Ternium S.A.
Form 20-F
June 30, 2011

Table of Contents

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

FORM 20-F

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

þ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the fiscal year ended December 31, 2010
or

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

o **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission file number: 001-32734
TERNIUM S.A.
(Exact Name of Registrant as Specified in its Charter)
N/A
(Translation of registrant s name into English)
Grand Duchy of Luxembourg
(Jurisdiction of incorporation or organization)
29, Avenue de la Porte-Neuve 3rd floor
L-2227 Luxembourg
(Address of registrant s registered office)
Alicia Alvarez
29, Avenue de la Porte-Neuve 3rd floor
L-2227 Luxembourg
Tel. +352 26 68 31 52, Fax. +352 26 68 31 53, e-mail: luxembourg@ternium.com
(Name, Telephone, E-Mail and/or Facsimile number and Address of Company Contact Person)

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

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

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

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

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

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

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

Yes þ No o

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

Yes o No þ

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

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

Yes þ No o

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

Yes o No þ

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

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

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

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

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

Item 17 o Item 18 o

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

Yes o No þ

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

Cristian J.P. Mitrani
Mitrani, Caballero, Rosso Alba, Francia, Ojam & Ruiz Moreno Abogados
Alicia Moreau de Justo 400, 3rd Floor
C1007AAH Buenos Aires, Argentina
(54-11) 4590-8600

Robert S. Risoleo, Esq.
Sullivan & Cromwell LLP
1701 Pennsylvania Avenue N.W.
Washington, D.C. 20006
(202) 956-7500

TABLE OF CONTENTS

Table of Contents

CERTAIN DEFINED TERMS

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

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

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

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

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

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

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

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

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

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

Table of Contents

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Accounting Principles

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

Table of Contents

Currencies

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

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

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

Argentine pesos or ARP each refers to the Argentine peso.

On December 31, 2010, the noon buying rate between the Mexican peso and the U.S. dollar (as published by *Banco de México*, or the Mexican Bank) was MXN12.3496=USD1.0000, and the U.S. dollar sell exchange rate in the Argentine Republic (as published by *Banco Central de la República Argentina*, or the Argentine Central Bank) was ARP3.9760=USD1.0000. Those rates may differ from the actual rates used in preparation of the Company s consolidated financial statements. We do not represent that any of these currencies could have been or could be converted into U.S. dollars or that U.S. dollars could have been or could be converted into any of these currencies.

Rounding; Comparability of Data

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

Our Internet Site is Not Part of this Annual Report

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

Table of Contents

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

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

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses that may affect Ternium s financial condition and results of operations could differ materially from those that have been estimated. You should not place undue reliance on the forward-looking statements, which speak only as of the date of this annual report. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

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

Ternium obtained control over Grupo Imsa, a Mexican steel processor, on July 26, 2007. Accordingly, the audited consolidated financial statements of Ternium as of December 31, 2010, 2009 and 2008, and for the years then ended, included in this annual report consolidate the results and other financial data of Grupo Imsa for the entire year, and the audited consolidated financial statements of Ternium as of December 31, 2007, and for the year then ended, included in this annual report consolidate the results and other financial data of Grupo Imsa beginning on July 26, 2007. As a result, Ternium s results and other financial data for the years ended December 31, 2010, 2009 and 2008 varied significantly from the results and other financial data for the year ended December 31, 2007, and the results and other financial data of each such year varied significantly from the results and other financial data for the year ended December 31, 2006.

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

In thousands of U.S. dollars	**For the year ended December 31,**				
(except number of shares and per share data)	**2010**	**2009**	**2008**	**2007**	**2006**
Selected consolidated income statement data					
Continuing operations					
Net sales	7,382,004	4,958,983	8,464,885	5,633,366	4,484,918
Cost of sales	(5,665,254)	(4,110,370)	(6,128,027)	(4,287,671)	(3,107,629)
Gross profit	1,716,750	848,613	2,336,858	1,345,695	1,377,289
Selling, general and administrative expenses	(665,306)	(531,530)	(669,473)	(517,433)	(370,727)
Other operating income (expenses), net	2,493	(20,700)	8,662	8,514	(4,739)
Operating income	1,053,937	296,383	1,676,047	836,776	1,001,823
Interest expense	(72,969)	(105,810)	(136,111)	(133,109)	(96,814)
Interest income	27,347	21,141	32,178	41,613	33,903
Interest income Sidor financial asset	61,012	135,952			
Other financial income (expenses), net	115,112	81,639	(693,192)	(38,498)	(40,432)
Equity in earnings of associated companies	1,688	1,110	1,851	434	671
Income before income tax expense	1,186,127	430,415	880,773	707,216	899,151
Income tax (expense) benefit					
Current and deferred income tax expense	(406,657)	(91,314)	(258,969)	(291,345)	(353,044)
Reversal of deferred statutory profit sharing			96,265		
Income from continuing operations	779,470	339,101	718,069	415,871	546,107
Discontinued operations					
Income from discontinued operations		428,023	157,095	579,925	444,468
Profit for the year (1)	779,470	767,124	875,164	995,796	990,575
Attributable to:					
Equity holders of the Company	622,076	717,400	715,418	784,490	795,424
Non-controlling interest	157,394	49,724	159,746	211,306	195,151
	779,470	767,124	875,164	995,796	990,575
Depreciation and amortization	383,300	385,105	413,541	355,271	251,371

