 137.5 to 300 basis points. The outstanding debt amount is USD 233 million as of December 31, 2006.

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**Ternium S.A.**

**Notes to the accounts (Contd.)**

**Note 2- Acquisition of business (Contd.)**

ii) several convertible and subordinated loan agreements, dated as of various dates, for an aggregate principal amount of USD 594 million, each among the Company, I.I.I. BVI, as borrowers, and Usiminas, Tenaris, or other Techint Group companies (collectively, the Subordinated Lenders), the agreements, the Subordinated Convertible Loan Agreements and the loans thereunder, the Subordinated Convertible Loans). Pursuant to the terms of the Subordinated Convertible Loan Agreements, on the date on which the Company delivers the ADSs to the Underwriters upon consummation of the Initial Public Offering, the Subordinated Convertible Loans would be converted into shares of the Company at a price per share equal to the price per share paid by the investors in the offering. As mentioned in Note 1 (b), The Subordinated Convertible Loans (including interest accrued through January 31, 2006) have converted into shares of the Company in February 2006.

On March 28, 2006, the Company acquired from its affiliated company Hylsamex S.A. de C.V. 3,500,000 shares of Consorcio Siderurgia Amazonia Ltd and 12,831,079 shares of Hylsa Latin LLC. Hylsa Latin LLC is a holding company whose main asset was an ownership interest in Consorcio Siderurgia Amazonia Ltd. As of that date, the Company acquired from its affiliated company Hylsa S.A. de C.V. 210,089,045 additional shares of Hylsa Latin L.L.C., thus reaching a 100% equity interest in that company.

On September 29, 2006, the Company made a cash contribution of USD 2,354,000 to Alvory S.A. (Alvory), a wholly owned subsidiary of the Company. The above mentioned contribution was used to purchase a 50% equity interest in Lomond Holdings B.V. from Tenaris S.A., a related entity under the common control of Ternium's majority shareholders. Purchase price for this acquisition totaled USD 2,254,000.

On October 31, 2006, Hylsa Latin L.L.C. transferred to the Company its entire investment in Consorcio Siderurgia Amazonia Ltd. Afterwards, the Company commenced the cancellation process of Hylsa Latin L.L.C.

As a result of the transactions mentioned above, at the end of the year, the Company increased its ownership in Consorcio Siderurgia Amazonia Ltd. up to 60.63%.

On December 28, 2006, the Company acquired from CVRD International S.A. 16,860,000 shares representing a 4.85% equity interest in Siderar S.A.I.C. (a subsidiary company) for an aggregate purchase price of USD 107,500,000. Upon consummation of this transaction, the Company increased its ownership in Siderar S.A.I.C. to 211,701,012 shares or 60.93% of its share capital.

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**Ternium S.A.**

**Notes to the accounts (Contd.)**

**Note 3 Summary of significant accounting policies**

**3.1 Basis of preparation**

The annual accounts have been prepared in accordance with Luxembourg legal and regulatory requirements.

**3.2 Foreign currency translation**

Financial assets, current and non-current assets and debts denominated in currencies other than the United States dollar ( USD ) are translated into USD at the rate of exchange at the balance sheet date. Income and expenses in currencies other than the USD are translated into USD at the exchange rate prevailing at the date of each transaction. Only realized exchange gains and losses and unrealized losses are accounted for in the profit and loss accounts.

**3.3 Formation expenses**

Formation expenses are amortized on a straight-line method over a period of 5 years.

**3.4 Financial assets**

Financial assets are stated at cost. In case of other than temporary decline in the value of an investment, its carrying value will be reduced to recognize this decline. Reductions in the carrying value will be reversed in case of a rise in the value of the investment or when the reasons for the reduction no longer exist.

**3.5 Financial debt**

Financial liabilities are stated at nominal value plus accrued interest at year end.

**3.6 Receivables and payables**

Receivables and payables are valued at their nominal value.

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Ternium S.A.

Notes to the accounts (Contd.)

**Note 4 Formation expenses**

|  | December 31,<br>2006 | December 31,<br>2005 |
|--|----------------------|----------------------|
|  | USD                  | USD                  |
| <b>Formation expenses</b>                    |                      |                      |
| Gross amount                                 |                      |                      |
| - at the beginning of the year               | 5,457,657            | 1,657                |
| - additions of IPO expenses (i)              | 17,838,570           | 5,456,000            |
| - at the end of the year                     | 23,296,227           | 5,457,657            |
| <b>Amortization</b>                          |                      |                      |
| - at the beginning of the year               | 1,408                | 580                  |
| - charge for the year                        | 4,659,163            | 828                  |
| - at the end of the year                     | 4,660,571            | 1,408                |
| <b>Net book value at the end of the year</b> | <b>18,635,656</b>    | <b>5,456,249</b>     |

- (i) Expenses incurred in connection with the Initial Public Offering have been amortized on a straight-line method over a period of 5 years beginning at the closing date of such process.

