

Ternium S.A.  
Form 20-F  
April 30, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F**

- .. **Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934**  
or
- x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2012**  
or
- .. **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
or
- .. **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
Commission file number: 001-32734

# TERNIUM S.A.

(Exact Name of Registrant as Specified in its Charter)

N/A

(Translation of registrant's name into English)

**Grand Duchy of Luxembourg**

(Jurisdiction of incorporation or organization)

**29, Avenue de la Porte-Neuve 3rd floor**

**L-2227 Luxembourg**

(Address of registrant's registered office)

**Alicia Alvarez**

**29, Avenue de la Porte-Neuve 3rd floor**

**L-2227 Luxembourg**

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

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

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

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

\* 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.

Edgar Filing: Ternium S.A. - Form 20-F

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  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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  Accelerated Filer  Non-accelerated filer

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

U.S. GAAP  International Financial Reporting Standards as issued  Other

by the International Accounting Standards Board

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

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

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

**Cristian J.P. Mitrani**

**Robert S. Risoleo, Esq.**

Edgar Filing: Ternium S.A. - Form 20-F

**Mitrani, Caballero, Ojam & Ruiz Moreno Abogados**  
**Alicia Moreau de Justo 400, 3rd Floor**  
**C1007AAH Buenos Aires, Argentina**  
**(54-11) 4590-8600**

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

**Table of Contents**

**TABLE OF CONTENTS**

<b><u>PART I</u></b>	6
<u>Item 1. Identity of Directors, Senior Management and Advisers</u>	6
<u>Item 2. Offer Statistics and Expected Timetable</u>	6
<u>Item 3. Key Information</u>	6
<u>Item 4. Information on the Company</u>	24
<u>Item 4A. Unresolved Staff Comments</u>	65
<u>Item 5. Operating and Financial Review and Prospects</u>	65
<u>Item 6. Directors, Senior Management and Employees</u>	87
<u>Item 7. Major Shareholders and Related Party Transactions</u>	97
<u>Item 8. Financial Information</u>	100
<u>Item 9. The Offer and Listing</u>	102
<u>Item 10. Additional Information</u>	103
<u>Item 11. Quantitative and Qualitative Disclosures About Market Risk</u>	117
<u>Item 12. Description of Securities Other Than Equity Securities</u>	119
<b><u>PART II</u></b>	120
<u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>	120
<u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	120
<u>Item 15. Controls and Procedures</u>	120
<u>Item 16A. Audit Committee Financial Expert</u>	121
<u>Item 16B. Code of Ethics</u>	121
<u>Item 16C. Principal Accountant Fees and Services</u>	121
<u>Item 16D. Exemptions from the Listing Standards for Audit Committees</u>	122
<u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	122
<u>Item 16F. Change in Registrant's Certifying Accountant</u>	124
<u>Item 16G. Corporate Governance</u>	124
<u>Item 16H. Mine Safety Disclosure</u>	126
<b><u>PART III</u></b>	126
<u>Item 17. Financial Statements</u>	126
<u>Item 18. Financial Statements</u>	126
<u>Item 19. Exhibits</u>	126

**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 subsidiaries;

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

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

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

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

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

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

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

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

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

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

---

**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, or IFRS, as issued by the International Accounting Standards Board, or IASB, and adopted by the European Union (EU). IFRS differ in certain significant respects from generally accepted accounting principles in the United States, commonly referred to as U.S. GAAP.

**Currencies**

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

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

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

Argentine pesos or ARP each refers to the Argentine peso.

On December 31, 2012, the noon buying rate between the Mexican peso and the U.S. dollar (as published by *Banco de México*, or the Mexican Bank) was MXN12.9658=USD1.0000, and the U.S. dollar sell exchange rate in the Argentine Republic (as published by *Banco Central de la República Argentina*, or the Argentine Central Bank) was ARP4.9173=USD1.0000. Those rates may differ from the actual rates used in preparation of the Company's consolidated financial statements. We do not represent that any of these currencies could have been or could be converted into U.S. dollars or that U.S. dollars could have been or could be converted into any of these currencies.

**Rounding; Comparability of Data**

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

**Industry Data**

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

**Our Internet Site is Not Part of this Annual Report**

We maintain an Internet site at [www.ternium.com](http://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, should, will pursue, expect, project, intend, plan, believe and words and terms of similar substance to identify forward-looking statements, but they are not the way we identify such statements. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These factors include the risks related to our business discussed under Item 3. Key Information D. Risk Factors, and among them, the following:

uncertainties about the behavior of steel consumers in the markets in which Ternium operates and sells its products;

changes in the pricing environments in the countries in which Ternium operates;

the impact in the markets in which Ternium operates of existing and new competitors whose presence may affect Ternium's customer mix, revenues and profitability;

increases in the prices of raw materials, other inputs or energy or difficulties in acquiring raw materials or other inputs or energy supply cut-offs;

the policies of, and the economic, political and social developments and conditions in, the countries in which Ternium owns facilities or other countries which have an impact on Ternium's business activities or investments;

inflation or deflation and foreign exchange rates in the countries in which Ternium operates;

volatility in interest rates;

the performance of the financial markets globally and in the countries in which Ternium operates;

the performance of our investment in Usiminas (including the operating and financial performance of Usiminas, and changes in the value of the Brazilian Real versus the U.S. dollar);

changes in domestic and foreign laws and regulations, including on tax, trade and foreign exchange matters;



## Edgar Filing: Ternium S.A. - Form 20-F

regional or general changes in asset valuations;

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

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

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

**Table of Contents**

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

**PART I**

**Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

**A. Selected Financial Data**

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

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

**Table of Contents**

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

## Edgar Filing: Ternium S.A. - Form 20-F

- (1) Of the 2,004,743,442 shares issued as of December 31, 2012, Ternium held 41,666,666 through its wholly-owned subsidiary Ternium International Inc. and such shares were not considered outstanding. For further information related to the repurchase of shares in 2011, see note 30 to our audited consolidated financial statements included elsewhere in this annual report.
- (2) International Accounting Standard N° 1 (IAS 1) (Revised) requires that income for the year as shown in the income statement includes the portion attributable to non-controlling interest. Basic earnings per share, however, continue to be calculated on the basis of income attributable solely to the equity holders of the Company.
- (3) Diluted earnings per share (expressed in USD per share), equals basic earnings per share.
- (4) Reflects dividend proposal for the year ended December 31, 2012, which has been submitted to the shareholders for a vote at the shareholders meeting to be held on May 2, 2013.

**Table of Contents**

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

- (1) As of December 31, 2012, 2011, 2010, 2009 and 2008, includes goodwill mainly related to the acquisition of our Mexican subsidiaries for a total amount of USD663.8 million, USD663.8 million, USD750.1 million, USD708.6 million and USD683.7 million, respectively.
- (2) As of December 31, 2012, 2011, 2010, 2009 and 2008, includes financial assets with maturity of more than three months for a total amount of USD160.8 million, USD281.7 million, USD848.4 million, USD46.8 million and USD90.0 million, respectively.
- (3) The Company's share capital as of December 31, 2012, 2011, 2010, 2009 and 2008 was represented by 2,004,743,442 shares, par value USD1.00 per share, for a total amount of USD2,004.7 million. Of the 2,004,743,442 shares, as of December 31, 2012, Ternium held 41,666,666 through its wholly-owned subsidiary Ternium International Inc. For further information related to the repurchase of shares in 2011, see note 30 to our audited consolidated financial statements included elsewhere in this annual report.

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

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



---

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

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

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

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

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

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

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

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

---

**Table of Contents**

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

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

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

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

Like other manufacturers of steel-related products, Ternium's operations require substantial amounts of raw materials, energy and other inputs from domestic and foreign suppliers. In particular, the Ternium companies consume large quantities of iron ore, scrap, ferroalloys, electricity, coal, natural gas, oxygen and other gases in operating their blast and electric arc furnaces. The prices of these raw materials, energy and some other inputs can be volatile. In addition, Ternium is a large consumer of slabs and hot and cold-rolled steel, which are used as inputs in the production process. Also, the availability and price of a significant portion of the raw materials, slabs, energy and other inputs Ternium requires are subject to market conditions and government regulation affecting supply and demand. For example, shortages of natural gas in Argentina and the consequent supply restrictions imposed by the government could lead to higher costs of production and eventually to production cutbacks at Siderar's facilities in Argentina. Similarly, in Mexico, existing constraints in natural gas transportation capacity have led to increased imports of liquefied natural gas, which, from April 1, 2013, resulted in increased natural gas transportation costs and, thus, higher steel production costs. In the past, Ternium has usually been able to procure sufficient supplies of raw materials, slabs, energy and other inputs to meet its production needs; however, it could be unable to procure adequate supplies in the future. Any protracted interruption, discontinuation or other disruption of the supply of principal inputs to the Ternium companies (including as a result of strikes, lockouts or other problems) would result in lost sales and would have a material adverse effect on Ternium's business and results of operations. For further information related to raw materials, energy and other inputs requirements, see Item 4. Information on the Company B. Business Overview Raw Materials, Energy and Other Inputs.

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

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

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

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



---

## **Table of Contents**

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

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

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

### **Risks Relating to our Business**

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

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

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

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

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

**Table of Contents**

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

***Ternium may be required to record a significant charge to earnings if it must reassess its goodwill, other amortizable intangible assets, or investments in non-consolidated companies.***

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

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

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

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

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

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

---

**Table of Contents**

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

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

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

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

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

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

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

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

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

---

## **Table of Contents**

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

### **Risks Relating to our Mining Activities**

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

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

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

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

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

---

**Table of Contents**

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

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

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

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

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

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

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

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

---

## **Table of Contents**

### **Risks Relating to the Structure of the Company**

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

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

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

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

As of March 31, 2013, San Faustin beneficially owned 62.02% of our outstanding voting shares and Tenaris, which is also controlled by San Faustin, also held 11.46% of our outstanding voting shares. Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin, or RP STAK, controls a significant portion of the voting power of San Faustin and has the ability to influence matters affecting, or submitted to a vote of, the shareholders of San Faustin. As a result, RP STAK is indirectly able to elect a substantial majority of the members of the Company's board of directors and has the power to determine the outcome of most actions requiring shareholder approval, including, subject to the requirements of Luxembourg law, the payment of dividends. The decisions of the controlling shareholder may not reflect the will or best interests of other shareholders. For example, the Company's articles of association permit the board of directors to waive, limit or suppress preemptive rights in certain cases. Accordingly, our controlling shareholder may cause our board of directors to approve an issuance of shares for consideration without preemptive rights, thereby diluting the minority interest in the Company. See Risk Factors Risks Relating to our ADSs Holders of our shares and ADSs in the United States may not be able to exercise preemptive rights in certain cases and Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders.

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

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

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

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

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

---

**Table of Contents**

**Risks Relating to the Countries in Which We Operate**

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

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

**Mexico**

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

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

In the past, Mexico has experienced several periods of slow or negative economic growth, high inflation, high interest rates, currency devaluation and other economic problems. Furthermore, the Mexican national economy tends to reflect changes in the economic environment in the United States. If problems such as deterioration in Mexico's economic conditions reemerge, or social instability, political unrest, reduction in government spending or other adverse social developments reemerge in the future, they could lead to continued volatility in the foreign exchange and financial markets, and, depending on their severity and duration, could adversely affect the business, results of operations, financial condition or liquidity of Ternium. Moreover, adverse economic conditions in Mexico could result in, among other things, higher interest rates accompanied by reduced opportunities for refunding or refinancing, reduced domestic consumption of Ternium's products, decreased operating results and delays in the completion of ongoing and future capital expenditures.

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

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

---

## **Table of Contents**

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

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

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

## **Argentina**

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

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

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

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

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



---

**Table of Contents**

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

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

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

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

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

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

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

---

## **Table of Contents**

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

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

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

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

## **Colombia**

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

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

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

## **Certain Regulatory Risks and Litigation Risks**

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

International trade-related legal actions and restrictions pose a constant risk for Ternium s international operations and sales throughout the world. We are a significant purchaser of slabs for our operations in Mexico (which we buy from

---

**Table of Contents**

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

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

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

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

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

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

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

---

## **Table of Contents**

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

### **Risks Relating to our ADSs**

#### ***The market price for our ADSs could be highly volatile.***

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

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

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

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

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

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

---

**Table of Contents**

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

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

Pursuant to Luxembourg corporate law, existing shareholders of the Company are generally entitled to preemptive subscription rights in the event of capital increases and issues of shares against cash contributions. Under the Company's articles of association, the board of directors is authorized to waive, limit or suppress such preemptive subscription rights until July 15, 2015. The Company, however, may issue shares without preemptive rights only if the newly issued shares are issued:

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

for consideration other than cash;

upon conversion of convertible bonds or other instruments convertible into shares of the Company; provided, however, that the preemptive subscription rights of the then existing shareholders shall apply in connection with any issuance of convertible bonds or other instruments convertible into shares of the Company for cash; or

subject to a certain maximum percentage, as compensation to directors, officers, agents or employees of the Company, its direct or indirect subsidiaries or its affiliates, including without limitation the direct issuance of shares or the issuance of shares upon exercise of options, rights convertible into shares or similar instruments convertible or exchangeable into shares issued or created to provide compensation or incentives to directors, officers, agents or employees of the Company, its direct or indirect subsidiaries or its affiliates.

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

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

---

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

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

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

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

---

**Table of Contents**

**A. History and Development of the Company**  
**The Company**

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

**Ternium**

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

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

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

On January 11, 2006, the Company launched an initial public offering of 24,844,720 ADSs, each representing 10 shares of the Company, in the United States, and subsequently granted the underwriters of the Company's initial public offering an option to purchase up to 3,726,708 additional ADSs to cover over-allotments in the sale of the ADSs.

On December 28, 2006, we acquired an additional 4.85% interest in Siderar from CVRD Internacional S.A, thereby increasing our ownership in Siderar to 60.93%.

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

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

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

## Table of Contents

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

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

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

On January 16, 2012, Ternium Investments, Siderar and its wholly-owned subsidiary Prosid Investments S.C.A., and Confab Industrial, a subsidiary of Tenaris, or TenarisConfab, joined Usiminas' existing control group through the acquisition of 84.7, 30.0, and 25.0 million ordinary shares, respectively, and formed the so called T/T Group. Ternium Investments, Siderar (and Prosid) and TenarisConfab entered into an amended and restated Usiminas shareholders' agreement with Nippon Steel, Mitsubishi, Metal One and Previdência, Usiminas' employee pension fund, governing Ternium Investments, Siderar (and Prosid) and TenarisConfab's rights within the Usiminas control group. Ternium holds 35.6% of the voting rights within the control group and 22.7% of Usiminas' ordinary shares, and has a participation in Usiminas' results of 11.3%. Usiminas is a leading steel company in the Brazilian flat steel market. For further information on the Usiminas transaction, see note 3 to our audited consolidated financial statements included elsewhere in this annual report.

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

## **B. Business Overview**

### **Our Business Strategy**

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

***Focus on higher margin value-added products.*** We intend to continue to shift Ternium's sales mix towards higher margin value-added products, such as cold-rolled sheets and coated and tailor-made products, and services, such as just-in-time delivery and inventory management. In this regard, the cold-rolling and hot-dipped galvanizing mills being built in Pesquería, in the vicinity of Monterrey City, which are expected to commence production in the third quarter of 2013, will allow Ternium to increase its offering of cold-rolled and galvanized products to meet the demanding requirements of our industrial customers in Mexico, and the vacuum degassing station planned at Siderar's facility in San Nicolás will allow Ternium to increase production of specialty steels targeting the automotive industry;

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



## Table of Contents

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

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

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

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

## **Our Products**

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

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

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

### **Steel products**

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

**Hot-rolled products:** hot-rolled flat products are used by a variety of industrial consumers in applications such as the manufacturing of wheels, auto parts, pipes, gas cylinders and containers. They are also directly used for the construction of buildings, bridges and railroad cars, and for the chassis of trucks and automobiles. Hot-rolled flat products can be supplied as coils or as sheets cut to a specific length. These products also serve as inputs for the production of cold-rolled products. Merchant bars include specific shape features, such as rounds, flats, angles, squares and channels, which are used by customers to manufacture a wide variety of products such as furniture, stair railings and farm equipment. Reinforcing bars (rebars) and stirrups, obtained from the mechanical transformation of rebars, are used to strengthen concrete highways, bridges and buildings. Rods are commonly drawn into wire products or used to make bolts and nails. Wire rod can be produced in different qualities according to customers' demands.