Weighted average number of shares outstanding	2,004,743,442	2,004,743,442	2,004,743,442	2,004,743,442	1,936,833,060
Basic earnings per share (expressed in USD per share) for profit: (1) (2)					
From continuing operations attributable to the equity holders of the Company	0.31	0.15	0.27	0.15	0.20
From discontinued operations attributable to the equity holders of the Company		0.21	0.09	0.24	0.21
For the year attributable to the equity holders of the Company	0.31	0.36	0.36	0.39	0.41
Dividends per share declared	0.075	0.05		0.05	0.05

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

(2) Diluted earnings per share (expressed in USD per share), equals basic earnings per share. Diluted earnings per share have been calculated giving effect to the conversion of certain subordinated convertible loans.

Table of Contents

In thousands U.S. dollars (except number of shares and per share data)	At December 31, 2010	2009	2008	2007	2006
Selected consolidated balance sheet data					
Non-current assets	5,579,438	5,250,135	5,491,408	8,553,123	6,029,383
Property, plant and equipment, net	4,262,896	4,040,415	4,212,313	6,776,630	5,335,030
Other non-current assets (1)	1,316,542	1,209,720	1,279,095	1,776,493	694,353
Current assets	5,532,893	5,042,538	5,179,839	5,095,959	2,628,870
Cash and cash equivalents	1,779,416	2,095,798	1,065,552	1,125,830	643,291
Other current assets (2)	3,743,516	2,937,494	4,108,954	3,200,987	1,978,537
Non-current assets classified as held for sale	9,961	9,246	5,333	769,142	7,042
Total assets	11,112,331	10,292,673	10,671,247	13,649,082	8,658,253
Capital and reserves attributable to the Company s equity holders (3)	5,880,740	5,296,342	4,597,370	4,452,680	3,757,558
Non-controlling interest	1,135,361	964,897	964,094	1,805,243	1,626,119
Non-current liabilities	2,540,594	2,872,667	3,374,964	5,401,549	1,867,892
Borrowings	1,426,574	1,787,204	2,325,867	3,676,072	546,601
Deferred income tax	877,742	857,297	810,160	1,327,768	982,091
Other non-current liabilities	236,278	228,166	238,937	397,709	339,200
Current liabilities	1,555,636	1,158,767	1,734,819	1,989,610	1,406,684
Borrowings	513,083	539,525	941,460	406,239	507,241
Other current liabilities	1,042,553	619,242	793,359	1,369,608	899,443
Liabilities directly associated with non-current assets classified as held for sale				213,763	
Total liabilities	4,096,230	4,031,434	5,109,783	7,391,159	3,274,576
Total equity and liabilities	11,112,331	10,292,673	10,671,247	13,649,082	8,658,253
Number of shares outstanding	2,004,743,442	2,004,743,442	2,004,743,442	2,004,743,442	2,004,743,442

(1) As of December 31, 2010, 2009, 2008, 2007 and 2006, includes goodwill mainly related to the acquisition of our Mexican subsidiaries for a total amount of USD750.1, USD708.6, USD683.7, USD850.7 and USD397.9 million, respectively.

(2) As of December 31, 2010, 2009, 2008 and 2007, includes deposits with maturity of more than three months for a total amount of USD848.4, USD46.8, USD90.0 and USD65.3 million, respectively.

(3)

The Company s share capital as of December 31, 2010, 2009, 2008, 2007 and 2006 was represented by 2,004,743,442 shares, par value USD1.00 per share, for a total amount of USD2,004.7 million.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Table of Contents

Risks Relating to the Steel Industry

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

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

If global macroeconomic conditions deteriorate, the outlook for steel producers would be adversely affected. In particular, a recession or depression in the developed economies, such as the one experienced by the United States and Europe in 2008 and 2009, or slower growth or recessionary conditions in emerging economies that are substantial consumers of steel (such as China and India, as well as emerging Asian markets, the Middle East, Latin America and the Commonwealth of Independent States regions) would exact a heavy toll on the steel industry, and would depress demand for our products and adversely affect our business and results of operations.