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Ternium S.A.

Notes to the accounts (Contd.)

**Note 5 Financial assets****- Shares in affiliated undertakings**

Ternium's investments in affiliated undertakings at December 31, 2006 were as follows:

| Company  | Country        | % of<br>beneficial<br>ownership | Book value at<br>12.31.2005<br>USD | Net<br>Additions<br>USD | Book value at<br>12.31.2006<br>USD |
|--|----------------|---------------------------------|------------------------------------|-------------------------|------------------------------------|
| <b>I.I.I. Industrial Investments Inc.</b>  | British Virgin | 99.00%                          | 1,490,636,610                      |                         | 1,490,636,610                      |
| <b>Consorcio Siderurgia Amazonia Ltd.</b> (see Note 2)                           | Cayman Islands | 60.63%                          | 890,920,421                        | 229,342,273             | 1,120,262,694                      |
| <b>Hylsa Latin LLC</b> (see Note 2)  | USA            |                                 | 26,325,700                         | (26,325,700)            |                                    |
| <b>Inversiones Siderúrgicas S.A.</b>   | Panama         | 100%                            | 561,050,327                        |                         | 561,050,327                        |
| <b>Siderar S.A.I.C.</b> (see Note 2)   | Argentina      | 60.93%                          | 1,367,654,500                      | 107,500,000             | 1,475,154,500                      |
| <b>Ternium Internacional Uruguay S.A.</b> (formerly<br>Techintrade Uruguay S.A.) | Uruguay        | 100%                            | 120,000,000                        |                         | 120,000,000                        |
| <b>Ylopa Serviços de Consultadoria Lda.</b>                                      | Portugal       | 54.62%                          | 7,378,665                          |                         | 7,378,665                          |
| <b>Fasnet International S.A.</b>   | Panama         | 99.00%                          | 19,189,200                         |                         | 19,189,200                         |
| <b>Alvory S.A.</b> (see Note 2)  | Uruguay        | 100%                            |                                    | 2,354,000               | 2,354,000                          |
| <b>Shares in affiliated undertakings</b>   |                |                                 | <b>4,483,155,423</b>               | <b>312,870,573</b>      | <b>4,796,025,996</b>               |

**Note 6 Receivables owed by affiliated undertakings**

Correspond to dividends distributed by Hylsa Latin L.L.C. in 2005 and which were collected in February 2006.

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Ternium S.A.

**Notes to the accounts (Contd.)****Note 7 Cash at banks and cash in hand as of December 31, 2006.**

|  |                |
|--|----------------|
| Citifunds Time deposits denominated in USD                     | USD 5,206,666  |
| Investment securities in USD                                   | USD 61,332,811 |
| Citibank, London DDA account denominated in USD                | USD 84,606     |
| Citibank, London DDA account denominated in Euros (42,406 Eur) | USD 55,972     |
| Citibank, New York DDA account denominated in USD              | USD 65,989     |
| Lehman Brother DDA account denominated in USD                  | USD 16,731     |
| Petty Cash (664 Eur)   | USD 880        |

**USD 66,763,655****Note 8 Shareholders' equity**

| Item  | Share<br>Capital     | Legal<br>Reserve   | Distrib.<br>Reserves | Non-distrib.<br>Reserves<br>USD | Retained<br>earnings | Result for the<br>year | Shareholders'<br>Equity |
|---|----------------------|--------------------|----------------------|---------------------------------|----------------------|------------------------|-------------------------|
| Balance at the beginning of the year                                | 1,396,551,887        | 139,655,189        | 279,580,555          | 980,017,925                     | (11,537)             | 107,623,638            | 2,903,417,657           |
| Conversion of Subordinated Convertible Loans dated February 9, 2006 | 302,962,261          | 30,296,226         | 60,592,452           | 212,073,583                     |                      |                        | 605,924,522             |
| Initial Public Offering dated February 9, 2006                      | 656,520,513          | 65,652,053         | 132,234,046          | 467,933,850                     |                      |                        | 1,322,340,462           |
| Cancellation of own shares  | (374,272,579)        | (37,427,258)       | (74,854,516)         | (261,990,805)                   |                      |                        | (748,545,158)           |
| Capital increase dated March 1, 2006                                | 22,981,360           | 2,298,136          | 4,596,272            | 16,086,952                      |                      |                        | 45,962,720              |
| Allocation of previous year results (1)                             |                      |                    |                      |                                 | 107,623,638          | (107,623,638)          |                         |
| Profit for the year   |                      |                    |                      |                                 |                      | 392,230,475            | 392,230,475             |
| <b>Balance at the end of the year</b>                               | <b>2,004,743,442</b> | <b>200,474,346</b> | <b>402,148,809</b>   | <b>1,414,121,505</b>            | <b>107,612,101</b>   | <b>392,230,475</b>     | <b>4,521,330,678</b>    |

(1) This allocation has been approved by the Annual General Meeting of Shareholders held on June 7, 2006.