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



---

**Table of Contents**

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

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

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

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

**Iron ore**

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

**Production Facilities and Processes**

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

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

**Table of Contents***Steel production facilities, service centers and distribution centers*

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

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

<sup>1</sup> 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.

<sup>2</sup> Includes shears, straighteners, stirrup benders and shaping centers.

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

**Table of Contents**

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

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

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

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

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

**Table of Contents**

- The facility sources electricity from the Mexican grid. Ternium's procurement policy for these products is described in greater depth in Item 4. Information on the Company B. Business Overview Raw Materials, Energy and Other Inputs.
- <sup>3</sup> The Puebla unit in Puebla, Mexico, produces rebar, wire rod and round bar mainly for the construction and industrial sectors, including high-carbon, low-carbon and micro-alloyed wire rod. It is an integrated facility based on DRI and mini-mill steelmaking technologies that uses iron ore pellets and steel scrap as main raw materials. The facility sources all of the iron ore from Ternium Mexico's mining operations and the electricity and natural gas from the Mexican grid. Ternium's procurement policy for these products is described in greater depth in Item 4. Information on the Company B. Business Overview Raw Materials, Energy and Other Inputs.
- <sup>4</sup> The Juventud unit in Nuevo León, Mexico, produces galvanized and color coated coils for the construction, home appliance and other industries and has a steel service center that produces slitted and roll-formed products, panels and tubes for the construction and industrial sectors. This plant processes hot-rolled and cold-rolled coils received from Ternium Mexico's units in Nuevo León.
- <sup>5</sup> The Churubusco unit in Nuevo León, Mexico, produces hot-rolled and cold-rolled coils for the industrial, construction and home appliance sectors and for further processing in other Ternium Mexico's units. It also produces slitted and cut-to-length products for the industrial sector. The facility sources its requirements of slabs from other Mexican producers and from the international markets. Ternium's procurement policy for slabs is described in greater depth in Item 4. Information on the Company B. Business Overview Raw Materials, Energy and Other Inputs.
- <sup>6</sup> The Monclova unit in Coahuila, Mexico, produces galvanized and color coated sheets for the home appliance industry. This plant processes cold-rolled coils mainly received from AHMSA and from Ternium Mexico's units in Nuevo León.
- <sup>7</sup> The Universidad unit in Nuevo León, Mexico, located across the street from the Guerrero unit, produces galvanized and color coated coils for the construction, home appliance and industrial sectors. This plant, which also has a cold-rolling mill, processes hot-rolled coils received from Ternium Mexico's units in Nuevo León.
- <sup>8</sup> The Apodaca Industrial unit in Nuevo León, Mexico, is a steel service center that produces slitted and cut-to-length products for industrial customers. This plant processes coated coils mainly received from Ternium Mexico's units in Nuevo León.
- <sup>9</sup> The Apodaca Comercial unit in Nuevo León, Mexico, is a steel service center that produces slitted and roll-formed products, profiles and tubes for the construction industry. This plant processes coated coils mainly received from Ternium Mexico's units in Nuevo León.
- <sup>10</sup> The Varco-Pruden unit in Nuevo León, Mexico, produces metal buildings systems for commercial construction. This plant processes heavy plates procured from the local and international markets and coils received from Ternium Mexico's units in Nuevo León.
- <sup>11</sup> The San Luis unit in San Luis Potosí, Mexico, is a steel service center that produces slitted and cut-to-length products for the home appliance and other industries. This plant processes coated coils received from Ternium Mexico's units in Nuevo León.
- On October 4, 2010, Ternium and Nippon Steel signed a definitive agreement to form a company in Mexico for the manufacturing and sale of high-grade and high-quality hot-dip galvanized and galvanized steel sheets to serve the Mexican automobile market, including outer-panel and high-strength qualities. The company, Tenigal, was established in November 2010 with Ternium and Nippon Steel holding 51% and 49% participations, respectively. Tenigal began work for the construction of a hot-dip galvanizing plant in the vicinity of Monterrey City (equivalent to the state-of-the art equipment now in operation at Nippon Steel's steelworks in Japan), which will manufacture high-grade and high-quality galvanized and galvanized automotive steel sheets, including outer-panel and high-strength qualities. The total required investment will be approximately USD350 million and the expected production capacity of the new galvanizing facility is

**Table of Contents**

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

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

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

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

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

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

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

**Table of Contents**

- <sup>15</sup> The Ensenada unit in the Province of Buenos Aires, Argentina, produces cold-rolled coils for the construction and industrial sectors and for further processing in Siderar's own facilities. This plant processes hot-rolled coils received from Siderar's San Nicolás unit.
- <sup>16</sup> The Rosario unit in the Province of Santa Fe, Argentina, and the San Luis unit in the Province of San Luis, Argentina, are steel service centers that produce tubes for the construction industry. These plants process hot-rolled coils received from Siderar's San Nicolás unit.
- <sup>17</sup> The Serviadero III unit in the Province of Buenos Aires, Argentina, is a steel service center that produces cut-to-length products for the construction and industrial sectors. This plant processes hot-rolled coils received from Siderar's San Nicolás unit.
- <sup>18</sup> The Sidercrom unit in the Province of Buenos Aires, Argentina, is a steel service center that produces cut-to-length and slitted products for the packaging sector. This plant processes tinplate coils received from Siderar's San Nicolás unit.

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

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

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



**Table of Contents**

- <sup>19</sup> The Shreveport unit in Louisiana, US, produces galvanized and color coated sheets. It processes cold-rolled coils procured in the international markets.
- <sup>20</sup> The Manizales Acasa unit in Caldas, Colombia, produces billets and rebar for the construction industry. It is an integrated facility based on mini-mill steelmaking technology that uses steel scrap as its main raw material. The facility sources all of its scrap and electricity needs from local suppliers. Ternium's procurement policy for these products is described in greater depth in Item 4. Information on the Company B. Business Overview Raw Materials, Energy and Other Inputs.
- <sup>21</sup> The Barranquilla unit in Atlántico, Colombia, is a steel service center that produces slitted, cut-to-length, drawn wire, wire mesh and customized rebar-based products for the construction industry. This plant processes wire rod purchased in the international market and rebar received from Ferrasa's Manizales unit and rebar purchased in the international markets. Hot-rolled and cold-rolled coils are received mainly from Ternium Mexico's units in Nuevo León.
- <sup>22</sup> The Itaguaí unit in Antioquía, Colombia, is a steel service center that produces drawn wire, wire mesh and customized rebar-based products for the construction industry. This plant processes wire rod purchased in the international markets and rebar received from Ferrasa's Manizales unit and rebar purchased in the international markets.
- <sup>23</sup> The Cali Perfilamos unit in Cauca, Colombia, is a steel service center that produces profiles, tubes and structural beams for the construction industry. This plant processes hot-rolled and cold-rolled coils received mainly from Ternium Mexico's units in Nuevo León and purchased in the international markets.
- <sup>24</sup> The Medellín unit in Antioquía, Colombia, the Bogotá unit in Cundinamarca, Colombia, the Cali Ferrasa unit in Valle del Cauca, Colombia, the Montería unit in Córdoba, Colombia, the Manizales Ferrasa unit in Caldas, Colombia and the Panamá unit in Panama, Panama, are steel services centers that produce customized rebar-based products for the construction industry. These plants process rebar received from Ferrasa's Manizales unit and rebar purchased in the international markets.
- <sup>25</sup> The Villa Nueva unit in Guatemala, Guatemala, produces galvanized sheets for the construction industry and for further processing in other Ternium Mexico's units in Central America. It also has a steel service center that produces slitted, roll-formed and cut-to-length products, and profiles for the construction industry. This plant processes hot-rolled, cold-rolled and coated coils received from Ternium Mexico's units in the Nuevo León area and from the international markets.
- <sup>26</sup> The Tegucigalpa unit in Cortés, Honduras, the San Salvador unit in San Salvador, El Salvador, and the Managua unit in Managua, Nicaragua, are steel service centers that produce roll-formed products for the construction industry. These plants process coated coils received mainly from Ternium Mexico's Villa Nueva unit.
- <sup>27</sup> The Heredia unit in Heredia, Costa Rica, is a steel service center that produces roll-formed products and profiles for the construction industry. This plant processes hot-rolled, cold-rolled and coated coils received from Ternium Mexico's units in Nuevo León and from the Villa Nueva unit.

***Mining Production Facilities***

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

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

**Table of Contents**

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

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

Production facility	Las Encinas		Consorcio Peña Colorada <sup>(1)</sup>	
	Quantity	Capacity <sup>(2)</sup>	Quantity	Capacity <sup>(2)</sup>
Crushing Plant	2	5,300	1	11,000
Concentration Plant	1	2,100	1	4,500
Pelletizing Line	1	1,900	2	4,100

(1) Figures correspond to total capacity. Ternium has a 50% interest in Consorcio Peña Colorada.

(2) In thousands of tons per year. Crushing capacity for Las Encinas includes crushing lines located in Aquila and in El Encino.

***Las Encinas***

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

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

**Active mines**

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

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

**Mines under exploration**

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

---

## **Table of Contents**

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

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

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

### **Exhausted mines**

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

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

### ***Consorcio Peña Colorada***

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

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

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

**Table of Contents**

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

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

**Iron ore reserves**

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

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

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

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

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

**Table of Contents**

(3) Includes exclusively the Aquila mine.

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

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

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

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

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

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

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

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

**Property, Plants and Equipment**

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

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

(1)

## Edgar Filing: Ternium S.A. - Form 20-F

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

## **Table of Contents**

### ***Production process***

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

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

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

After crushing, the ore goes through several grinding and concentration stages. Grinding reduces the size and changes the shape of the ore while concentration, through magnetic drums, separates the iron from the sterile material to obtain an iron ore concentrate with high iron content. This process is carried out using water as an auxiliary element. Excess water is afterwards eliminated through a filtering process, leaving only the necessary humidity for the formation of pellets using pelletizing disks. Pellets are separated according to their size and are then hardened in ovens and shipped to the steel producing facilities.

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

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

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

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

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

## Table of Contents

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

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

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

## **Sales and Marketing**

### *Net Sales*

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

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

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

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

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



Edgar Filing: Ternium S.A. - Form 20-F

<b>Total Net Sales</b>	8,608.1	9,122.8	7,339.9
------------------------	---------	---------	---------

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

**Table of Contents**

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

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

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

**Steel****Mexico.**

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

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

**Southern Region.**

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

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

---

## **Table of Contents**

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

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

### **Other Markets.**

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

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

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

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

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

### ***Mining***

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

### **Marketing**

#### ***Steel***

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

## **Table of Contents**

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

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

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

### **Mexico.**

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

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

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

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

### **Southern Region.**

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

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

## **Table of Contents**

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

### **Other Markets.**

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

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

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

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

### ***Mining***

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

### **Competition**

#### ***Steel***

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

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

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

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

---

**Table of Contents**

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

April 2007: Tata Steel completes the acquisition of Corus.

July 2007: Gerdau acquires Chaparral Steel.

August 2007: US Steel acquires Stelco.

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

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

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

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

**Mexico.**

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

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

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

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

## **Table of Contents**

### **Southern Region.**

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

### **Other Markets.**

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

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

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

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

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

### ***Mining***

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

### **Capital Expenditure Program**

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

increase steel production and processing capacity;

increase product range;

reduce production costs;

replace equipment;

improve product quality, equipment reliability and productivity;

comply with applicable environmental standards; and

provide enhanced customer services.



---

## **Table of Contents**

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

### ***Steel***

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

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

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

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

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

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

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

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

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

## Edgar Filing: Ternium S.A. - Form 20-F

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

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

---

## **Table of Contents**

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

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

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

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

### ***Mining***

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

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

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

### ***Information Technology Investments***

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

### ***2013 Capital Expenditures***

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

### ***Raw Materials, Energy and Other Inputs***

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



---

**Table of Contents**

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

***Mexico***

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

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

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

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

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

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

**Table of Contents**

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

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

***Argentina***

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

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

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

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

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

## **Table of Contents**

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

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

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

### ***Colombia***

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

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

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

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

### **Product Quality Standards**

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

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

---

**Table of Contents**

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

**Research and Development; Product Development**

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

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

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

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

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

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

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



---

## **Table of Contents**

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

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

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

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

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

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

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

## **Regulations**

### ***Environmental Regulation***

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

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

---

## **Table of Contents**

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

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

### ***Mining regulations in Mexico***

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

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

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

the right to dispose freely of mineral products obtained as a result of the exploitation of the concession;

the right to obtain the expropriation of, or an easement with respect to, the land where the exploration or exploitation will be conducted; and

the use of water in the mine to facilitate extraction.

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

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

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

---

## **Table of Contents**

### ***Trade regulations***

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

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

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

### ***Mexico.***

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

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

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

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

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

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

---

**Table of Contents**

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

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

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

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

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

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

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

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

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

---

## Table of Contents

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

### *Argentina.*

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

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

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

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

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

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

## **Table of Contents**

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

### ***Colombia.***

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

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

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

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

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

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

### **Insurance**

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

**Table of Contents**

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

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

***Tenaris***

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

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

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

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

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

## **Table of Contents**

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

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

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

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

### ***Tenova***

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

In response to our inquiry, Tenova informed us that:

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

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

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



**Table of Contents**

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

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

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

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

## **Table of Contents**

### **C. Organizational Structure**

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

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

### **Subsidiaries**

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

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

**Table of Contents**

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

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

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

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

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

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

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

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

**Other Investments**

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

**Table of Contents**

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

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

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

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

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

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

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

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

---

**Table of Contents**

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

**D. Property, Plants and Equipment**

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

**Item 4A. Unresolved Staff Comments**

None

**Item 5. Operating and Financial Review and Prospects**

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

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

**Overview**

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

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

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

---

**Table of Contents**

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

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

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

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

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

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

---

**Table of Contents**

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

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

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

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

---

## **Table of Contents**

### **Reportable segments**

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

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

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

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

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

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

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



---

## **Table of Contents**

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

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

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

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

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

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

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

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

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

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

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

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

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

Edgar Filing: Ternium S.A. - Form 20-F

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

---

**Table of Contents**

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

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

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

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

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

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

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

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

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

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

---

## **Table of Contents**

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

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

As a result of the above factors, actual cash flows and values could vary significantly from the forecasted future cash flows and related values derived using discounting techniques. Based on the information currently available, however, Ternium believes that it is not reasonably possible that the variation would cause the carrying amount to exceed the recoverable amount of the CGUs.

At December 31, 2012, 2011 and 2010, no impairment provisions were recorded in connection with assets that have an indefinite useful life (including goodwill). Any future impairment charge could have a material adverse effect on Ternium's results of operations, financial condition and net worth. For a discussion of the impairment of our investment in Usiminas, see Item 5. Operating and Financial Review and Prospects A. Results of Operations Fiscal Year Ended December 31, 2012 compared to Fiscal Year Ended December 31, 2011 Overview.