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

Steel prices are volatile and are sensitive to trends in cyclical industries, such as the construction, automotive, appliance and machinery industries, which are significant markets for Ternium s products. Steel prices in the international markets, which had been rising fast during the first half of 2008, fell sharply beginning in the second half of 2008 as a result of collapsing demand and the resulting excess capacity in the industry. The fall in prices during this period adversely affected the results of steel producers generally, including Ternium, as a result of lower revenues and writedowns of finished steel products and raw material inventories. For example, in the second half of 2008 Ternium recorded a valuation allowance on inventories in an amount of USD200 million and in the first half of 2009 it recorded an additional valuation allowance in the amount of USD127.6 million. Beginning in the second half of 2009, steel prices in the international markets rebounded mainly as a result of the increase in the demand for steel in China and other emerging markets, and the subsidence of the worldwide de-stocking process. This positive trend in international steel prices partially reversed during the second half of 2010 as the increase in demand for steel products was more than offset by new capacity additions and idled capacity restarts. A more balanced market and the increase in steel demand by year-end 2010 supported a steel price rally during the first quarter of 2011. Steel prices, however, decreased during the second quarter of 2011. Historically, the length and nature of business cycles affecting the steel industry has been unpredictable. A downturn in steel prices would materially and adversely affect Ternium s revenues and profitability.

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

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

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

Table of Contents

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

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

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

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

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

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

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

The Ternium companies depend on certain key suppliers for their requirements of some of their principal inputs, including Vale for iron ore and ArcelorMittal for slabs; there is also a trend towards consolidation among suppliers of iron ore and other raw materials. The Ternium companies have entered into long-term contracts for the supply of some of their principal inputs (including iron ore) and it is expected that they will maintain and, depending on the circumstances, renew these contracts. However, if any of the key suppliers fails to deliver or there is a failure to renew these contracts, the Ternium companies could face limited access to some raw materials, energy or other inputs, or higher costs and delays resulting from the need to obtain their input requirements from other suppliers. As an example, in 2007 Vale was unable to provide Siderar with the quantities of iron ore that it required, forcing Siderar to import iron ore from Ternium Mexico.

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

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

Ternium s larger competitors could use their resources against Ternium in a variety of ways, including by making additional acquisitions, implementing modernization programs, expanding their production capacity, investing more aggressively in product development, and displacing demand for Ternium s products in certain markets. To the extent that these producers become more efficient, Ternium could confront stronger competition and could fail to preserve its current share of the relevant geographic or product markets. In addition, there has been a trend in recent years toward steel industry consolidation among Ternium s competitors, and smaller competitors in the steel market today could become larger competitors in the future. For example, in June 2006, Mittal Steel and Arcelor merged to create the world s largest steel company, ArcelorMittal; in April 2007, Tata Steel completed the acquisition of Corus; in 2008 Severstal acquired Sparrows Point, WCI Steel and Esmark (subsequently divesting in 2011 Sparrows Point, Warren and Wheeling); and in 2011 Sumitomo Metal Industries and Nippon Steel Corporation announced plans to merge their operations. Regional players in Ternium s markets have also experienced consolidation through acquisitions; for example, Siderperu was acquired by Gerdau in 2006, Sicartsa of Mexico was acquired by ArcelorMittal in December 2006 and Aceria Paz del Rio of Colombia was acquired by Votorantim in March 2007. For further information please see Item 4. Information on the Company B. Business Overview Competition.

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

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

Risks Relating to our Business

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

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

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

A key element of Ternium s business strategy is to identify and pursue growth-enhancing strategic opportunities. As part of this growth strategy, Ternium has acquired interests in various companies, including Hylsamex, one of the main steel producers in Mexico; and Grupo Imsa, a leading steel processor with operations in Mexico, the United States and Guatemala. Additionally, Ternium has recently acquired a 54% ownership interest in Colombia-based Ferrasa and Ferrasa Panamá S.A., a Panamanian corporation (Ferrasa Panamá), and formed the Mexican joint venture company Tenigal S.R.L. de C.V. (Tenigal) with Nippon Steel Corporation, for the manufacturing and sale of hot-dip galvanized and galvannealed steel sheets to serve the Mexican automobile market.

We regularly consider capital investments, strategic acquisitions, greenfield projects and alliances and we intend to actively pursue that growth strategy. However, any growth project will depend upon market and financing conditions.

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

Table of Contents

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

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

In accordance with IFRS, management must test all of Ternium s goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use annually for impairment, or more frequently if there are indicators of impairment, and recognize a non-cash charge in an amount equal to any impairment. We recorded goodwill in connection with the acquisition of our Mexican subsidiaries, the balance of which, as of December 31, 2010, amounted to USD744.0 million. If Ternium s management were to determine in the future that the goodwill from the acquisition of our Mexican subsidiaries was impaired, Ternium would be required to recognize a non-cash charge to write down the value of this goodwill, which would adversely affect Ternium s results of operations.