**Table of Contents****Ternium S.A.****Notes to the accounts (Contd.)****Note 8 Shareholders' equity (Contd.)**

The authorized capital of the Company amounts to USD 3,500 million. The total authorized share capital of the Company is represented by 3,500,000,000 shares with a par value of USD 1 per share. The total capital issued and fully paid-up at December 31, 2006 was 2,004,743,442 shares with a par value of USD 1 per share.

**Note 9 Restrictions on the distribution of profits**

Under the credit agreements that financed the acquisition of Hylsamex, the Company and its affiliates have some restrictions to the payment of dividends in excess of certain amounts, among other limitations.

In accordance with Luxembourg law, the Company is required to set aside a minimum of 5% of its annual net profit for each financial period to a legal reserve. This requirement ceases to be necessary once the balance of the legal reserve has reached 10% of the Company's issued share capital. The legal reserve is not available for distribution to shareholders.

**Note 10 Amounts owed to affiliated undertakings**

|                          | December 31, 2006  |
|--------------------------|--------------------|
|                          | USD                |
| <b>Non Current</b>       |                    |
| Hylsa                    | 103,185,847        |
| Hylsamex                 | 14,059,444         |
| <b>Total Non Current</b> | <b>117,245,291</b> |
| <b>Current</b>           |                    |
| Siderar                  | 1,486,654          |
| Hylsa                    | 2,004,098          |
| Hylsamex                 | 273,066            |
| <b>Total Current</b>     | <b>3,763,818</b>   |

**Note 11 Amounts owed to credit institutions**

|                       | December 31, 2006 |
|-----------------------|-------------------|
|                       | USD               |
| <b>Financial Debt</b> |                   |
| Non Current           | 181,188,895       |
| Current               | 51,835,596        |

As mentioned in Note 1 (b), in February 2006 the Company used the proceeds from Initial Public Offering to repay Tranche A of the Ternium Credit Facility.

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Following the positive business environment and its sound financial position, during the year ended December 31, 2006, the Company made prepayments, under Tranche B of the Credit Facility, for a total amount of USD 222 million.

**Table of Contents****Ternium S.A.****Notes to the accounts (Contd.)****Note 12 Taxes**

The Company is subject to the subscription tax of 0.2 %. The Company has qualified for, and was admitted to, the *Billionaire* holding company tax regime in conjunction with the financing holding company tax regime in Luxemburg starting January 1, 2006.

On December 29, 2006, the Grand-Duchy of Luxembourg announced the decision to terminate its 1929 holding company regime, effective January 1, 2007. However, under the implementing legislation, pre-existing publicly listed companies (including Ternium S.A.) will be entitled to continue benefiting from their current tax regime until December 31, 2010.

The Company is also subject to personal assets tax in Argentina for the holding of stock in its subsidiary Siderar S.A.I.C. Accordingly, the Company recognized a provision amounting to USD 4.8 million as of December 31, 2006 for that concept.

**Note 13 Administrative and general expenses**

|                   | <b>December 31, 2006</b> |
|-------------------|--------------------------|
|                   | <b>USD</b>               |
| Services and fees | 7,934,181                |
| Others expenses   | 775,396                  |
| <b>Total</b>      | <b>8,709,577</b>         |

**Note 14 Interest expenses/income**

Interest expense for the year ended December 31, 2006, totaled USD 40.2 million, as a result of the amounts owed to: (i) financial institutions involved in the acquisition of Hylsamex SA de CV and its subsidiaries (USD 31.5 million), and (ii) affiliated companies in connection with the acquisitions of investments (USD 6.5 million) as well as interest accrued on The Subordinated Convertible Loans (USD 2.2 million).

Interest income totaled USD 10.6 million caused, principally by financial investment securities mentioned in Note 7.