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

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

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

### **A. Results of Operations**

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

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

**Table of Contents**

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

**Table of Contents**

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

## Edgar Filing: Ternium S.A. - Form 20-F

- (1) Of the 2,004,743,442 shares issued as of December 31, 2012, Ternium held 41,666,666 through its wholly-owned subsidiary Ternium International Inc. and such shares were not considered outstanding. For further information related to the repurchase of shares in 2011, see note 30 to our audited consolidated financial statements included elsewhere in this annual report.
- (2) International Accounting Standard N° 1 (IAS 1) (Revised) requires that income for the year as shown in the income statement includes the portion attributable to non-controlling interest. Basic earnings per share, however, continue to be calculated on the basis of income attributable solely to the equity holders of the Company.
- (3) Diluted earnings per share (expressed in USD per share), equals basic earnings per share.
- (4) Reflects dividend proposal submitted to the shareholders meeting to be held on May 2, 2013.

**Table of Contents**

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

- (1) As of December 31, 2012, 2011, 2010, 2009 and 2008, includes goodwill mainly related to the acquisition of our Mexican subsidiaries for a total amount of USD663.8 million, USD663.8 million, USD750.1 million, USD708.6 million and USD683.7 million, respectively.
- (2) As of December 31, 2012, 2011, 2010, 2009 and 2008, includes financial assets with maturity of more than three months for a total amount of USD160.8 million, USD281.7 million, USD848.4 million, USD46.8 million and USD90.0 million, respectively.
- (3) The Company's share capital as of December 31, 2012, 2011, 2010, 2009 and 2008 was represented by 2,004,743,442 shares, par value USD1.00 per share, for a total amount of USD2.0 billion. Of the 2,004,743,442 shares, as of December 31, 2012 and 2011, Ternium held 41,666,666 through its wholly-owned subsidiary Ternium International Inc. For further information related to the repurchase of these shares in 2011, see note 30 to our audited consolidated financial statements included elsewhere in this annual report.

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

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

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





## Table of Contents

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

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

### *Net Sales*

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

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

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

### *Cost of sales*

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



**Table of Contents*****Selling, general and administrative expenses***

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

***Operating income***

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

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

***Steel reporting segment***

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

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

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

<sup>(1)</sup> Primarily includes pig iron and pre-engineered metal buildings.

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

***Mining reporting segment***

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

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

Edgar Filing: Ternium S.A. - Form 20-F

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

**Table of Contents**

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

***Net financial results***

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

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

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

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

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

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

***Income tax expense***

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

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

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

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

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

## Table of Contents

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

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

### *Net Sales*

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

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

### *Cost of sales*

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

### *Selling, general and administrative expenses*

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





**Table of Contents****Operating income**

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

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

**Steel reporting segment**

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

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

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

<sup>(1)</sup> Primarily includes pig iron and pre-engineered metal buildings.

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

**Mining reporting segment**

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

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

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

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

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

---

## **Table of Contents**

### ***Net financial results***

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

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

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

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

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

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

### ***Income tax expense***

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

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

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

### **Foreign Currency Fluctuations**

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

### **Governmental Economic, Fiscal, Monetary or Political Policies or Factors**

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

### **B. Liquidity and Capital Resources**

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

**Table of Contents**

Sidor nationalization process, see note 27 to our audited consolidated financial statements included elsewhere in this annual report. We hold money market investments, time deposits and variable-rate or fixed-rate securities from investment grade issuers. During 2010, 2011 and 2012 our gross financial indebtedness remained relatively stable, increasing slightly from USD2.3 billion at the end of 2009 to USD2.4 billion at the end of 2012. In April 2011, we successfully negotiated an extension of the maturities under Ternium Mexico's 2007 syndicated loan facility, pursuant to which USD803 million of principal originally maturing in 2012 was extended and is being paid by Ternium Mexico in four equal semiannual installments, commencing in January 2013. See note 24 to our audited consolidated financial statements included elsewhere in this annual report for further information. During the first quarter of 2012, we invested USD2.2 billion in the purchase of the stake in Usiminas. For further information on the Usiminas transaction, see note 3 to our audited consolidated financial statements included elsewhere in this annual report.

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

The following table shows the changes in our cash and cash equivalents for each of the periods indicated below:

<i>In thousands of U.S. dollars</i>	<b>For the year ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net cash provided by operating activities	1,055,092	622,370	797,256
Net cash provided by (used in) investing activities	(2,994,747)	145,991	(459,382)
Net cash provided by (used in) financing activities	348,200	(364,570)	(653,416)
Increase (decrease) in cash and cash equivalents	(1,591,455)	403,791	(315,542)
Effect of exchange rate changes	(6,282)	(25,042)	1,037
Cash and cash equivalents at the beginning of the year	2,158,044	1,779,295	2,093,800
Cash and cash equivalents at the end of the year (1)	560,307	2,158,044	1,779,295

- (1) In addition, at December 31, 2010, 2011 and 2012, Ternium had USD848.4, USD281.7 and USD160.8 million of other investments with maturities of more than three months, respectively, and USD12.3, USD0.2 and USD0.9 million in restricted cash, respectively.

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

During 2012, Ternium's primary source of funding was net cash provided by operating activities and proceeds from borrowings.

Cash and cash equivalents as of December 31, 2012 were USD560.3 million, a USD1.6 billion decrease from USD2.2 billion at the end of the previous year. The decrease was mainly attributable to net cash used in investing activities of USD3.0 billion, partially offset by net cash provided by operating activities of USD1.1 billion and net cash provided by financing activities of USD348.2 million.

In addition to cash and cash equivalents, as of December 31, 2012, we held other investments with maturity of more than three months for a total amount of USD160.8 million, a decrease of USD120.9 million compared to December 31, 2011.

**Table of Contents****Operating activities**

Net cash provided by operating activities was USD1.1 billion in 2012, compared to USD622.4 million in 2011, a year-over-year increase of USD432.7 million, mainly related a decrease in working capital of USD23.5 million in 2012, compared to an increase in working capital of USD399.3 million in 2011.

The decrease in working capital during 2012 was the result of an aggregate USD51.4 million net increase in accounts payable and other liabilities, and a USD20.2 million decrease in inventories, partially offset by an aggregate USD48.1 million net increase in trade and other receivables. Inventories decreased in 2012 mainly reflecting lower costs, partially offset by higher volumes, of purchased steel and raw materials (as shown in the table below).

	Change in inventory Dec 12 / Dec 11 (in millions of USD)		
	Price	Volume	Total
Finished goods	(4.3)	(2.4)	(6.7)
Goods in process	(36.8)	(2.1)	(38.8)
Raw materials, supplies and allowances	(114.1)	139.5	25.3
<b>Total</b>	<b>(155.2)</b>	<b>135.0</b>	<b>(20.2)</b>

**Investing activities**

Net cash used in investing activities in 2012 was USD3.0 billion, compared to net cash provided by investing activities of USD146.0 million in 2011. This change was primarily attributable to the following:

an increase in net cash used in acquisition of businesses of USD2.2 billion, mostly associated with the acquisition of an equity participation in Usiminas in 2012 (for further information on the Usiminas transaction, please see note 3 to our audited consolidated financial statements included in this annual report);

a lower decrease in other investments of USD460.3 million, consisting mainly of financial investments with maturity of more than three months (from USD588.2 million in 2011 to USD127.9 million in 2012); and

an increase of USD445.6 million in capital expenditures (from USD577.0 million in 2011 to USD1.0 billion in 2012).

**Financing activities**

Net cash provided by financing activities was USD348.2 million in 2012, compared to net cash used in financing activities of USD364.6 million in 2011. This change was primarily attributable to the following:

a net increase of USD435.6 million in proceeds from borrowings (from USD34.0 million in 2011 to USD469.7 million in 2012);

a repurchase of treasury shares of USD150.0 million in 2011; and

a decrease of USD124.7 million in dividends paid in cash by subsidiary companies (from USD140.6 million in 2011 to USD15.9 million in 2012).

## Edgar Filing: Ternium S.A. - Form 20-F

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

### *Overview*

During 2011, Ternium's primary source of funding was net cash provided by operating activities.

Cash and cash equivalents as of December 31, 2011 were USD2.2 billion, a USD378.7 million increase from USD1.8 billion at the end of the previous year. This increase is mainly attributable to net cash provided by operating activities of USD622.4 million and net cash provided by investing activities of USD146.0 million, partially offset by net cash used in financing activities of USD364.6 million.

**Table of Contents**

In addition to cash and cash equivalents, as of December 31, 2011, we held other investments with maturities of more than three months for a total amount of USD281.7 million, decreasing USD566.7 million compared to December 31, 2010.

**Operating activities**

Net cash provided by operating activities was USD622.4 million in 2011, compared to USD797.3 million in 2010, a year-over-year decrease of USD174.9 million. The main reasons for the reduction were:

a decrease in net income from continuing operations of USD129.6 million; and

a negative income tax accruals less payments adjustment of USD260.3 million in 2011, compared to a positive income tax accruals less payments adjustment of USD226.4 million in 2010; partially offset by

a positive adjustment of net foreign exchange results and others of USD173.2 million in 2011, compared to a negative adjustment of net foreign exchange results and others of USD138.3 million in 2010, mainly due to the fluctuation of the Mexican peso versus the U.S. dollar;

a positive adjustment of interest accruals less payments of USD43.0 million in 2011, compared to a negative adjustment of interest accruals less payments of USD0.1 million in 2010; and

an increase in working capital of USD399.3 million in 2011, compared to an increase in working capital of USD437.1 million in 2010.

The significant variation in working capital during 2011, as indicated above, was mainly attributable to an increase of USD410.0 million in inventory, reflecting higher costs as a result of higher input prices, as well as higher inventory volume of goods in process and raw materials partially offset by lower inventory volume of finished goods, as a result of increased operating activity (as shown in the table below).

	<b>Change in inventory Dec 11 / Dec 10 (in millions of USD)</b>		
	<b>Price</b>	<b>Volume</b>	<b>Total</b>
Finished goods	52.1	(10.6)	41.5
Goods in process	96.6	25.7	122.3
Raw materials, supplies and allowances	198.4	47.8	246.2
<b>Total</b>	<b>347.1</b>	<b>62.9</b>	<b>410.0</b>

**Investing activities**

Net cash provided by investing activities in 2011 was USD146.0 million, compared to net cash used in investing activities of USD459.4 million in 2010. This change was primarily attributable to the following:

a decrease in net cash used in other investing activities of USD1.4 billion, consisting mainly of financial investments with maturities of more than three months, which decreased USD588.2 million in 2011, compared to an increase of USD820.7 million

in 2010; and

a decrease in net cash used in acquisition of business of USD68.4 million, due to the acquisition of Ferrasa in 2010;



## **Table of Contents**

partially offset by

a decrease of USD634.3 million in the proceeds from the Sidor financial asset (from USD767.4 million in 2010 to USD133.1 million in 2011); and

an increase of USD237.6 million in capital expenditures (from USD339.4 million in 2010 to USD577.0 million in 2011).

### ***Financing activities***

Net cash used in financing activities was USD364.6 million in 2011, compared to USD653.4 million in 2010. This change was primarily attributable to the following:

a decrease in repayments of borrowings, net, of USD553.8 million, consisting of net proceeds from borrowings of USD34.0 million in 2011, compared to net repayment of borrowings of USD519.8 million in 2010;

partially offset by

a repurchase of shares of USD150.0 million in 2011;

an increase in dividends paid in cash by subsidiary companies of USD102.3 million; and

an increase in dividends paid in cash to Company's shareholders of USD47.0 million.

### **Principal Sources of Funding**

#### ***Funding Policies***

Management's policy is to maintain a high degree of flexibility in operating and investment activities by maintaining adequate liquidity levels and ensuring access to readily available sources of financing. While Ternium currently does not have committed credit facilities available for borrowing, management believes that it could have access to external borrowing in case of any shortfalls. We obtain financing primarily in U.S. dollars, Argentine pesos, Mexican pesos and Colombian pesos. Whenever feasible, management bases its financing decisions, including the election of currency, term and type of the facility, on the intended use of proceeds for the proposed financing and on costs. For further information on our financial risk management, see note 33 to our audited consolidated financial statements included elsewhere in this annual report.

#### ***Financial Liabilities***

Our financial liabilities consist of loans with financial institutions and some pre-accorded overdraft transactions. As of December 31, 2012, these facilities were mainly denominated in U.S. dollars (70.3% of total financial liabilities), Argentine pesos (22.4% of total financial liabilities) and Colombian pesos (5.6% of total financial liabilities). Total financial debt (inclusive of principal and interest accrued thereon) increased by USD428.2 million in the year, from USD2.0 billion as of December 31, 2011, to USD2.4 billion as of December 31, 2012, mainly due to a new USD700 million syndicated term loan used for the purchase of shares of Usiminas and an increase in short term borrowings, partially offset by the repayment of principal and interest on borrowings related to prior acquisitions. As of December 2012, current borrowings were 46.3% of total borrowings, none of which corresponded to borrowings with related parties.

The following table shows Ternium's financial liabilities as of December 31 of each of the last three years:

Edgar Filing: Ternium S.A. - Form 20-F

<i>In thousands of U.S. dollars</i>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Borrowings with related parties		12,182	
Bank borrowings (1)	2,424,363	1,983,954	1,939,657
<b>Total borrowings</b>	<b>2,424,363</b>	<b>1,996,136</b>	<b>1,939,657</b>

(1) Net of debt issuance costs

**Table of Contents**

The weighted average interest rates at December 31, 2012, 2011 and 2010 shown below were calculated using the rates set for each instrument in its corresponding currency and weighted using the U.S. dollar-equivalent outstanding principal amount of those instruments at December 31, 2012, 2011 and 2010, respectively, after giving effect to derivative financial instruments used to mitigate interest rate risk.

	2012	2011	2010
Bank borrowings	5.99%	5.13%	3.29%

As of December 31, 2012, the maturities of our financial liabilities were as follows:

<i>In thousands of U.S. dollars</i> At December 31, 2012	1 year Or less	1 - 2 years	2 - 3 Years	3 - 4 Years	4 - 5 Years	Over 5 Years	Total
Borrowings (1)(2)	1,121,609	634,977	235,938	273,625	102,283	55,931	2,424,363
<b>Total borrowings</b>	1,121,609	634,977	235,938	273,625	102,283	55,931	2,424,363

(1) Borrowings are bank borrowings with third parties. See B. Liquidity and Capital Resources Principal Sources of Funding Financial Liabilities.

(2) Net of debt issuance costs.

For information on our derivative financial instruments, see Item 11. Quantitative and Qualitative Disclosures About Market Risk and note 23 to our audited consolidated financial statements included elsewhere in this annual report.

*Most Significant Borrowings*

Our most significant borrowings as of December 31, 2012 were those incurred under Ternium Mexico's syndicated loan facility in relation to the Grupo Imsa transaction in July 2007 and those incurred under Ternium Investment's syndicated loan facility in relation to the Usiminas transaction in January 2012.

*In Millions of U.S. dollars*

Date	Borrower	Type	Original principal amount	Outstanding principal amount as of December 31, 2012	Maturity
July 2007	Ternium Mexico	Syndicated loan	3,485.0	803.3	July 2014
January 2012	Ternium	Syndicated loan	700.0	700.0	January 2017

On February 1, 2008, we completed the sale of our interests in Steelscape, Inc., ASC Profiles Inc., Varco Pruden Buildings Inc. and Metl-Span LLC to BlueScope Steel North America Corporation, a subsidiary of BlueScope Steel Limited, for a total consideration of USD727 million. On February 28, 2008, we applied USD700.0 million of the proceeds of such sale to partially prepay loans under the syndicated loan agreement. Beginning in January 26, 2009 and until July 26, 2012 we paid eight semi-annual installments of USD249 million each. On April 6, 2011, Ternium Mexico partially refinanced the final installment, extending its maturity from July 2012 to July 2014. For a description of the refinancing, see note 24 to our audited consolidated financial statements included elsewhere in this annual report.

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



**Table of Contents**

As of December 31, 2012, we were in compliance with all covenants under our loan agreements. For further information on our derivative financial instruments, borrowings and commitments, see notes 23, 24, 25 and 33 to our audited consolidated financial statements included elsewhere in this annual report.

For information on Ternium's capital expenditures, see Item 4. Information on the Company B. Business Overview Capital Expenditure Program.