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

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

The various measures that Ternium has taken in order to become more competitive in Mexico, during 2009 and 2010, and in Colombia, during 2010, have not resulted in significant labor unrest. Notwithstanding this, we cannot assure that this situation will remain stable.

In Argentina, in early 2009, following a decrease in the level of activity since the last quarter of 2008 due to the global economic downturn, Siderar downsized contractor and subcontractor activities and temporary personnel, triggering adverse reactions from the construction workers union and the steelworkers union. Later in 2009, during the negotiations between Siderar and the steelworkers union regarding the annual bonuses related to results, the unions called for work stoppages and other measures. During 2010, the various measures that Siderar has taken in order to become more competitive did not result in significant labor unrest. For more information on the collective bargaining agreement applicable to most of Siderar s employees in Argentina, see Item 6. Directors, Senior Management and Employees D. Employees Argentina.

Any future stoppage, strike, disruption of operations or new collective bargaining agreements could result in lost sales and could increase Ternium s costs, thereby affecting our results of operations. For more information on labor relations, see Item 6. Directors, Senior Management and Employees D. Employees.

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

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

Table of Contents

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

On May 7, 2009, Ternium completed the transfer of its entire 59.7% interest in Sidor to Corporación Venezolana de Guayana, or CVG, a Venezuelan state-owned entity. Ternium agreed to receive an aggregate amount of USD1.97 billion as compensation for its Sidor shares. Of that amount, CVG paid USD400 million in cash at closing, and the balance was divided in two tranches: the first tranche of USD945 million to be paid in six equal installments beginning in August 2009 until November 2010, and the second tranche due in November 2010 and subject to quarterly mandatory prepayment events based on the increase of the WTI crude oil price over its May 6, 2009 level. CVG made all payments required to be made under the agreements governing the transfer of Sidor to Venezuela except for the final payment due on November 8, 2010. On December 18, 2010, Ternium reached an agreement with CVG on the rescheduling of the unpaid balance, which amounted to USD257 million. As provided in such refinancing agreement, CVG paid USD7 million to Ternium in January 2011, and CVG is required to pay the remainder in five quarterly installments, beginning on February 15, 2011 and ending on February 15, 2012. The first two installments of USD31 million each were paid on February 16 and May 17, 2011. The outstanding principal amount of the receivables with CVG is currently USD187 million. Accordingly, we have significant credit concentration risk with Venezuela.

As security for the payment of the outstanding balance, Ternium received, duly endorsed in its favor, promissory notes issued by Energía Argentina S.A. (Enarsa) and Compañía Administradora del Mercado Mayorista Eléctrico S.A. (Cammesa) (both companies owned by the Argentine government) to PDVSA Petróleo S.A. (a company owned by the Venezuelan government). Under the agreements with CVG and Venezuela, in the event of non-compliance by CVG with its payment obligations, Ternium has reserved the rights and remedies that it had prior to the transfer of the Sidor shares in relation to any claim against Venezuela, subject to certain limitations, including that Ternium may not claim an amount exceeding the outstanding balance due from CVG. For more information on the Sidor nationalization process, see note 29 to our audited consolidated financial statements included elsewhere in this annual report.

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

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

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

Risks Relating to our Mining Activities

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

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

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

Table of Contents

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

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

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

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

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

Communities living near areas where we operate may take actions to oppose and interfere with our mining activities. Although we make significant efforts to maintain good relationships with such communities, actions taken by them may hamper our ability to conduct our mining activities as planned, or significantly increase the cost of exploring and/or exploiting the mines and adversely affect our business and results of operations. For example, in Aquila, Mexico, during 2011, native communities blocked roads demanding higher compensation for the use of land for mining activities. These actions prevented Ternium from transporting iron ore from the mines to the pelletizing facilities for several weeks and ultimately resulted in a technical stoppage of the mining activities in Aquila for several days.

Risks Relating to the Structure of the Company

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

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

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

As of June 6, 2011, San Faustin beneficially owned 62.02% and Tenaris, which is also controlled by San Faustin, held 11.46% of our outstanding voting shares. Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin (RP STAK) controls a significant portion of the voting power of San Faustin and has the ability to influence matters affecting, or submitted to a vote of, the shareholders of San Faustin. As a result, RP STAK is indirectly able to elect a substantial majority of the members of the Company s board of directors and has the power to determine the outcome of most actions requiring shareholder approval, including, subject to the requirements of Luxembourg law, the payment of dividends. The decisions of the controlling shareholder may not reflect the will or best interests of other shareholders. For example, the Company s articles of association permit the board of directors to waive, limit or suppress preemptive rights in certain cases. Accordingly, our controlling shareholder may cause our board of directors to approve an issuance of shares for consideration without preemptive rights, thereby diluting the minority interest in the Company. See Risk Factors Risks Relating to our ADSs Holders of our shares and ADSs in the United States may not be able to exercise preemptive rights in certain cases and Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders.