**Table of Contents****Ternium S.A.****Notes to the accounts (Contd.)****Note 15- Dividends income**

|   | <b>December 31, 2006</b> |
|---|--------------------------|
|   | <b>USD</b>               |
| Consortio Siderurgia Amazônia Ltd. (Cayman Island)                        | 232,935,424              |
| Ylopa Servicios de Consultadoría LTDA. (Madeira- Free Zone)               | 24,255,389               |
| Inversiones Siderúrgicas S.A. (Panama)                                    | 113,280,040              |
| Siderar S.A.I.C. (Argentina)  | 22,650,268               |
| Ternium International S.A. Uruguay (formerly Techintrade de Uruguay S.A.) | 5,000,000                |
| Hylsa Latin LLC (USA)   | 41,821,368               |
| <b>Total</b>  | <b>439,942,489</b>       |

**Note 16 Income for own shares cancellation**

Upon consummation of June 29, 2005 ISL's capital contribution to the Company, ISL contributed 41,470 shares of the Company for an aggregate value of USD 29,935.

Immediately upon receipt of those Company shares, the Company cancelled them for their nominal value of USD 41,470. The difference between both values, amounting to USD 11,535 was recorded as income for the year 2005.

In 2005, in a subsequent capital increase, Ternium received and cancelled its own shares and issued new shares. The difference between the assets received and the shares issued (USD 3,472) was also recorded as income for the year.

**Note 17 Parent Company**

The Company is controlled by Inversora Siderúrgica Limited, a company incorporated and existing under the laws of Gibraltar. The ultimate parent company is Rocca & Partners.

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Ú DETACH PROXY CARD HERE Ú

Mark, Sign, Date and Return

x

the Proxy Card Promptly

Votes must be indicated  
(x) in Black or Blue ink.

Using the Enclosed Envelope.

|   | FOR | AGAINST | ABSTAIN |
|---|-----|---------|---------|
| <b><u>AGENDA</u></b>  |     |         |         |
| 1. Consideration of the Board of Directors and independent auditor's reports on the consolidated financial statements. Approval of the Company's consolidated financial statements as of, and for the fiscal year ended, December 31, 2006. | ..  | ..      | ..      |
| 2. Consideration of the Board of Directors and independent auditor's reports on the unconsolidated annual accounts. Approval of the Company's unconsolidated annual accounts as of, and for the fiscal year ended, December 31, 2006.       | ..  | ..      | ..      |
| 3. Allocation of results and approval of dividend payment.  | ..  | ..      | ..      |
| 4. Discharge to the members of the Board of Directors for the exercise of their mandate throughout the year ended December 31, 2006.  | ..  | ..      | ..      |
| 5. Election of the Board of Directors' members.   | ..  | ..      | ..      |

The Voting Instruction must be signed by the person in whose name the relevant Receipt is registered on the books of the Depository. In the case of a Corporation, the Voting Instruction must be executed by a duly authorized Officer or Attorney.

|   | FOR | AGAINST | ABSTAIN |
|---|-----|---------|---------|
| 6. Authorization to the Board of Directors to delegate the day-to-day management of the Company's business to one or more of its members. | ..  | ..      | ..      |

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- |    |  |    |    |    |
|----|--|----|----|----|
| 7. | Authorization to the Board of Directors to appoint one or more of its members as the Company's attorney-in-fact. | .. | .. | .. |
| 8. | Board of Directors' compensation.  | .. | .. | .. |
| 9. | Appointment of the independent auditors and approval of their fees.  | .. | .. | .. |

To change your address, please mark this box. ..

Date Share Owner sign here

Co-Owner sign here

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TERNIUM S.A.

**Instructions to The Bank of New York, as Depositary**

**(Must be received prior to 3:00 p.m. on June 1, 2007)**

The undersigned, Owner of one or more American Depositary Receipts ( ADRs ) of TERNIUM S.A., (the Company ), hereby requests and instructs The Bank of New York, as Depositary, to endeavor, insofar as practicable, to vote or cause to be voted the amount of Shares or other Deposited Securities represented by the American Depositary Shares evidenced by such Receipt of the Company, registered in the name of the undersigned on the books of the Depositary as of the close of business May 1, 2007, at the Annual General Shareholders Meeting of the Company to be held on June 6, 2007, at 2:30 p.m. (local time) at 46A, Avenue John F. Kennedy L-1855 Luxembourg and at any adjournment or postponement thereof, as specified on the reverse side.

If no instruction is received, a discretionary proxy will be given to a person designated by the Company to vote such Deposited Securities.

**NOTES:**

**1. Please direct the Depositary how to vote by placing an X in the appropriate box opposite the resolutions.**

To include any comments, please mark this box. "

**Please complete and date this proxy on the reverse side and return it promptly in the accompanying envelope.**

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SIGNATURE

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

TERNIUM S.A.

By: /s/ Raúl Darderes  
Name: Raúl Darderes  
Title: Secretary to the Board of Directors  
Dated: May 4, 2007