**C. Research and Development, Patents and Licenses, Etc.**

See Item 4. Information on the Company B. Business Overview Research and Development; Product Development.

**D. Trend Information**

See Overview.

**E. Off-Balance Sheet Arrangements**

Ternium does not use off-balance sheet arrangements as such term is defined by applicable SEC rules. However, as described above, Ternium has various off-balance sheet commitments to purchase raw materials, energy (electricity and steam for the production of electricity), supplies (oxygen, nitrogen and argon) and production equipment. Off-balance sheet commitments are discussed in note 25(ii) to our audited consolidated financial statements included elsewhere in this annual report.

**F. Contractual Obligations**

The following table summarizes our contractual obligations at December 31, 2012, and the effect such obligations are expected to have on our liquidity and cash flow in future periods:

<i>In millions of U.S. dollars</i>	Payments Due by Period as of December 31, 2012				
	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
<b>Contractual Obligations</b>					
Borrowings (1)	2,424.4	1,121.6	871.0	375.9	55.9
Estimated interest payments (2)	158.4	81.4	62.6	12.8	1.6
Purchase Obligations (3)	1,850.1	510.3	304.9	291.3	743.6
<b>Total Contractual Obligations</b>	<b>4,432.9</b>	<b>1,713.3</b>	<b>1,238.5</b>	<b>680.0</b>	<b>801.1</b>

(1) Borrowings are bank borrowings with third parties. See B. Liquidity and Capital Resources Principal Sources of Funding Financial Liabilities.

(2) In calculating estimated interest payments for our borrowings that bear interest at a floating rate, we use the variable rates in effect in the current interest period, and assume that such rate is fixed over the period(s) measured.

(3) Purchase obligations include mainly electric power, raw materials, oxygen, equipment and steam.

In addition, the net fair value of derivative financial instruments as of December 31, 2012 represented a USD0.2 million net liability. For information on our derivative financial instruments, see Item 11. Quantitative and Qualitative Disclosures About Market Risk and note 23 to our audited consolidated financial statements included elsewhere in this annual report.



---

**Table of Contents**
**G. Recent Developments***Claim related to CSN*

In early 2013, Companhia Siderúrgica Nacional, or CSN, and various entities affiliated with CSN filed a lawsuit in Brazil against Ternium Investments, Siderar and TenarisConfab, alleging that, under applicable Brazilian laws and rules, they were required to launch a tag-along tender offer to all minority holders of Usiminas ordinary shares for a price per share equal to 80% of the price per share paid in their January 16, 2012 acquisition, or BRL28.8, and seeking an order to compel them to launch an offer at that price plus interest. On March 20, 2013, the defendants filed their response to the CSN lawsuit. Ternium believes that CSN's allegations are groundless and without merit, as confirmed by several opinions of Brazilian counsel and previous decisions by Brazil's securities regulator Comissão de Valores Mobiliários, including a February 2012 decision determining that the above mentioned acquisition did not trigger any tender offer requirement. Accordingly, Ternium will defend itself vigorously.

*Annual Dividend Proposal*

On February 20, 2013, the Company's board of directors proposed that an annual dividend of USD0.065 per share (USD0.65 per ADS), or approximately USD130.3 million in the aggregate, be approved at the Company's annual general shareholders' meeting, which is scheduled to be held on May 2, 2013. If the annual dividend is approved at the shareholders' meeting, it will be paid on May 10, 2013.

**Item 6. Directors, Senior Management and Employees****A. Directors and Senior Management****Board of Directors**

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

The board of directors is required to meet as often as required by the interests of the Company and at least four times per year. In 2012, the Company's board of directors met six times. A majority of the members of the board of directors in office present or represented at each board of directors' meeting constitutes a quorum, and resolutions may be adopted by the vote of a majority of the directors present or represented. In case of a tie, the chairman is entitled to cast the deciding vote.

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

On January 9, 2006, Tenaris and a wholly-owned subsidiary of San Faustin entered into a shareholders' agreement, pursuant to which such San Faustin subsidiary is required to take all actions in its power to cause one of the members of the Company's board of directors to be nominated by Tenaris and any directors nominated by Tenaris only be removed pursuant to written instructions by Tenaris. Tenaris and San Faustin's subsidiary also agreed to cause any vacancies on the board of directors to be filled with new directors nominated by either Tenaris or the San Faustin subsidiary, as applicable. On April 27, 2007, the San Faustin subsidiary assigned all of its rights and obligations under the shareholders' agreement to Techint. The shareholders' agreement will remain in effect so long as each of the parties holds at least 5% of the shares of the Company or until it is terminated by either Tenaris or Techint pursuant to its terms. Carlos A. Condorelli was nominated by Tenaris and appointed as a director pursuant to this agreement.

Within the limits of applicable law, the board of directors of the Company may delegate to one or more persons, whether or not members of the board of directors, the Company's day-to-day management and the authority to represent the Company, provided that such delegation shall be subject to prior authorization by the general shareholders' meeting. On September 14, 2005, following the requisite authorization at the general shareholders' meeting, the board of directors





**Table of Contents**

delegated such day-to-day management and authority to Daniel A. Novegil. On May 2, 2012, the Company's annual general shareholders meeting re-elected Ubaldo Aguirre, Roberto Bonatti, Carlos Condorelli, Pedro Pablo Kuczynski, Adrián Lajous Vargas, Bruno Marchettini, Gianfelice Mario Rocca, Paolo Rocca and Daniel Agustín Novegil as members of the board of directors to serve until the next annual shareholders meeting, which will be held on May 2, 2013. The board of directors subsequently re-appointed Paolo Rocca as its chairman and Daniel Novegil as chief executive officer of the Company.

The following table sets forth the current members of the board of directors of the Company, their respective offices on the board, their principal occupation, their years of service as board members and their age.

Name	Position	Principal Occupation	Years as director	Age at December 31, 2012
Paolo Rocca (1)	Chairman	Chairman and CEO of Tenaris, director and vice president of San Faustin	8	60
Ubaldo Jose Aguirre	Director	Managing director of AGM/R S.A. and Aguirre y Gonzalez S.A.	7	64
Roberto Bonatti (1)	Director	President of San Faustin	8	63
Carlos Condorelli	Director	Director of Tenaris	7	61
Adrián Lajous Vargas	Director	President of Petrométrica, S.C.	7	69
Bruno Marchettini	Director	Director of San Faustin and senior advisor in technology matters for the Techint group	7	71
Daniel Agustín Novegil	Director	CEO of the Company	8	60
Gianfelice Mario Rocca (1)	Director	Chairman of the board of directors of San Faustin, director of Tenaris and president of Humanitas Group	7	64
Pedro Pablo Kuczynski	Director	Senior advisor to The Rohatyn Group	6	74

(1) Paolo Rocca and Gianfelice Rocca are brothers, and Roberto Bonatti is Paolo and Gianfelice Rocca's first cousin.

**Paolo Rocca.** Mr. Rocca has served as chairman of the Board since 2005. He is a grandson of Agostino Rocca. He is also chairman and chief executive officer of Tenaris. In addition, he is a member of the board of directors and vice president of San Faustin and a director of Techint Financial Corporation N.V. Mr. Rocca currently serves as the chairman of Tubos de Acero de México S.A. and is member of the International Advisory Committee of NYSE Euronext (New York Stock Exchange). Mr. Rocca is an Italian citizen.

**Ubaldo Aguirre.** Mr. Aguirre has served on the Board since 2006. He is a managing director of AGM/R S.A. and Aguirre y Gonzalez S.A., both Argentine financial services firms, and also serves as a member of the board of directors and member of the audit committee of Holcim Argentina S.A., a subsidiary of Holcim, the Swiss cement producer. Since 2005, he also serves as chairman of the board of directors of Permasur S.A., an Argentine winery, and of Editorial Sur S.A. Since 2000, he is a member of the board of directors of URS Argentina S.A. He is a member of the Administrative Board of Universidad Católica Argentina. Mr. Aguirre formerly served as director and chairman of the audit committee of Siderar S.A.I.C. Mr. Aguirre began his career at the World Bank in Washington, D.C. In addition, Mr. Aguirre has been a member of the boards of each of Argentina's Central Bank where he was responsible for that country's external borrowing program and financial negotiations Banco de la Nación Argentina and Banco Nacional de Desarrollo. He also served as the Republic of Argentina's financial representative for Europe in Geneva and negotiator on behalf of the Republic of Argentina with the Paris Club. Mr. Aguirre, aged 64, is an Argentine citizen.

**Roberto Bonatti.** Mr. Bonatti has served as a director of the Company since 2005. He is a grandson of Agostino Rocca, founder of the Techint group, a group of companies controlled by San Faustin. Throughout his career in the Techint group he has been involved specifically in the engineering and construction and corporate sectors. He was first employed by the Techint group in 1976, as deputy resident engineer in Venezuela. In 1984, he became a director of San Faustin, and since

---

**Table of Contents**

2001 he has served as its president. In addition, Mr. Bonatti currently serves as president of Sadma Uruguay S.A. He is also a member of the board of directors of Tenaris. Mr. Bonatti is an Italian citizen.

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

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

**Bruno Marchettini.** Mr. Marchettini has served as a director of the Company since 2006. He is a senior advisor to the Techint group in technology matters. He has retired from executive positions and is presently engaged as a consultant by Siderar. Mr. Marchettini is a member of the board of directors of San Faustin. Mr. Marchettini is an Italian citizen.

**Daniel Agustín Novegil.** Mr. Novegil has served as a director and chief executive officer of the Company since 2005. With more than 35-years experience in the steelmaking industry, he was appointed managing director of Siderar in 1993 and Usiminas' board member in 2012. He is also member of the board of directors of the World Steel Association and former president of the Latin American Steel Association. In 1984, he obtained a M.S. in management from Stanford University and since 1999 he has been a member of the advisory board of the Sloan Masters Program at Stanford University. Mr. Novegil is an Argentine citizen.

**Gianfelice Mario Rocca.** Mr. Rocca has served as a director of the Company since 2006. He is a grandson of Agostino Rocca. He is chairman of the board of directors of San Faustin, a member of the board of directors of Tenaris, president of the Humanitas Group, honorary president of the board of directors of Techint Compagnia Tecnica Internazionale S.p.A. and president of the board of directors of Tenova S.p.A. In addition, he sits on the board of directors or executive committees of several companies, including Allianz S.p.A, Brembo and Buzzi Unicem. He is vice president of Confindustria, the leading association of Italian industrialists. He is a member of the Advisory Board of Allianz Group, of the European Advisory Board of the Harvard Business School and of the Trilateral Commission. Mr. Rocca is an Italian citizen.

**Pedro Pablo Kuczynski.** Mr. Kuczynski has served as a member of the Board since 2007. He was Prime Minister of Peru in 2005-2006 and prior to that he was the Minister of Economy and Finance from 2001. He was the Republic of Peru's Minister of Energy and Mines in 1980-82. He was president until 2001 of a private equity firm he founded in 1992 after spending ten years as Chairman of First Boston International (today Credit Suisse) in New York. Since 2007, he is Senior Advisor to the Rohatyn Group, a firm specializing in emerging markets. He ran a bauxite mining company affiliated with Alcoa between 1977 and 1980. He began his career at the World Bank in 1961 and was in the 1970s head of its Policy Planning Division, Chief Economist for Latin America and Chief Economist of IFC. He was a founding member of the Board of Directors of Siderar in 1992 and kept his office until 2001. He was born in Peru in 1938 and educated in Peru and at Oxford and Princeton. Mr. Kuczynski, aged 74, is an U.S. and Peruvian national.

## **Table of Contents**

### ***Director Liability***

Under Luxembourg law, a director may be liable to the Company for any damage caused by such director's misconduct in the Company's management. In addition, directors will be jointly and severally liable to the Company, its shareholders or other third parties in the event that the Company, its shareholders or such other third parties suffer a loss due to a breach by any one or more of the directors of either the Luxembourg Company Law or the Company's articles of association, provided that the losses that are independent and separate from the losses suffered by the Company. A director will be discharged from such joint and several liability only with respect to breaches, provided no misconduct is attributable to such director and such director reports such breaches at the first general meeting after such director first has knowledge thereof.

An action against directors for damages may be initiated by the Company upon a resolution of the shareholders' meeting passed by a simple majority vote, irrespective of the number of shares represented at the meeting. In general, claims must be brought within five years from the occurrence of an action or omission for which liability may apply or, in case the action or omission was fraudulently concealed, from the date of discovery of the relevant action or omission.

It is customary in Luxembourg that the shareholders expressly discharge the members of the board of directors from any liability arising out of or in connection with the exercise of their mandate when approving the Company's annual accounts at the annual shareholders' meeting. However, such discharge will not release the directors from liability for any damage caused to the Company by unrevealed acts of mismanagement or unrevealed breaches of Luxembourg Company Law or the Company's articles of association, nor will it release the directors from liability for any personal loss of our shareholders independent and separate from the losses suffered by the Company due to a breach either revealed and unrevealed of either the Luxembourg Company Law or the Company's articles of association.

Under Luxembourg law, any director having a conflict of interest in respect of a transaction submitted for approval to the board of directors may not take part in the deliberations concerning such transaction and must inform the board of such conflict and cause a record of his statement to be included in the minutes of the meeting. Subject to certain exceptions, transactions in which any directors may have had an interest conflicting with that of the Company must be reported at the next general shareholders' meeting following any such transaction.

### **Auditors**

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

PwC Luxembourg, an independent registered public accounting firm, was appointed as the Company's independent auditor for the fiscal year ended December 31, 2012, at the ordinary general shareholders' meeting held on May 2, 2012.

### **Senior Management**

The following table sets forth certain information concerning our senior management:

<b>Name</b>	<b>Age at December 31, 2012</b>	<b>Position</b>
Daniel Novegil	60	Chief Executive Officer; Director
Pablo Brizzio	42	Chief Financial Officer
Máximo Vedoya	42	Mexico Area Manager
Martín Berardi	55	Siderar Executive Vice President
Héctor Obeso	48	International Area Manager
Oscar Montero Martínez	52	Planning and Operations General Director
Luis Andreozzi	62	Engineering and Environment Director
Rodrigo Piña	40	Human Resources Director
Roberto Demidchuk	51	Chief Information Officer

Edgar Filing: Ternium S.A. - Form 20-F

Rubén Herrera

55

Quality and Product Director

90

---

**Table of Contents**

**Daniel A. Novogil.** See Board of Directors.

**Pablo Brizzio.** Mr. Brizzio currently serves as our Chief Financial Officer. He began his career with the Techint group in 1993 in Siderar. Since then, he has held several positions within the Techint group. He served as finance director of Ternium from 2005 to 2007 and in 2009, and in 2008 he served as chief financial officer of Sidor. In 2010, he assumed his position as chief financial officer of the Company. Mr. Brizzio is an Argentine citizen.

**Máximo Vedoya.** Mr. Vedoya currently serves as our Mexico Area Manager. Since January 2012, he has been the executive vice president of Ternium Mexico. Prior to that, he served as chief executive officer of Ferrasa. He has held several other executive positions since joining the Techint Group in 1992, such as director of Ternium Mexico's international and steel purchase operations, commercial director and export manager of Sidor and commercial planning manager of Siderar. He was also director of Fedemetal (Colombia) and AIMM (Venezuelan association of the metallurgical and mining industry). Mr. Vedoya is an Argentine citizen.

**Martín Berardi.** Mr. Berardi currently serves as our Siderar Executive Vice President. He began his career with the Techint group in 1980 as a trainee in Propulsora Siderúrgica. He has held several positions within the Techint group including in Propulsora Siderúrgica, Siat S.A.I.C. and Siderca. He served as managing director of Siat (1992-1995), managing director of Tamsa (1995-2000), president and chief executive officer of Sidor (2000-2004) and became managing director of Siderar in October 2004, a position which he held until he assumed his present position at the Company. He was president of the IVES between 2002 and 2004 (Venezuelan Steel Institute) and president of Mercofer between 2006 and 2009. He is president of CAA (Argentine Steel Chamber) since 2012 and a member of the board of directors of ITBA (Buenos Aires Institute of Technology) since 2005. Mr. Berardi is an Argentine citizen.