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

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

Approximately 25.97% of Siderar is held by *Administración Nacional de la Seguridad Social* (ANSeS), Argentina s governmental social security agency, approximately 10.53% is publicly held, and approximately 2.56% is held by certain Siderar employees. ANSeS became a significant shareholder of Siderar in the last quarter of 2008 as a result of the nationalization of Argentina s private pension system, which caused assets under administration of Argentina s private pension funds including significant interests in publicly traded companies, such as Siderar, held by such funds to be transferred to ANSeS. For further information on the latest developments involving Siderar following the enactment of Decree 441/2011, see Item 5. Operating and Financial Review and Prospects G. Recent Developments Recent developments involving Siderar.

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

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

Risks Relating to the Countries in Which We Operate

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

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

Mexico

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

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

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

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

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

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

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

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

Future changes in the Mexican tax system may affect our Mexican subsidiaries tax burden, thereby affecting our financial condition and results of operations.

Argentina

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

Table of Contents

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

Our business and results of operations in Argentina have closely followed macroeconomic conditions. Domestic sales of Siderar were severely affected by Argentina s recession during 2001 and 2002. The domestic economic recovery over the 2003 2008 period, with sustained growth in construction, agriculture, industrial activity and particularly a significant improvement in the automobile industry, led to a recovery of steel shipments to the Argentine domestic market. During the last quarter of 2008, however, the downturn in the global economy reached the Argentine economy and had a significant adverse impact on our shipments to the Argentine domestic market until their recovery beginning in the second quarter of 2009.

The Argentine economy is currently facing significant challenges. Inflation is high, as further discussed below, and the economy has been affected by supply constraints. Capital investment in general has lagged due to, among other factors, political and economic uncertainties and government actions, including price controls, export taxes, the nationalization of Argentina s private pension system, an increased level of government intervention in, or limitations to, the conduct of business in the private sector, and other measures affecting investor confidence. For example, as price controls are concerned, in February 2011, Argentina s Secretary of Commerce issued Resolution 14/2011 requiring that prices for steel products sold in Argentina, including products sold by Siderar, be limited to those in effect on January 21, 2011, and that sales of steel products be invoiced in Argentine pesos. Although Ternium believes that price controls are illegal under Argentine law and resolution 14/2011 was ultimately revoked, other price control measures could be imposed in the future.

Declining capital investment may affect growth and, accordingly, cause demand for our local subsidiary s products in the domestic market to drop. A lack of financing alternatives could significantly impair Argentina s ability to sustain the economy s activity level, foster economic growth and/or avert a sovereign default.

Economic conditions in Argentina have deteriorated rapidly in the past and may deteriorate rapidly in the future. The Argentine economy may not continue to grow and economic instability may return. In addition, presidential and Congress elections in Argentina will take place in October 2011, and the general uncertainty as to who will win the elections (and, thus, the impact that the outcome of the elections could have on the Argentine economy) could have an adverse effect on Siderar and the Argentine economy as a whole. Our business and results of operations in Argentina could be adversely affected by rapidly changing economic conditions in Argentina or by the Argentine government s policy response to such conditions.

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

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

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

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

Since 1992, the Argentine government has not permitted the application of an inflation adjustment on the value of fixed assets for tax purposes. As a result of the substantial devaluation of the Argentine peso in 2002 and a significant inflation in recent years, the amounts that the Argentine tax authorities permit Siderar to deduct as depreciation for its past investments in plant, property and equipment have been substantially reduced in real terms, thus creating artificial gains for tax purposes which result in higher-than-nominal effective income tax charges. If the Argentine government continues to increase the tax burden on Siderar s operations, Ternium s results of operations and financial condition could be adversely affected.

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

Since January 2002, the Argentine government and Central Bank have introduced several rules and regulations to reduce volatility in the ARS/USD exchange rate, and has implemented formal and informal restrictions on capital inflows into Argentina and capital outflows from Argentina. In addition, Siderar is currently required to repatriate U.S. dollars collected in connection with exports from Argentina (including U.S. dollars obtained through advance payment and pre-financing facilities) into Argentina and convert them into Argentine pesos at the relevant exchange rate applicable on the date of repatriation. The existing controls and restrictions, and any additional restrictions of this kind that may be imposed in the future, could expose Ternium to the risk of losses arising from fluctuations or affect Ternium s ability to finance its investments and operations in Argentina or impair Ternium s ability to transfer funds generated by Siderar in U.S. dollars outside Argentina, for example, to fund the payment of dividends or to undertake investments and other activities that require payments in U.S. dollars. For additional information on current Argentine exchange controls and restrictions, see Item 10. Additional Information D. Exchange Controls.

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

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

Colombia

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

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

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

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

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

Certain Regulatory Risks and Litigation Risks

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

International trade-related legal actions and restrictions pose a constant risk for Ternium s international operations and sales throughout the world. We are a significant purchaser of slabs for our operations in Mexico (which we buy from various suppliers in Mexico and overseas) and a significant purchaser of steel products for our operations in Colombia (which we buy from our subsidiaries overseas and from various suppliers in Colombia and overseas). Imports of slabs into Mexico and steel products in Colombia are, subject to certain conditions, imported under lower import duties or through a temporary import regime. Should imports of slabs into Mexico or steel products into Colombia grow, we may not be able to make such imports under the lower duty regime, or the Mexican or Colombian government may increase the applicable duties or impose restrictions in the quantities allowed to be imported.

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

Countries can impose restrictive import duties and other restrictions on imports under various national trade laws. The timing and nature of the imposition of trade-related restrictions potentially affecting Ternium s exports are unpredictable. Trade restrictions on Ternium s exports could adversely affect Ternium s ability to sell products abroad and, as a result, Ternium s profit margins, financial condition and overall business could suffer. One significant source of trade restrictions results from countries imposition of so-called antidumping and countervailing duties, as well as safeguard measures . These duties can severely limit or altogether impede an exporter s ability to export to relevant markets. In several of Ternium s export destinations, such as the United States or Europe, safeguard duties and other protective measures have been imposed against a broad array of steel imports in certain periods of excess global production capacity, as is currently the case. Furthermore, certain domestic producers have filed antidumping and/or countervailing duty actions against particular steel imports. Some of these actions have led to restrictions on Ternium s exports of certain types of steel products to certain steel markets. As domestic producers filing of such actions is largely unpredictable, additional antidumping, countervailing duty or other such import restrictions could be imposed in the future, limiting Ternium s export sales to and potential growth in those markets. See Item 4. Information on the Company B. Business Overview Regulations Trade regulations.

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

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

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

Table of Contents

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

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

Risks Relating to our ADSs

The market price for our ADSs could be highly volatile.

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

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

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

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

Table of Contents

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

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

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

Pursuant to Luxembourg corporate law, existing shareholders of the Company are generally entitled to preemptive subscription rights in the event of capital increases and issues of shares against cash contributions. Under the Company s articles of association, the board of directors had been authorized to waive, limit or suppress such preemptive subscription rights until October 26, 2010; such authorization was renewed in the Extraordinary General Meeting of Shareholders held on June 2, 2010 until July 15, 2015. The Company, however, may issue shares without preemptive rights only if the newly issued shares are issued:

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

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

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

Table of Contents

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

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

Item 4. Information on the Company

Overview

Ternium is a leading steel company in Latin America, manufacturing and processing a wide range of flat and long steel products for customers active in the construction, home appliances, capital goods, container, food, energy and automotive industries. Ternium has a production capacity of finished steel products of approximately 10.4 million tons per year, and shipped approximately 8.1 million tons of steel products in 2010. The Company believes that it is a competitive steel producer due to its proximity to customers and high-quality raw material sources, state-of-the-art and flexible production facilities and downstream integration into value-added steel products.

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

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

In 2010, approximately 57% of Ternium s sales were made to North America, 41% to South and Central America, and 2% to Europe and other markets. In 2010, Ternium s net sales were USD7.4 billion, gross profit was USD1.7 billion, and net income attributable to equity holders was USD622.1 million.

A. History and Development of the Company

The Company

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

Ternium

Ternium s origins began in September 1961 with the founding of Propulsora Siderúrgica, or Propulsora, by San Faustin s predecessor in Argentina. Propulsora began its operations as a producer of cold-rolled coils in

December 1969 and in the early 1990s began to evolve through a series of strategic investments aimed at transforming Propulsora into an integrated steel producer. In 1993, Propulsora merged with Aceros Parana (a company formed by the Argentine government in connection with the privatization of Somisa, at that time the main integrated producer of flat steel in Argentina), Aceros Parana s subsidiary Sidercrom, a tin plate processing company, and two other steel industry subsidiaries of Propulsora (Aceros Revestidos and Bernal). After the merger, Propulsora changed its name to Siderar S.A.I.C. San Faustin held a controlling interest in Siderar, with the remainder being held mainly by Usinas Siderurgicas de Minas Gerais S/A (a steel company organized under the laws of Brazil) (Usiminas), certain former employees of Somisa, and the public.

Table of Contents

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

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

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

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

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

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

On April 29, 2008, the National Assembly of Venezuela passed a resolution declaring that the shares of Sidor, together with all of its assets, were of public and social interest, and authorizing the Venezuelan government to take any action it deemed appropriate in connection with any such assets, including expropriation. On May 11, 2008, Decree Law 6058 of the President of Venezuela regulating the steel production activity in the Guayana region in Venezuela (the Decree), dated April 30, 2008, was published. The Decree ordered that Sidor and its subsidiaries and associated companies be transformed into state-owned enterprises (*empresas del Estado*), with Venezuela owning not less than 60% of their share capital. On May 7, 2009, Ternium completed the transfer of its entire 59.7% interest in Sidor to CVG. For more information on the Sidor nationalization process, see note 29 to our audited consolidated financial statements included elsewhere in this annual report.