**Héctor Obeso.** Mr. Obeso currently serves as our International Area Manager. He assumed his current position in October 2012. Prior to that, he served as commercial manager and industrial sales manager of Ternium Mexico, and as quality manager of Siderar. Mr. Obeso also held executive positions in Grupo Imsa and Hylsamex, prior to their acquisition by Ternium in 2007 and 2005, respectively, such industrial business units manager, international business units manager, export manager and project manager. Mr. Obeso is a Mexican citizen.

**Oscar Montero Martínez.** Mr. Montero currently serves as our Planning and Operations General Director. He began his career with the Techint group in 1984 as a commercial analyst in Siderar. Since then, he has held several positions within Siderar in the planning, commercial and procurement areas. In 1998, he assumed the position of strategic planning director of Sidor. Since 2005, he serves as planning and operations general director of the Company. Mr. Montero is an Argentine citizen.

**Luis Andreozzi.** Mr. Andreozzi currently serves as our Engineering and Environment Director. He began his career with the Techint group in 1968 as a trainee in Siderca. He has held several positions within other Techint group companies, including Techint Engineering Company, or TEING, Siderar and Sidor. Most recently, he served as construction manager of TEING (1986-1992), construction manager of Siderar (1992-1998), engineering and environment general manager of Sidor (1998-2004) and technology manager of the Techint Flat and Long Steel Division, a position he held until he assumed his present position at the Company. Mr. Andreozzi is an Italian citizen.

**Rodrigo Piña.** Mr. Piña currently serves as our Human Resources Director. He assumed his current position in January 2013. Prior to that, he served as human resources director of Siderar. He has held several other executive positions since joining the Company in 2004, such as commercial planning, CEO assistant, Human Resources Director assistant. Mr. Piña is an Argentine citizen.

---

## **Table of Contents**

**Roberto Demidchuk.** Mr. Demidchuk currently serves as our Chief Information Officer. He joined the Techint group in 1986 as a trainee for Techint Engineering. Since then he has held several positions in different Techint group companies, including programming manager and procurement manager at Siderar and supply chain director at Ternium. Mr. Demidchuk is an Argentine citizen.

**Rubén Herrera.** Mr. Herrera currently serves as our Quality and Product Director. He has also been Quality and Product Director of Ternium Mexico since 2007. Since joining the Techint group in 1990, he has held several other executive positions, including Mechanical Metallurgical Department Chief in Siderca's Industrial Research Center, Product Manager of Siderar, and Quality and Product Director of Sidor. Mr. Herrera is an Argentine citizen.

### **B. Compensation**

The compensation of the members of the Company's board of directors is determined at the annual ordinary general shareholders' meeting. Each member of the board of directors received for the year 2012 a fee of USD80,000, and the chairman of the board of directors received an additional fee of USD280,000. The chairman of the audit committee received as additional compensation a fee of USD60,000, while the other members of the audit committee received an additional fee of USD50,000. Under the Company's articles of association, the members of the audit committee are not eligible to participate in any incentive compensation plan for employees of the Company or any of its subsidiaries.

The aggregate cash compensation received by directors and senior management for the year 2012 amounted to USD13.1 million.

In addition, directors and senior management received for the year 2012 660,000 units for a total amount of USD1.9 million, in connection with the employee incentive retention program described in note 4 (n) (3) "Employee liabilities - Other compensation obligations" to our audited consolidated financial statements included elsewhere in this annual report.

There are no service contracts between any director and Ternium that provide for material benefits upon termination of employment. The Company does not provide pension, retirement or similar benefits to directors.

### **C. Board Practices**

See A. Directors and Senior Management.

### **Audit Committee**

On May 2, 2012, the Company's board of directors re-appointed Ubaldo Aguirre, Adrián Lajous and Pedro Pablo Kuczynski as members of its audit committee, with Mr. Aguirre to continue chairing that committee. All three members of the audit committee are independent directors as defined under the Company's articles of association.

Under the Company's articles of association, an independent director is a director who:

- (i) is not employed, and has not been employed in an executive capacity by the Company or any of its subsidiaries within the five years preceding the ordinary general shareholders' meeting at which the candidate for the board of directors was voted upon;
- (ii) does not receive consulting, advisory or other compensatory fees from the Company or any of its subsidiaries (other than fees received as a member of the board of directors of any committee thereof and fees received as a member of the board of directors or other governing body, or any committee thereof, of any of the Company's subsidiaries);

---

**Table of Contents**

- (iii) is not a person who directly or indirectly controls the Company;
- (iv) does not have, and does not control a business entity that has, a material business relationship with the Company, any of its subsidiaries or a person who directly or indirectly controls the Company, if such material business relationship would reasonably be expected to adversely affect the director's ability to properly discharge his or her duties;
- (v) does not control, and is not and has not been, within the five years preceding the ordinary general shareholders' meeting at which the candidate for the board of directors was voted upon, employed by a present or former internal or external auditor of the Company, any of its subsidiaries or a person who directly or indirectly controls the Company; and
- (vi) is not a spouse, parent, sibling or relative up to the third degree of, and does not share a home with, any of the persons above described.

Under our articles of association and the audit committee charter, the audit committee is required, among other things, to report to the board of directors on its activity and the adequacy of the Company's systems of internal control over financial reporting. In addition, the charter of the audit committee sets forth, among other things, the audit committee's purpose and responsibilities. The audit committee assists the board of directors in its oversight responsibilities with respect to the integrity of the Company's financial statements and is responsible for making recommendations regarding the appointment, dismissal, compensation, retention and oversight of, and assess the independence of the Company's independent auditors (see Item 16.C Principal Accountant Fees and Services for additional information about the audit committee's procedures with respect to our independent auditors). The audit committee also performs other duties imposed upon it by applicable laws and regulations of the regulated market or markets on which the shares of the Company are listed, as well as any other duty entrusted to it by the Company's board of directors.

In addition, the audit committee is required by the Company's articles of association to review Material Transactions, as such term is defined by the Company's articles of association, to be entered into by the Company or its subsidiaries with Related Parties, as such term is defined by the Company's articles of association (other than transactions reviewed and approved by the independent members of the board of directors of the Company or through any other procedures that the board of directors may deem substantially equivalent to the foregoing), in order to determine whether their terms are consistent with market conditions or are otherwise fair to the Company and/or its subsidiaries. In the case of Material Transactions entered into by the Company's subsidiaries with Related Parties, the Company's audit committee will review those transactions entered into by those subsidiaries whose boards of directors do not have independent members, or that have not been reviewed and approved by such independent directors or through any other procedures that the board of directors of the Company may deem substantially equivalent to the foregoing.

Under the Company's articles of association, as supplemented by the audit committee's charter:

a Material Transaction is (i) any transaction with or involving a Related Party (x) with an individual value equal to or greater than ten million U.S. dollars or (y) with an individual value lower than ten million U.S. dollars, when the aggregate sum of any series of transactions reflected in the financial statements of the four fiscal quarters of the Company preceding the date of determination (excluding any transactions that were reviewed and approved by any of the audit committee of the Company, or any of its subsidiaries, the board of directors of the Company, the independent members of the board of directors or other governing body of any subsidiary of the Company, or a majority of the members of the board of directors or similar governing body of any subsidiary of the Company that were not nominated by or at the request of the Company or any entity that directly or indirectly controls or is under common control with the Company) exceeds 1.5% of the Company's consolidated net sales made in the fiscal year preceding the year on which the determination is made; or (ii) any corporate reorganization transaction (including a merger, spin-off or bulk transfer of a business) involving the Company or any of its direct or indirect subsidiaries for the benefit of or involving a Related Party; and

a Related Party is, in relation to the Company or its direct or indirect subsidiaries, any of the following persons: (i) a member of the board of directors of the Company or of the board of directors or other governing body of any of the Company's subsidiaries; (ii) any member of the board of directors or other governing body of an entity that directly or indirectly controls the Company; (iii) any entity that directly or indirectly controls or is under common control with the Company (other than the Company's

## Edgar Filing: Ternium S.A. - Form 20-F

subsidiaries); (iv) any entity controlled directly or indirectly by any member of the board of directors of the Company, or of the board of directors or other governing body of any subsidiary of the Company; and (v) any spouses, parents, siblings or relatives up to the third degree of, and any person that shares a home with, any person referred to in (i) or (ii).



**Table of Contents**

The audit committee has the power (to the maximum extent permitted by applicable laws) to request that the Company or relevant subsidiary provide any information necessary for it to review any Material Transaction. A Related Party transaction shall not be entered into unless (i) the circumstances underlying the proposed transaction justify that it be entered into before it can be reviewed by the Company's audit committee or approved by the board of directors and (ii) the Related Party agrees to unwind the transaction if the Company's audit committee or board of directors does not approve it.

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

**D. Employees**

The following table shows the number of persons employed by Ternium and its consolidated subsidiaries:

	At December 31,		
	2012	2011	2010
Mexico	9,118	9,062	8,575
Argentina	5,454	5,459	5,416
Colombia	1,455	1,444	1,375
Other	584	580	562
<b>Total employees (1)</b>	<b>16,611</b>	<b>16,545</b>	<b>15,928</b>

(1) Does not include 2,435 employees of contractors who performed services at Ternium's facilities at year-end 2012, 2,536 employees at year-end 2011 and 2,137 employees at year-end 2010.

At December 31, 2012, the number of persons employed by Ternium was 16,611, similar to the number of employees at year-end 2011.

For a description of our employee incentive retention program, see note 4 (n) (3) Employee liabilities Other compensation obligations to our audited consolidated financial statements included elsewhere in this annual report.

**Mexico**

In Mexico, approximately 61% of Ternium employees are unionized. Of these, approximately 50.5% of Mexico's unionized workers are members of FENASA ( *Federación Nacional de Asociaciones Sindicales Autónomas* ), the national federation of autonomous union associations, and 49.5% are members of FNSI ( *Federación Nacional de Sindicatos Independientes* ), the national federation of independent unions. The unionized employees of Consorcio Peña Colorada, however, are members of the *Sindicato de Trabajadores Mineros, Metalúrgicos y Similares de la República Mexicana* (Union of Mexican Republic mine, metal and similar workers). The applicable collective bargaining agreements are negotiated every two years and salary adjustments are made on an annual basis. Despite some social and union conflicts, Ternium's Mexican subsidiaries maintain good relations with their labor force in Mexico and have never experienced a strike or work stoppage related to labor conflicts.

---

## **Table of Contents**

Under Mexican law, companies are required to pay to their employees an annual benefit of 10% of their taxable income (profit sharing program), calculated similarly to income tax. Under Mexican law, Ternium Mexico is required to pay social security and tax contributions as follows: the company's social security contributions are equal to 20.4% of the minimum salary plus additional contributions of around 20% over the employees' total salary (subject to a cap); Ternium Mexico must also withhold an additional percentage for social security contributions (equal to 2.8%) from salaries up to a certain cap.

Under Mexican labor laws, when an employee is dismissed without cause or for a cause that is challenged by the employee, an employee (other than trust employees and those with less than one year of service) may choose to demand to be reinstated in his or her employment or to be paid severance which is equal to three months salary, plus accrued benefits, such as vacations, thirteenth month salary, and seniority bonus ( *prima de antigüedad* ) equal to twenty four days of regional minimum salary per each year of service. In the former case, if the Conciliation and Arbitration Board determines that even though dismissal was not properly grounded but reinstatement is not possible, employer must pay a dismissed employee back wages accrued during trial, severance equal to three months salary, plus accrued benefits, such as vacations, thirteenth month salary, seniority bonus ( *prima de antigüedad* ) equal to twenty four days of regional minimum salary per each year of service and additional compensation equal to twenty days per each year of service.

In Mexico, Ternium has defined benefit and defined contribution plans which are granted to employees depending on their commencement date, whether they are covered or not by a collective bargaining agreement and other factors. Defined benefit employee retirement plans (pensions and seniority premiums) are based primarily on years of service, present age and remuneration at the date of retirement. The formal retirement plans are congruent with and complementary to the retirement benefits established by the Mexican Institute of Social Security. In addition, some high level employees benefit from a plan to cover health-care expenses of retired employees. The defined contribution plans provide a benefit equivalent to the capital accumulated with the company's contributions, which are provided as a match of employees' contributions to the plan. The plan provides vested rights according to the years of service and cause of retirement. For further information see note 4(n) Accounting policies Employee liabilities to our audited consolidated financial statements included elsewhere in this annual report.

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

### ***Argentina***

Most of Siderar's employees are members of the Argentine metalworkers union (the *Unión Obrera Metalúrgica de la República Argentina*, or UOM) and are covered by a collective agreement that includes all workers in the Argentine steel industry. The employees are also covered by certain complementary collective agreements between Siderar and the UOM that define specific issues related to each or all plants, such as working structures, performance related compensation, productivity, production quantity and quality and Siderar's results-related compensation. These agreements are subject to periodic modification and are updated in relation to competitiveness, quality, safety and efficiency goals and to reflect inflation adjustments.

As part of the privatization process in 1992, 20% of Siderar's shares were sold to former employees of the acquired state-owned company Somisa under the *Programa de Propiedad Participada* (the Employee Stock Ownership Plan). As of March 31, 2012 this participation decreased to 2.56% as a result of Siderar's shares being sold in the market overtime. For further information, see Item 4. Information on the Company C. Organizational Structure Subsidiaries Siderar.

---

## **Table of Contents**

Many foremen of Siderar are affiliated with the *Asociación de Supervisores de Industria Metalmecánica de la República Argentina*, or ASIMRA, the union of supervisors of different activities in the metal manufacturing industry. ASIMRA-affiliated employees are subject to an agreement signed with Siderar that establishes regulations relating to salaries, working organization, absences, vacations, benefits and labor relations. These agreements are subject to periodic modification and are updated in relation to the requirements of the production processes.

In the last seven years, nominal salaries in local currency increased substantially, reflecting the economic situation of the country and inflation, and were the result of collective agreements entered into with the labor authorities' involvement. Negotiations on salaries between the employers' entity representing steel companies in the collective bargaining including Siderar and the steelworkers unions are made on an annual basis.

We believe that Siderar maintains good relations with its unions. 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. These events have not had a significant impact on Siderar's operations.

Under Argentine law, Siderar is required to pay an amount equal to up to 23% of its employees' base salaries towards the social security system. Siderar must also withhold an additional percentage from salaries for contribution to such funds up to a certain amount. Part of those contributions finances a state-controlled pension system. There are no mandatory company-supported pension plans.

Under Argentine labor laws, when an employee is dismissed without cause, an employer must pay him or her severance equal to one month of its best, monthly and regular salary per each year of service or fraction of more than three months, subject to certain floors and caps. In addition, Siderar implemented an unfunded benefit plan for certain senior officers. The plan is designed to provide certain benefits (in addition to those contemplated under applicable Argentine labor laws) in case of termination of the employment relationship due to certain specified events, including retirement.

### ***Colombia***

Presently, less than 10% of Ferrasa's employees are unionized workers. In October 2012, the regional branch Malambo Atlántica of the *Sindicato Unitario de Trabajadores de la Industria de Materiales de la Construcción*, or SUTIMAC and the *Sindicato de Trabajadores y Empleados de la Empresa de Compra-Venta y Producción de Artículos de Construcción y Ferretería en General*, or SINTRAFERRASA started acting at Ferrasa's Barranquilla unit. Ferrasa maintains good relations with its labor force. The measures that Ferrasa has taken in order to make it more competitive have not resulted in significant labor unrest.

Under Colombian labor laws, employers are required to pay its workers a monthly minimum wage, which is increased by the government on an annual basis in relation to the inflation rate in the country during the previous year. In addition, labor laws provide for the payment of transportation assistance and the supply of uniforms to those employees earning less than two minimum monthly salaries.

Under Colombian law, Ferrasa is required to pay an amount equal to 20.5% of its employees' base salaries towards the social security system. Ferrasa must also withhold 8% from salaries for contribution to such funds. Those contributions finance a state-controlled pension system. There are no mandatory company-supported pension plans.

Under Colombian labor laws, when an employee is dismissed without cause, an employer must pay him or her severance equivalent to thirty days of wage for the first year of employment and twenty days of wage per year of service thereafter if the worker earns less than ten minimum monthly wages, or twenty days of wage for the first year of employment plus fifteen days of wage per year of service thereafter if the worker earns ten minimum monthly wages or more.

**Table of Contents****E. Share Ownership**

To our knowledge, the total number of shares of the Company (including in the form of ADSs) owned by our directors and executive officers as of March 31, 2013 was 829,560, which represents 0.04% of our issued and outstanding shares. The following table provides information regarding share ownership by our officers and directors.

Director or Officer	Number of Shares Held
Adrián Lajous	740,560
Martín Berardi	76,000
Rodrigo Piña	13,000
<b>Total</b>	<b>829,560</b>

**Item 7. Major Shareholders and Related Party Transactions****A. Major Shareholders**

The following table shows the beneficial ownership of our securities (in the form of shares or ADSs) by (1) the Company's major shareholders (persons or entities that own beneficially 5% or more of the Company's shares), (2) non-affiliated public shareholders, and (3) the Company's directors and senior management as a group. The information below is based on the most recent information available to the Company.

Identity of Person or Group	Number	Percent
Techint Holdings S.à r.l. and subsidiaries (1)	1,243,433,112	62.02%
Tenaris (1)	229,713,194	11.46%
Ternium (2)	41,666,666	2.08%
Directors and Senior Management as a group	829,560	0.04%
Public	489,100,910	24.40%
<b>Total</b>	<b>2,004,743,442</b>	<b>100.00%</b>

(1) Each of Techint Holdings and Tenaris are controlled by San Faustin. RP STAK holds shares in San Faustin sufficient in number to control San Faustin and has the ability to influence matters affecting, or submitted to a vote of, the shareholders of San Faustin. No person or group of persons controls RP STAK.

(2) Ternium holds its own shares through its wholly-owned subsidiary Ternium International Inc.

As of March 31, 2013, 48,993,037 ADSs (representing 489,930,370 shares, or 24% of all outstanding shares of the Company) were registered in the name of three record holders resident in the United States, as informed by BNY Mellon.

The voting rights of our principal shareholders do not differ from the voting rights of other shareholders. We are not aware of any arrangement which may at a later date result in a change of control of the Company.

**B. Related Party Transactions**

Ternium is a party to several related party transactions as described below. Material related party transactions are subject to the review of the audit committee of the Company's board of directors and the requirements of Luxembourg law. For further detail on the approval process for related party transactions, see Item 6. Directors, Senior Management and Employees C. Board Practices Audit Committee.

---

## **Table of Contents**

### **Purchases of Raw Materials**

In the ordinary course of business, Ternium buys raw materials and other production inputs from subsidiaries of Tenaris. These purchases are made on similar terms and conditions as those for purchases made by the Ternium companies from unrelated third parties. These transactions include:

purchase of ferrous scrap and other raw material, which amounted to USD34.5 million in 2012, USD27.9 million in 2011 and USD29.5 million in 2010; and

purchase of steam and operational services from the Argentine electric power generating facility of Siderca for Siderar in San Nicolás. These purchases amounted to USD10 million in 2012, USD14.0 million in 2011 and USD14.1 million in 2010.

In addition, Ternium buys iron ore from Consorcio Peña Colorada, which is jointly owned (50% / 50%) by Ternium and ArcelorMittal. These purchases amounted to USD114.3 million in 2012, USD113.2 million in 2011 and USD84.5 million in 2010.

Furthermore Exiros, which is jointly owned (50% / 50%) by Ternium and Tenaris, in 2012 through its subsidiary Exiros B.V. sold to us ferro-alloys for an amount of USD2.4 million.

### **Purchases of Steel Products**

In the ordinary course of business, Ternium buys steel products from Usiminas and its subsidiaries. Purchases in 2012 amounted to USD198.9 million. In 2012, we acquired a participation in the control group of Usiminas, representing approximately 22.7% of Usiminas ordinary shares, or approximately 11.3% of Usiminas issued and outstanding share capital. These purchases are made on similar terms and conditions to those purchases made by the Ternium companies from unrelated third parties.

### **Sales of Steel Products and Raw Materials**

In the ordinary course of business, Ternium sells steel products and raw materials to subsidiaries of Tenaris. These transactions include:

sales of steel round bars to Tenaris facilities in Mexico, which amounted to USD163.1 million in 2012 and USD77.9 million in 2011.

sales of flat steel products to be used in the production of welded pipes and accessories, which amounted to USD52.4 million in 2012, USD86.6 million in 2011 and USD126.5 million in 2010;

sales of metal building components for a new rolling mill, which amounted to USD2.8 million in 2011 and USD18.7 million in 2010 (with no sales occurring in 2012);

sales of pig iron, DRI, scrap, iron ore pellets and other raw materials to be used in the production of seamless pipes, which amounted to USD0.1 million in 2012, USD2.3 million in 2011 and USD20.1 million in 2010; and

sales of steel pipes to supplement other steel products required in Tenaris customer's orders, for a total of USD0.7 million in 2011 and USD4.5 million in 2010.

In certain circumstances, Ternium sells steel products to other companies in the Techint group. These sales amounted to USD0.7 million in 2012, USD0.4 million in 2011 and USD2.5 million in 2010.

Edgar Filing: Ternium S.A. - Form 20-F

All these sales are made on similar terms and conditions as those for sales made by Ternium to unrelated third parties.

---

## **Table of Contents**

### **Purchase Agency Services**

Exiros, through its network of companies, provides purchase agency services to us, and to Tenaris subsidiaries. In connection with Exiros services, Ternium paid fees amounting to USD30.8 million in 2012, USD31.3 million in 2011 and USD28.9 million in 2010.

### **Supply of Natural Gas**

Siderar has natural gas supply agreements with Tecpetrol and Energy Consulting Services, and natural gas transportation agreements with TGN and Litoral Gas. Tecpetrol is a company controlled by San Faustin, engaged in oil and gas exploration and production and has rights to various oil and gas fields in Argentina and elsewhere in Latin America. TGN operates two major pipelines in Argentina connecting the major gas basins of Neuquén and Noroeste-Bolivia to the major consumption centers in Argentina. Litoral Gas is a company that holds the regional license for gas distribution in the Province of Santa Fe and in the northeastern section of the Province of Buenos Aires. Energy Consulting Services is a company engaged in energy and management consulting, representing one of the major and most reliable natural gas traders in Argentina. San Faustin holds significant but non-controlling interests in TGN, Litoral Gas and Energy Consulting Services.

Tecpetrol supplies natural gas at prices and on terms and conditions that are equivalent to those charged by Siderar's other suppliers of natural gas. Tecpetrol's sales to Siderar amounted to USD4.1 million in 2012, USD9.6 million in 2011 and USD4.3 million in 2010.

TGN charges Siderar a price to transport its natural gas supplies that is equivalent, on a comparable basis, to prices paid by other industrial users. The Argentine government regulates the framework under which TGN operates and prices its services. TGN's sales to Siderar amounted to USD1.6 million in 2012, USD1.8 million in 2011 and USD1.8 million in 2010.

Litoral Gas distributes gas to Siderar's northern plants. The Argentine government regulates the framework under which Litoral Gas operates and establishes a maximum price for its distribution service. Due to Siderar's proximity to one of TGN's pipelines, Siderar receives a discount from the maximum price. Litoral Gas's sales to Ternium totaled USD2.0 in 2012, USD1.1 million in 2011 and USD1.1 million in 2010.

Energy Consulting Services provides Siderar with natural gas at market prices. Energy Consulting Services sales amounted to USD2.5 million in 2012.

### **Provision of Engineering and Labor Services**

Ternium contracts with certain companies controlled by San Faustin specialized in supplying engineering services, construction services, labor and supervision services, for civil and electromechanical works, and cleaning, general maintenance and handling of by-products services. Fees accrued for these services amounted to USD240.6 million in 2012, USD124.8 million in 2011 and USD104.5 million in 2010. The increase in the 2012 amount as compared to prior years is mainly related to an increase in labor supply services in 2012 as a result of higher capital expenditures, including the new cold-rolling and galvanizing facilities being built in Pesquería; in the vicinity of Monterrey City, Mexico and the steelmaking expansion project in Argentina. For more information on Ternium's capital expenditure projects see Item 4. Information on the Company B. Business Overview Capital Expenditure Program.

### **Sales and Purchases of Other Products and Services**

Ternium enters into other transactions with companies controlled by San Faustin from time to time. The most important ones include:

purchases of plant equipment and spare parts, and technical assistance from Tenova S.p.A. and from other related companies, which amounted to USD22.7 million in 2012, USD5.8 million in 2011 and USD6.5 million in 2010; and

purchases of steel products from Tenaris subsidiaries, which amounted to USD2.5 million in 2012, USD1.9 million in 2011 and USD0.5 million in 2010.

## **Table of Contents**

### **Administrative Services**

Finma S.A., Arhsa S.A. and Techinst S.A., a group of companies controlled by San Faustin in which the Company has a 33% share ownership and other affiliates of San Faustin have the remaining share ownership, provide administrative and legal support services to San Faustin's affiliates in Argentina, including Argentine affiliates of Ternium. Fees accrued for these services amounted to USD11.8 million in 2012, USD11.5 million in 2011 and USD10.0 million in 2010.

### **Dividends from Related Parties**

Ternium received dividend payments from Usiminas for an amount of USD4.7 million in 2012.

### **C. Interest of Experts and Counsel**

Not applicable.

## **Item 8. Financial Information**

### **A. Consolidated Statements and Other Financial Information**

See Item 18 and pages F-1 through F-75 for our audited consolidated financial statements.

### **Legal Proceedings**

#### ***Outstanding Legal Proceedings***

The following legal proceedings were outstanding as of the date of this report:

#### *Claim related to CSN*

For information related to the CSN claim against Ternium Investments, Siderar and TenarisConfab, see Item 5. Operating and Financial Review and Prospects G. Recent Developments.

#### *Tax matters relating to Ternium Mexico*

On January 26, 2012, the Mexican tax authorities notified Ternium Mexico and its subsidiary Acerus S.A. de C.V. of a tax assessment that challenges the value attributed by a predecessor of Acerus to a capital reduction made in 2004 (i.e., prior to the Company's investment in Ternium Mexico's predecessor Grupo Imsa in 2007) and assessed an income tax deficiency. The tax authorities assert that the capital reduction should have been valued at a price significantly higher than the value attributed at the time by the shareholder. The proposed assessment represents an estimated contingency of MXN4,230 million (approximately USD325 million) at December 31, 2012, in taxes and penalties. On April 2, 2012, Ternium Mexico filed an appeal to this assessment before the Mexican tax authorities and reserved the right to further appeal to the tax courts. The Company believes that it is not probable that the ultimate resolution of the matter will result in an obligation. Accordingly, no provision was recorded in the audited consolidated financial statements included in this annual report.

#### *Tax matters relating to Siderar*

*The Administración Federal de Ingresos Públicos*, or AFIP—the Argentine tax authority, has challenged the charge to income of certain disbursements that Siderar has treated as expenses necessary to maintain industrial installations, which as such should be deducted in the year in which they take place. The AFIP asserts that these are investments or improvements that must be capitalized and, therefore, it made a jeopardy assessment of income tax due on a nominal tax basis plus fines and interest in fiscal years 1995 to 1999 amounting to approximately USD17.3 million as of December 31, 2012. Siderar appealed these assessments before the National Tax Court. On April 13, 2005, Siderar was notified of a ruling issued by the National Tax Court reducing the assessments made by the AFIP for fiscal years 1995 and 1996. The ruling was appealed both by Siderar and the AFIP. On June 10, 2010, Siderar was notified of a ruling issued by the Court of





**Table of Contents**

Appeals in federal administrative law which mainly resulted in favor of Siderar. The ruling was appealed both by Siderar and the AFIP. On June 8, October 31 and October 15, 2012, Siderar was notified of three rulings issued by the National Tax Court reducing partially the assessments made by the AFIP for the fiscal years 1997, 1998 and 1999, respectively. The rulings were appealed both by Siderar and the AFIP. Based on the above, Siderar recognized a provision amounting to USD1.8 million as of December 31, 2012 as management considers there could be a potential cash outflow.

**Dividend Policy**

We do not have, and have no current plans to establish, a formal dividend policy governing the amount and payment of dividends or other distributions. The amount and payment of dividends will be determined by a simple majority vote at a general shareholders meeting, typically, but not necessarily, based on the recommendation of the Company's board of directors. All shares of the Company's share capital rank *pari passu* with respect to the payment of dividends.

The following table shows the dividends approved by the Company's shareholders since its incorporation:

Shareholders meeting date	Approved dividend				Dividend payment date
	Amount (USD million)	Per share (USD)	Per ADS (USD)	Per share (EUR)	
June 6, 2007	100.2	0.050	0.50	0.037	June 12, 2007
June 4, 2008	100.2	0.050	0.50	0.032	June 12, 2008
June 3, 2009					n/a
June 2, 2010	100.2	0.050	0.50	0.041	June 10, 2010
June 1, 2011	150.4	0.075	0.75	0.052	June 9, 2011
May 2, 2012	150.4	0.075	0.75	0.057	May 10, 2012

In addition, Ternium's board of directors proposed that an annual dividend of USD0.065 per share (USD0.65 per ADS or EUR0.051 per share), or approximately USD130.3 million in the aggregate, be approved at the company's annual general shareholders meeting, which is scheduled to be held on May 2, 2013. If the annual dividend is approved at the shareholders meeting, it will be paid on May 10, 2013.

We conduct all of our operations through subsidiaries and, accordingly, our main source of cash to pay dividends is the dividends received from our subsidiaries. See Item 3. Key Information D. Risk Factors 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. These dividend payments will likely depend on our subsidiaries' results of operations, financial condition, cash and capital requirements, future growth prospects and other factors deemed significant by their respective boards of directors, as well as on any applicable legal restrictions. See Item 3. Key Information D. Risk Factors Risks Relating to the Countries in Which We Operate Argentina and Item 10. Additional Information B. Memorandum and Articles of Association Dividends for a discussion of the current restrictions on the payment of dividends.

Pursuant to our articles of association, the board of directors has the power to distribute interim dividends in accordance with applicable Luxembourg law, but dividend payments must be approved by our shareholders at the annual general meeting, subject to the approval of our annual accounts. Dividends may be lawfully declared and paid if our net profits and distributable reserves are sufficient under Luxembourg law.

Under Luxembourg law, at least 5% of our net profits per year must be allocated to the creation of a legal reserve until such reserve has reached an amount equal to 10% of our issued share capital. If the legal reserve later falls below the 10% threshold, at least 5% of net profits again must be allocated toward the reserve. The Company's legal reserve represented 10% of its share capital as of December 31, 2012. The legal reserve is not available for distribution.

**Table of Contents****B. Significant Changes**

Except as otherwise disclosed in this annual report, there has been no undisclosed significant change since the date of the annual financial statements.

**Item 9. The Offer and Listing****A. Offer and Listing Details**

The Company's ADSs are listed on the New York Stock Exchange, or NYSE, under the symbol TX. Trading on the NYSE began on February 1, 2006. As of March 31, 2013, a total of 2,004,743,442 shares were registered in the Company's shareholder register.

As of March 31, 2013, a total of 489,930,470 shares were registered on behalf of Euroclear and Clearstream, mostly related to the Company's ADR program. On March 28, 2013, the closing price for the Company's ADSs reported by the NYSE was USD20.35.