Table of Contents

On August 25, 2010, Ternium completed the acquisition of a 54% ownership interest in Ferrasa through a capital contribution in the amount of USD74.5 million. Ferrasa has a 100% ownership interest in Sidecaldas S.A.S., Figuraciones S.A.S. and Perfilamos del Cauca S.A.S., all of which are also Colombian companies. Ternium also completed the acquisition of a 54% ownership interest in Ferrasa Panamá for USD0.5 million. Ferrasa Panamá is a long steel products processor and distributor based in Panama. Through these investments Ternium is expanding its business and commercial presence in Colombia, a country that has been experiencing significant growth, as well as in Central America. For more information on the Ferrasa acquisition, see note 3 to our audited consolidated financial statements included elsewhere in this annual report.

On October 4, 2010 Ternium and Nippon Steel Corporation signed a definitive agreement to form a joint venture in Mexico for the manufacturing and sale of hot-dip galvanized and galvannealed steel sheets to serve the Mexican automobile market. The joint venture company, Tenigal, was established in November 2010 with Ternium and Nippon Steel holding 51% and 49% participations, respectively. Tenigal began work for the construction of a hot-dip galvanizing plant in the vicinity of Monterrey City, which is expected to commence production of high-grade and high-quality galvanized and galvannealed automotive steel sheets, including outer-panel and high-strength qualities, in 2013. For more information on the Tenigal joint venture, see note 31 to our audited consolidated financial statements included elsewhere in this annual report.

B. Business Overview

Our Business Strategy

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

The main elements of this strategy are:

- ***Enhance Ternium s position as a low cost steel producer.*** We are focused on improving utilization levels of our plants, increasing efficiency and further reducing production costs from levels that we already consider to be among the most competitive in the steel industry through, among other measures, capital investments and further integration of our facilities;
- ***Pursue strategic growth opportunities.*** We have a history of strategically growing our businesses through acquisitions and joint ventures. In addition to strongly pursuing organic growth, we intend to identify and actively pursue growth-enhancing strategic opportunities to consolidate Ternium s presence in its main markets and expand it to the rest of Latin America, gain further access to iron ore and other inputs, expand its offerings of value-added products, increase its steel production, and increase its distribution capabilities. In this regard, our Ferrasa acquisition in Colombia in 2010 allowed Ternium to expand its business and commercial presence in a country that is experiencing significant growth;
- ***Maximize the benefits arising from Ternium s broad distribution network.*** We intend to maximize the benefits arising from Ternium s broad network of distribution, sales and marketing services to reach customers in major steel markets with a comprehensive range of value-added products and services and to continue to expand its customer base and improve its product mix;
- ***Focus on higher margin value-added products.*** We intend to continue to shift Ternium s sales mix towards higher margin value-added products, such as cold-rolled sheets and coated and tailor-made products, and services, such as just-in-time delivery and inventory management. In this regard, the pickling, cold-rolling, annealing and tempering lines planned in the vicinity of Monterrey City, will allow Ternium to increase its offering of cold-rolled and galvanized products to meet the demanding requirements of our industrial customers in Mexico; and
- ***Implementing Ternium s best practices.*** We believe that the implementation of Ternium s managerial, commercial and production best practices in acquired new businesses should generate additional benefits and

savings. For example, the implementation of Ternium s cost control procedures and performance analysis in Ternium Mexico improved control over its production variables and led to cost savings.

Table of Contents

Our Competitive Strengths

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

- ***State-of-the-art and flexible production system, low cost producer.*** The combination of a portfolio of state-of-the-art, low cost steel production mills, access to diversified sources of raw materials, including proprietary iron ore mines in Mexico, diversified technology base, including blast furnace based, mini-mill based and non-integrated based steel processing facilities, and cost-competitive labor sources makes Ternium a low-cost producer of steel and a cost-competitive producer of value-added products;
- ***Strong market position and extensive market reach.*** Ternium has a leading participation in the market for flat steel products in Mexico and Argentina and is a significant supplier of steel products in Colombia and in various other countries in South and Central America. The location of its production facilities gives Ternium favorable access to the most important regional markets in the Americas, including the North American Free Trade Agreement, or NAFTA, and *Mercado Común del Sur*, or Mercosur; and
- ***Experienced and committed management team.*** Our management team has extensive experience in, and knowledge of, the steel industry, which enhances Ternium s reputation in the global steel markets. A large percentage of our senior managers have spent their entire careers working within the steel businesses of San Faustin and its affiliates. Our management team has substantial experience in increasing productivity and reducing costs, as well as in identifying, evaluating and pursuing growth opportunities and integrating acquisitions.