*New York Stock Exchange*

As of March 31, 2013, a total of 48,993,037 ADSs were registered of record. Each ADS represents 10 shares of the Company's share capital. BNY Mellon acts as the Company's depository for issuing ADRs evidencing the ADSs. The following tables set forth, for the periods indicated, the high and low daily quoted prices for the Company's shares, in the form of ADSs, as reported by the NYSE.

<b>Five Most Recent Full Financial Years</b>	<b>Price per ADS</b>	
	<b>High</b>	<b>Low</b>
2008	45.18	4.65
2009	35.61	5.76
2010	43.07	29.16
2011	43.26	15.54
2012	24.86	17.63

<b>Full Financial Quarters since 2011</b>	<b>Price per ADS</b>	
	<b>High</b>	<b>Low</b>
First quarter 2011	43.26	33.78
Second quarter 2011	36.61	28.46
Third quarter 2011	31.08	20.21
Fourth quarter 2011	26.20	15.54
First quarter 2012	24.86	18.65
Second quarter 2012	24.66	18.16
Third quarter 2012	21.63	17.63
Fourth quarter 2012	23.55	18.20
First quarter 2013	24.02	19.61

<b>Last Six Months</b>	<b>Price per ADS</b>	
	<b>High</b>	<b>Low</b>
October 2012	21.09	18.20
November 2012	22.83	20.35
December 2012	23.55	21.33
January 2013	24.02	23.03
February 2013	23.79	20.00
March, 2013	20.42	19.61

## **Table of Contents**

### **B. Plan of Distribution**

Not applicable.

### **C. Markets**

See A. Offer and Listing Details.

### **D. Selling Shareholders**

Not applicable.

### **E. Dilution**

Not applicable.

### **F. Expenses of the Issue**

Not applicable.

## **Item 10. Additional Information**

### **A. Share Capital**

Not applicable.

### **B. Memorandum and Articles of Association**

#### **General**

The following is a summary of certain rights of holders of the Company's shares. These rights are set out in the Company's articles of association or are provided by applicable Luxembourg law, and may differ from those typically provided to shareholders of U.S. companies under the corporation laws of some states of the United States of America. This summary is not exhaustive and does not contain all information that may be important to you. For more complete information, you should read the Company's articles of association, which are attached as an exhibit to this annual report.

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

The Company's authorized share capital is fixed by the Company's articles of association, as amended from time to time, with the approval of shareholders at an extraordinary general shareholders' meeting. The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD1.00 per share. The general extraordinary meeting of shareholders held on June 2, 2010, renewed the validity of the Company's authorized share capital until July 15, 2015. As of March 31, 2013, there were 2,004,743,442 shares issued. All issued shares are fully paid.

## Edgar Filing: Ternium S.A. - Form 20-F

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

---

## **Table of Contents**

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

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

### **Dividends**

Subject to applicable law, all shares (including shares underlying ADSs) are entitled to participate equally in dividends when, as and if declared by the shareholders at the ordinary general shareholders' meeting, out of funds legally available for such purposes. Under Luxembourg law, claims for dividends will lapse five years after the date such dividends are declared. However, we may elect to pay a declared dividend after such period. The shareholders may, at the ordinary general shareholders' meeting, which every shareholder has the right to attend in person or by proxy, declare a dividend under Article 21 of the Company's articles of association.

Under Article 21 of the articles of association, the Company's board of directors has the power to distribute interim dividends in accordance with the conditions that apply to commercial companies set forth in particular in Section 72-2 of the Luxembourg law of August 10, 1915, on commercial companies.

Pursuant to Luxembourg law, at least 5% of our net profits per year must be allocated to the creation of a legal reserve until such reserve has reached an amount equal to 10% of our issued share capital. If the legal reserve later falls below the 10% threshold, at least 5% (or such lower amount required to reach the 10% threshold) of net profits again must be allocated toward the reserve. The Company's legal reserve represented 10% of its share capital as of December 31, 2012. The legal reserve is not available for distribution.

### **Voting Rights; Shareholders' Meetings; Election of Directors**

Each share entitles the holder to one vote at the Company's general shareholders' meetings. Shareholder action by written consent is not permitted, but proxy voting is permitted. Notices of general shareholders' meetings are governed by the provisions of Luxembourg law and the Company's articles of association. Notices of such meetings must be published twice, at least at eight-day intervals, the second notice appearing at least eight days prior to the meeting, in the Luxembourg Official Gazette and in a leading newspaper having general circulation in Luxembourg. If an extraordinary general shareholders' meeting is adjourned for lack of a quorum, notices must be published twice, in the Luxembourg Official Gazette and two Luxembourg newspapers, at 15-day intervals, the second notice appearing at least 15 days prior to the meeting. In case the Company's shares are listed on a foreign regulated market, notices of general shareholders' meetings shall also be published in accordance with the publicity requirements of such regulated market. No attendance



---

## **Table of Contents**

quorum is required at annual ordinary general shareholders' meetings and resolutions are adopted by a simple majority vote of the shares present or represented and voted at the meeting. An extraordinary general shareholders' meeting must have a quorum of at least 50% of the issued and outstanding shares. If a quorum is not reached, such meeting may be reconvened at a later date with no quorum requirements by means of the appropriate notification procedures provided for by Luxembourg company law. In both cases, Luxembourg company law and the Company's articles of association require that any resolution of an extraordinary general shareholders' meeting be adopted by a two-thirds majority vote of the shares present or represented. If a proposed resolution consists of changing the Company's nationality or of increasing the shareholders' commitments, the unanimous consent of all shareholders is required. Directors are elected at annual ordinary general shareholders' meetings. Cumulative voting is not permitted. As the Company's articles of association do not provide for staggered terms, directors are elected for a maximum of one year and may be reappointed or removed at any time, with or without cause, by resolution passed by a simple majority vote of the shares present or represented and voted. In the case of a vacancy occurring in the board of directors, the remaining directors shall have the right to temporarily fill such vacancy by the affirmative vote of a majority of the remaining directors. The term of a temporary director elected to fill a vacancy shall expire at the end of the term of office of the replaced director; provided however that the next shareholders' meeting shall be called upon to proceed with the definitive election of any temporary member of the board of directors so elected.

The Company's articles of association provide that annual ordinary general shareholders' meetings, at which its annual financial statements are approved and the members of its board of directors are appointed, must take place in Luxembourg on the first Wednesday of every May at 2:30 p.m., Luxembourg time. If that day is a legal or banking holiday in Luxembourg, the meeting shall be held on the following business day.

Any shareholder who holds one or more shares of the Company on the fifth calendar day preceding the general shareholders' meeting (the Record Date) shall be admitted to a general shareholders' meeting. Those shareholders who have sold their shares between the Record Date and the date of the general shareholders' meeting may not attend or be represented at the meeting.

In the case of shares held through fungible securities accounts, each shareholder may exercise all rights attached to his shares and, in particular, may participate in and vote at shareholders' meetings of the Company upon presentation of a certificate issued by the financial institution or professional depository holding the shares, evidencing such deposit and certifying the number of shares recorded in the relevant account on the Record Date. Such certificate must be filed at least five days before the meeting with the Company at its registered address or at the address stated in the convening notice or, in case the shares of the Company are listed on a regulated market, with an agent of the Company located in the country of the listing and designated in the convening notice. In case any such holder wishes to vote by proxy, the holder shall have to present a completed proxy form together with the certificate previously referred, by the same date and time and at the same addresses.

The board of directors and the shareholders at the shareholders' meeting may, if they deem so advisable, reduce these periods of time for all shareholders and admit all shareholders (or their proxies) who have filed the appropriate documents to the general shareholders' meeting, irrespective of these time limits.

Holders of ADSs only have those rights that are expressly granted to them in the deposit agreement dated as of January 31, 2006 among the Company, BNY Mellon (formerly The Bank of New York), as depository, and all owners and beneficial owners from time to time of ADRs of the Company. ADS holders may not attend or directly exercise voting rights in shareholders' meetings, but may instruct the depository on how to exercise the voting rights for the shares which underlie their ADSs.

### **Access to Corporate Records**

Luxembourg law and the Company's articles of association do not generally provide for shareholder access to corporate records. Shareholders may inspect the annual accounts and auditors' reports at the Company's registered office during the fifteen-day period prior to a general shareholders' meeting.



## **Table of Contents**

### **Appraisal Rights**

In case the shares of the Company are listed on one or more regulated markets, and in the event the shareholders, in a general meeting, approve any of the following:

the delisting of the Company's shares from all regulated markets where the Company's shares are listed at that time, excluding a delisting made pursuant to an offer to all of the Company's shareholders made by a business entity subject to common control with the Company, whereby such business entity offers to issue, in exchange for the Company's shares, shares to be listed on the same regulated market(s) on which the Company's shares are listed;

a merger in which the Company is not the surviving entity (unless the shares or other equity securities of such entity are listed on the New York or London stock exchanges);

a sale, lease, exchange or other disposition of all or substantially all of the Company's assets;

an amendment to the Company's articles of association that has the effect of materially changing its corporate purpose;

the relocation of the Company's domicile outside the Grand Duchy of Luxembourg; or

amendments to the Company's articles of association that restrict the rights of its shareholders (excluding any amendments in relation with, or to, the authorized share capital and/or the waiver or suppression of any preferential subscription rights relating thereto);

dissenting or absent shareholders have the right to have their shares repurchased by the Company at (i) the average market value of the shares over the 90 calendar days preceding the applicable general shareholders' meeting or (ii) in the event that the Company's shares are not traded on any regulated market, the amount that results from applying the proportion of the Company's equity that the shares being sold represent over the Company's net worth as determined in its last consolidated financial statements approved by the shareholders or in its last interim consolidated financial statements approved by the board of directors, whichever is more recent. Shareholders who voted in favor of the relevant resolution are not entitled to exercise this right.

Dissenting or absent shareholders must present their claim within one month following the date of the applicable general shareholders' meeting and supply the Company with evidence of their shareholding at the time of such meeting. The Company must (to the extent permitted by applicable laws and regulations and in compliance therewith) repurchase its shares within six months following the date of the applicable general shareholders' meeting. If delisting from one or more, but not all, of the regulated markets where the Company's shares are listed is approved by the shareholders' meeting, only dissenting or absent shareholders with shares held through participants in the local clearing system for that market or those markets can exercise this appraisal right if:

they held the shares as of the date of the announcement by the Company of its intention to delist or as of the date of publication of the first convening notice for the general shareholders' meeting that approved the delisting;

they present their claim within one month following the date of the general shareholders' meeting and supply evidence of their shareholding as of the date of the Company's announcement or the publication of the first convening notice to the meeting; and

## Edgar Filing: Ternium S.A. - Form 20-F

the delisting is not being made pursuant to an offer to all of the Company's shareholders made by a business entity subject to common control with the Company, whereby such business entity offers to issue, in exchange for the Company's shares, shares to be listed on the same regulated market(s) on which such dissenting or absent shareholders hold their shares through participants in the local clearing system for that market or markets.

In the event a shareholder exercises its appraisal right, applicable Luxembourg law provisions shall apply.

## **Table of Contents**

### **Distribution of Assets on Winding-up**

In the event of the Company's liquidation, dissolution or winding-up, the net assets remaining after allowing for the payment of all debts, charges and expenses shall be paid out to holders of the Company's shares in proportion to their respective holdings.

### **Transferability and Form**

The Company's articles of association do not impose restrictions on the transfer of its shares. The shares are issuable in registered form only.

Pursuant to the Company's articles of association, the ownership of registered shares is evidenced by the inscription of the name of the shareholder, the number of shares held by such shareholder and the amount paid on each share in the Company's shareholders' register. In addition, the Company's articles of association provide that shares may be held through fungible securities accounts with financial institutions or other professional depositaries. Shares held through fungible securities accounts have the same rights and obligations as shares recorded in the Company's shareholders' register.

Shares held through fungible securities accounts may be transferred in accordance with customary procedures for the transfer of securities in book-entry form. Shares that are not held through fungible securities accounts may be transferred by a written statement of transfer signed by both the transferor and the transferee or their respective duly appointed attorney-in-fact and recorded in the Company's shareholders' register. The transfer of shares may also be made in accordance with the provisions of Article 1690 of the Luxembourg Civil Code. As evidence of the transfer of registered shares, the Company may also accept any correspondence or other documents evidencing the agreement between transferor and transferee as to the transfer of registered shares.

BNP Paribas Securities Services, Luxembourg Branch, maintains the Company's shareholders' register.

### **Repurchase of Company Shares**

The Company may repurchase its own shares in the cases and subject to the conditions set by the Luxembourg law of August 10, 1915, as amended, and, in the case of acquisitions of shares or ADSs made through the NYSE, with any applicable laws and regulations of such market. See Item 16.E Purchases of Equity Securities by the Issuer and Affiliated Purchasers for further information on the authorization granted on June 2, 2010, by the Company's annual general shareholders' meeting to the Company or its subsidiaries to repurchase the Company's shares, including shares represented by ADRs.

### **Limitation on Securities Ownership**

There are no limitations currently imposed by Luxembourg law or the articles of association on the rights of non-resident shareholders to hold or vote the Company's shares.

### **Change in Control**

None of our outstanding securities has any special control rights. The Company's articles of association do not contain any provision that would have the effect of delaying, deferring or preventing a change in control of the Company and that would operate only with respect to a merger, acquisition or corporate restructuring involving the Company. In addition, the Company does not know of any significant agreements or other arrangements to which the Company is a party and which take effect, alter or terminate in the event of a change of control of the Company.

There are no rights associated with the Company's shares other than those described above.

### **C. Material Contracts**

For a summary of any material contract entered into by us outside of the ordinary course of business during the last two years, see Item 4. Information on the Company B. Business Overview Raw Materials, Energy and Other Inputs.

---

## **Table of Contents**

### **D. Exchange Controls**

Many of the countries which are important markets for us or in which we have substantial assets have a history of substantial government intervention in currency markets, volatile exchange rates and government-imposed currency controls. These include Mexico and Argentina. Currently, only Argentina has exchange controls or limitations on capital flows including requirements for the repatriation of export proceeds in place.

#### **Mexico**

Between November 1991 and December 1994, the Mexican Central Bank maintained the exchange rate between the U.S. dollar and the Mexican peso within a predetermined range through intervention in the foreign exchange market. The Mexican Central Bank intervened in the foreign exchange market as the exchange rate reached either the minimum or the maximum of the predetermined range in order to reduce day-to-day fluctuations in the exchange rate. On December 20, 1994, the Mexican government modified the predetermined range within which the Mexican peso was permitted to float by increasing the maximum Mexican peso price of the U.S. dollar by MXN0.53, which implied an effective 15% devaluation of the Mexican peso from December 19 to December 21, 1994. On December 22, 1994, the Mexican government suspended intervention by the Mexican Central Bank in the foreign exchange market and allowed the Mexican peso to float freely against the U.S. dollar. Factors that contributed to this decision included the size of Mexico's current account deficit, a decline in the Mexican Central Bank's foreign exchange reserves, rising interest rates for other currencies (especially the U.S. dollar) and reduced confidence in the Mexican economy on the part of investors due to political uncertainty associated with events in the state of Chiapas and presidential and congressional elections in that year. The value of the Mexican peso suffered a steep deterioration against the U.S. dollar, declining by 43% from December 19, 1994 to December 31, 1994. The Mexican government has since allowed the Mexican peso to float freely against the U.S. dollar. Since September 2008 until March 2009, the value of the Mexican peso against the U.S. dollar declined rapidly mainly as a consequence of the global economic downturn. Between March 2009 and June 2011, the Mexican peso partly recovered its losses mainly reflecting the subsequent recovery of economic activity. More recently, the value of the Mexican peso against the U.S. dollar has shown volatility mainly as a consequence of the European crisis and U.S. budget and fiscal debates. The Mexican peso suffered 25% devaluation with respect to the U.S. dollar in 2008, it appreciated 4% in 2009 and 5% in 2010, it depreciated 13% in 2011 and it appreciated 7% in 2012.