Our Products

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

Flat steel products

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

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

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

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

Table of Contents

Hot dipped galvanized and pre-painted sheets: Hot dipped galvanized sheets are produced by adding a layer of zinc to cold-rolled coils, which are afterwards cut into sheets. Galvanized sheets can also be pre-painted, resulting in a product that is mainly sold to the construction industry for building coverings, manufacturing of ceiling systems, panels, air conditioning ducts and several other uses. Ternium also offers, under the trademark Zintroalum in Mexico and Cincalum in Argentina, a distinctive type of galvanized product with coating composition that contains approximately 55% aluminum and 44% zinc to improve product performance for construction industry, including rural, industrial and marine sites.

Electrogalvanized and pre-painted sheets: Electro-galvanized and pre-painted sheets are sold mainly to customers in the automotive and home appliance industries. Electro-galvanized and pre-painted sheets are produced from cold-rolled coils by adding a layer of zinc that is attached by an electroplating continuous process, in one or both sides. The electro-galvanized coils are subsequently cut and sold either as sheets or are further processed with a color coating to produce pre-painted sheets. Electro-galvanization provides products with a longer useful life and more resistance to corrosion compared to other coating methods.

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

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

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

Long steel products

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

Steel round bars: Round bars are semi-finished steel forms with dimensions suitable for its processing into hot-rolled steel products such as seamless tubes.

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

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

Stirrups: Obtained from the mechanical transformation of rebars, stirrups are used in the construction industry in cement-based structures.

Other products

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

Table of Contents

Pig iron: A semifinished product obtained in the blast furnace, it is mostly used as metallic charge in the steel shop for the production of crude steel and it is also marketed to other steel producers and to manufactures of iron-based cast products.
Iron ore pellets: A raw material for the production of steel, it is mostly used as metallic charge (after being reduced in DRI modules or blast furnaces) in the steel shop for the production of crude steel and it is also marketed to other steel producers.
Within each of the basic product categories there is a range of different items of varying qualities and prices that are produced either to meet the particular requirements of end users or sold as commodity items.

Production Facilities and Processes

Ternium has steel production facilities, service centers and distribution centers, or DCs, in North, Central and South America and iron ore mining operations in North America.
Ternium s aggregate production capacity of steel products as of December 31, 2010, calculated based on management estimates of standard productivity, product mix allocations, the maximum number of possible working shifts and a continued flow of supplies to the production process, was approximately 10.4 million tons, of which 8.7 million tons correspond to flat steel products and 1.7 million tons correspond to long steel products, and of which 7.2 million tons correspond to facilities located in North America and 3.2 million tons correspond to facilities located in South and Central America.

Steel production facilities, service centers and distribution centers

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

		Capacity (thousand tons per year) [1]			
Production asset	Quantity	Mexico	Argentina	Other	Total
Coke Plant	4		1,030		1,030
Sinter Plant	1		1,490		1,490
Direct Reduced Iron Plant	3	2,690			2,690
Blast Furnace	2		3,890		3,890
Electric Arc Furnace	5	3,770		160	3,930
Basic Oxygen Furnace	3		5,000		5,000
Thin Slab Continuous Caster	1	2,050			2,050
Slab Continuous Caster	1		2,880		2,880
Billet Continuous Caster	3	1,660		150	1,810
Slab Rolling Mill	4	5,700	2,790		8,490
Skin Pass Mill	4	2,130	940		3,070
Billet Rolling Mill	4	1,080		160	1,240
Pickling Line	8	3,500	1,790		5,290
Cold-Rolling Mill (Tandem or Reversing)	9	2,540	1,770		4,310
Electrolytic Cleaning	4	1,220	200		1,420
Annealing Line	4	1,240	1,240		2,480
Temper Mill	6	1,320	1,770		3,090
Tension-Leveling / Inspection Line	7	800	980		1,780
Electro-tin plating line	1		160		160
Hot Dip Galvanizing Line	12	1,430	550	390	2,370
Electro-galvanizing Line	1		120		120
Color Coating Line	8	660	110	180	950
Slitter	37	1,960	450	280	2,690
Cut to length	37	550	860	130	1,540
Roll forming Line	35	490	410	280	1,180

Panel Line	4	80			80
Profile Line	16	190		80	270
Tube Line	23	500	200	50	750
Structural beams Lines	1			50	50
Wire drawing Lines	15			110	110
Wire Mesh Lines	2			30	30
Rebar Processing Lines[2]	35			100	100

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

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

Table of Contents

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

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

		Type of Plant					
Unit	Country	Integrated	Downstream	Service Center	Distribution Center	Location	Products
Guerrero[1]							