Historically, the Mexican economy has suffered balance of payment deficits and shortages in foreign exchange reserves. While the Mexican government does not currently restrict the ability of Mexican or foreign persons or entities to convert Mexican pesos to U.S. dollars and the terms of NAFTA to which Mexico is a signatory generally prohibit exchange controls, the Mexican government could institute a restrictive exchange control policy in the future.

For additional information regarding factors affecting the value of the Mexican peso, see Item 3. Key Information D. Risk Factors Risks Relating to the Countries in Which We Operate Mexico.

#### **Argentina**

At December 31, 2012, approximately 15% of Ternium's consolidated net assets were located in Argentina.

Since 2002, the Argentine government has maintained a "dirty" flotation of the ARP/U.S.-dollar exchange rate, through frequent interventions in the market. In addition, the government has imposed several formal and informal foreign exchange restrictions affecting the free flow of capital. These restrictions have proven to change frequently, driven mainly by the intention of the government to control the volatility of the Argentine peso/U.S.-dollar exchange rate and to try to impede the flight of capital from Argentina. Since October 2011, the government has significantly raised the restrictions on the purchase of foreign currencies and transfers made abroad, mainly for investment and saving purposes, and in 2012, it reduced drastically the timeframe for repatriating the proceeds from the exports of goods and services into Argentina. The most relevant restrictions on foreign exchange transactions that may affect Ternium are described below.

---

## **Table of Contents**

### ***Investments in foreign currency***

As from July 2012, the Argentine Central Bank banned purchases of foreign currency for investment and saving purposes. Until that date, Ternium's Argentine subsidiaries were entitled to transfer abroad up to USD2,000,000 per month, subject to clearance by the Argentine tax authorities.

### ***Exports of Goods and Services***

All proceeds from exports of goods and services must be repatriated and converted into Argentine pesos within the timeframes provided in the applicable regulations. In April 2012, timeframes were drastically shortened by the government. In the case of Ternium's Argentine subsidiaries, the applicable timeframe is the earlier of 15 days after collection and 90 days from the shipment date. In the case of sales to affiliates, such timeframe was shortened to 30 days from the shipment date.

### ***Imports of Goods***

Since February 2012, customs clearances of imports of goods and remittances to pay for imports are subject to prior approval by the Argentine tax authorities and the Argentine Secretary of Commerce. The criteria for approval of import transactions are not determined in the applicable regulations. Notwithstanding the foregoing, Ternium's Argentine subsidiaries have not suffered significant delays in obtaining the necessary approvals for its imports of raw materials and equipments during 2012.

### ***Imports of Services***

Since April 2012, remittances to pay fees and royalties to foreign services providers or technology suppliers are conditioned upon the receipt of prior approval by the Argentine tax authorities when contracts exceed the aggregate value of ARP100,000 or ARP10,000 per installment, or if the value of the contract is not determined. In addition, since April 2012, when the beneficiary of the payment is an affiliate of the payer, or if such beneficiary or its bank account is located in a jurisdiction identified as a tax haven under Argentine law, the remittance is subject to prior Argentine Central Bank approval. Payments under services contracts with an annual value lower than ARP100,000 are not subject to pre-approval. Approvals, where required, are discretionary and the approval process has proven to be lengthy.

### ***Dividends and other distributions***

Since February 2013, all remittances of dividends from Argentina must be approved by the Argentine tax authorities before the transfer is made. In addition, since mid-2012, Argentine authorities have applied informal limitations on remittances of dividends and other cash distributions from Argentina to foreign shareholders. As a result of these restrictions, Ternium's Argentine subsidiaries may be unable to remit dividends from Argentina to its foreign shareholders, including Ternium.

### ***Foreign Indebtedness***

Foreign lending to Argentine companies (including Ternium's Argentine subsidiaries) is subject to certain restrictions, including the following:

Proceeds from disbursements must be transferred into Argentina and converted into Argentine pesos;

30% of the disbursed funds must be deposited with a bank in Argentina in a non-assignable, non-interest bearing account for 365 days (unless the lender is a multilateral credit organization, an export agency or development bank eligible under Argentine Central Bank's regulations, or if the funds have been disbursed under a facility to finance foreign trade or in the form of a primary offering of bonds registered and listed in Argentina, among other exceptions);

---

**Table of Contents**

No principal payments are allowed for a period of one year following the disbursement (except in the case of foreign trade financing facilities and primary offering of bonds registered and listed in Argentina);

Mandatory and voluntary pre-payments are severely restricted; and

Since February 2013, all remittances to cancel interest must be approved by the Argentine tax authorities.

For additional information regarding Ternium's ability to hedge against exchange rate fluctuations see Item 3. Key Information D. Risk Factors Risks Relating to our Business 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. For additional information regarding factors affecting the Argentine economy, see Item 3. Key Information D. Risk Factors Risks Relating to the Countries in Which We Operate Argentina.

**Colombia**

Under Colombian foreign exchange regulations, payments in foreign currency related to certain foreign exchange transactions must be conducted through the commercial exchange market, by means of an authorized financial intermediary, and declaring the payment to the Colombian Central Bank. This mechanism applies to payments in connection with, among others, imports and exports of goods, foreign loans and related financing costs, investment of foreign capital and the remittances of profits thereon, investment in foreign securities and assets and endorsements and guarantees in foreign currency. Transactions through the commercial exchange market are made at market rates freely negotiated with the authorized intermediaries.

In addition, the Colombian Central Bank may intervene in the foreign exchange market at its own discretion at any time and may, under certain circumstances, take actions that limit the availability of foreign currency to private sector companies. Notwithstanding the foregoing, the Colombian Central Bank has never taken such action since the present foreign exchange regime was implemented in 1991.

**E. Taxation**

The following discussion of the material Luxembourg and United States federal income tax consequences of an investment in the Company's ADSs is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This discussion does not address all possible tax consequences relating to an investment in the Company's ADSs, such as the tax consequences under United States state and local tax laws.

**Grand Duchy of Luxembourg**

This section describes the material Luxembourg tax consequences of owning or disposing of ADSs.

*You should consult your own tax advisor regarding the Luxembourg tax consequences of owning and disposing of ADSs in your particular circumstances.*

*As used herein, a Luxembourg individual means an individual resident in Luxembourg who is subject to personal income tax (impôt sur le revenu) on his or her worldwide income from Luxembourg or foreign sources, and a Luxembourg corporate holder means a company (that is, a fully taxable collectivité within the meaning of Article 159 of the Luxembourg Income Tax Law) resident in Luxembourg subject to corporate income tax (impôt sur le revenu des collectivités) on its worldwide income from Luxembourg or foreign sources. For the purposes of this summary, Luxembourg individuals and Luxembourg corporate holders are collectively referred to as Luxembourg Holders. A non-Luxembourg Holder means any investor in ADSs of the Company other than a Luxembourg Holder.*

---

## **Table of Contents**

### ***Corporate reorganization***

The Company was established as a Luxembourg *Société Anonyme holding* under Luxembourg's 1929 holding company regime. Until termination of such regime on December 31, 2010, holding companies incorporated under the 1929 regime (including the Company) were exempt from Luxembourg corporate income tax and Luxembourg withholding tax over dividends distributed to shareholders.

On January 1, 2011, the Company became an ordinary public limited liability company (*Société Anonyme*) and, effective as from that date, the Company is subject to all applicable Luxembourg taxes, (including, among others, corporate income tax on its worldwide income), and its dividend distributions will generally be subject to Luxembourg withholding tax. However, dividends received by the Company from subsidiaries in high income tax jurisdictions, as defined under Luxembourg law, will continue to be exempt from corporate income tax in Luxembourg under Luxembourg's participation exemption.

In light of the impending termination of Luxembourg's 1929 holding company regime, in the fourth quarter of 2010, the Company carried out a multi-step corporate reorganization, which included, among other transactions, the contribution of all of the Company's assets and liabilities to a wholly-owned, newly-incorporated Luxembourg subsidiary and the restructuring of indirect holdings in certain subsidiaries. The reorganization was completed in December 2010, and resulted in a non-taxable revaluation of the accounting value (under Luxembourg GAAP) of the Company's assets.

Following the completion of the corporate reorganization, and upon its conversion into an ordinary Luxembourg holding company, the Company recorded a special reserve for tax purposes in a significant amount. The Company expects that, as a result of its corporate reorganization, its current overall tax burden will not increase, as all or substantially all of its dividend income will come from high income tax jurisdictions. In addition, the Company expects that dividend distributions for the foreseeable future will be imputed to the special reserve and therefore should be exempt from Luxembourg withholding tax under current Luxembourg law. See note 1 to our audited consolidated financial statements included elsewhere in this annual report.

### **Tax regime applicable to realized capital gains**

#### ***Luxembourg Holders***

##### ***Luxembourg resident individual holders***

Capital gains realized by Luxembourg resident individuals who do not hold their ADSs as part of a commercial or industrial business and who hold no more than 10% of the share capital of the Company will only be taxable if they are realized on a sale of ADSs that takes place before their acquisition or within the first six months following their acquisition.

If such ADSs are held as part of a commercial or industrial business, capital gains would be taxable in the same manner as income from such business.

Capital gains realized by Luxembourg resident individuals holding (together with his/her spouse and underage children) directly or indirectly more than 10% of the capital of the Company<sup>2</sup> will be taxable at a special rate, but after a holding period of six months. Within the six month period, standard rates apply.

##### ***Luxembourg resident corporate holders***

Capital gains realized upon the disposal of ADSs by a fully taxable resident corporate holder will in principle be subject to corporate income tax and municipal business tax. The combined applicable rate (including an unemployment fund contribution) is 28.80% for the fiscal year ending 2012 for a corporate holder established in Luxembourg-City. An exemption from such taxes may be available to the holder pursuant to Article 1 of the Grand Ducal Decree dated December 21<sup>st</sup>, 2001 in combination with article 166 of the Luxembourg Income Tax Law subject to the fulfillment of the conditions set forth therein.

<sup>2</sup> Or if the Luxembourg resident individuals have received the shares for no consideration within the last 5 years and that the former holder held at least 10% in the capital of the company at any moment during said five years.





---

**Table of Contents**
***Non-Luxembourg Holders***

An individual who is a non-Luxembourg Holder of ADSs (and who does not have a permanent establishment, a permanent representative or a fixed place of business in Luxembourg) will only be subject to Luxembourg taxation on capital gains arising upon disposal of such ADSs if such holder has (together with his or her spouse and underage children) directly or indirectly held more than 10% of the capital of the Company at any time during the past five years, and either (i) such holder has been a resident of Luxembourg for tax purposes for at least 15 years and has become a non-resident within the last five years preceding the realization of the gain, subject to any applicable tax treaty, or (ii) the disposal of ADSs occurs within six months from their acquisition (or prior to their actual acquisition), subject to any applicable tax treaty.

A corporate non-Luxembourg Holder (that is, a *collectivité* within the meaning of Article 159 of the Luxembourg Income Tax Law), which has a permanent establishment, a permanent representative or a fixed place of business in Luxembourg to which ADSs are attributable, will bear Luxembourg corporate income tax and municipal business tax on a gain realized on a disposal of such ADSs as set forth above for a Luxembourg corporate holder. However, gains realized on the sale of the ADSs may benefit from the full exemption provided for by Article 1 of the Grand Ducal Decree dated December 21<sup>st</sup>, 2001 in combination with Article 166 of the Luxembourg Income Tax Law subject in each case to fulfillment of the conditions set out therein.

A corporate non-Luxembourg Holder, which has no permanent establishment in Luxembourg to which the ADSs are attributable, will bear corporate income tax on a gain realized on a disposal of such ADSs under the same conditions applicable to an individual non-Luxembourg Holder, as set out above.

**Tax regime applicable to distributions*****Withholding tax***

Distributions imputed for tax purposes to newly accumulated profits of the Company (on an unconsolidated basis) are subject to a withholding tax of 15% computed on the gross amount distributed. The rate of the withholding tax may be reduced pursuant to double tax treaty existing between Luxembourg and the country of residence of the relevant holder, subject to the fulfillment of the conditions set forth therein.

Nevertheless, no withholding tax applies if the distribution is made to (i) a Luxembourg resident corporate holder (that is, a fully taxable *collectivité* within the meaning of Article 159 of the Luxembourg Income Tax Law), (ii) an undertaking of collective character which is resident of a Member State of the European Union and is referred to by article 2 of the European Union Council Directive of November 30<sup>th</sup>, 2011 concerning the common fiscal regime applicable to parent and subsidiary companies of different member states (2011/96/UE), (iii) a corporation or a cooperative company resident in Norway, Iceland or Liechtenstein and subject to a tax comparable to corporate income tax as provided by the Luxembourg Income Tax Law, (iv) a company resident in Switzerland which is subject to corporate income tax in Switzerland without benefiting from an exemption, (v) an undertaking with a collective character subject to a tax comparable to corporate income tax as provided by the Luxembourg Income Tax Law which is resident in a country that has concluded a double tax treaty with Luxembourg and (vi) a Luxembourg permanent establishment of one of the above-mentioned categories (except (iv)), provided each time that at the date of payment, the holder holds or commits to hold directly (or through a vehicle regarded as tax transparent from a Luxembourg tax perspective), during an uninterrupted period of at least twelve months, ADSs representing at least 10% of the share capital of the Company or acquired for an acquisition price of at least EUR 1,200,000.

***Luxembourg Holders***

With the exception of Luxembourg corporate holders benefitting from the exemption referred to above, Luxembourg individual holders, and Luxembourg corporate holders subject to Luxembourg corporate tax, must include the distributions paid on the ADSs in their taxable income, 50% of the amount of such dividends being exempt from tax. The applicable withholding tax can, under certain conditions, entitle the relevant Luxembourg Holder to a tax credit.

## **Table of Contents**

### **Net wealth tax**

#### ***Luxembourg Holders***

Luxembourg net wealth tax will not be levied on a Luxembourg Holder with respect to the ADSs held unless (i) the Luxembourg Holder is a legal entity subject to net wealth tax in Luxembourg; or (ii) the ADSs are attributable to an enterprise or part thereof which is carried on through a permanent establishment, a fixed place of business or a permanent representative in Luxembourg.

Net wealth tax is levied annually at the rate of 0.5% on the net wealth of enterprises resident in Luxembourg, as determined for net wealth tax purposes. The ADSs may be exempt from net wealth tax subject to the conditions set forth by Paragraph 60 of the Law of October 16, 1934 on the valuation of assets (*Bewertungsgesetz*), as amended.

#### ***Non-Luxembourg Holders***

Luxembourg net wealth tax will not be levied on a non-Luxembourg Holder with respect to the ADSs held unless the ADSs are attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg.

### **Stamp and registration taxes**

No registration tax or stamp duty will be payable by a holder of ADSs in Luxembourg solely upon the disposal of ADSs by sale or exchange.

### **Estate and gift taxes**

No estate or inheritance tax is levied on the transfer of ADSs upon the death of a holder of ADSs in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes and no gift tax is levied upon a gift of ADSs if the gift is not passed before a Luxembourg notary or recorded in a deed registered in Luxembourg.

Where a holder of ADSs is a resident of Luxembourg for tax purposes at the time of his death, the ADSs are included in its taxable estate for inheritance tax or estate tax purposes.

### **United States federal income taxation**

This section describes the material U.S. federal income tax consequences of owning ADSs. It applies to you only if you hold your ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

a dealer in securities,

a bank,

a trader in securities that elects to use a mark-to-market method of accounting for securities holdings,

a tax-exempt organization,

a person who invests through a pass-through entity, including a partnership,

a life insurance company,

a person liable for alternative minimum tax,

---

**Table of Contents**

a former citizen for long-term resident of the United States,

a person that actually or constructively owns 10% or more of our voting stock (including ADSs),

a person that holds ADSs as part of a straddle or a hedging or conversion transaction,

a person that purchases or sells ADSs as part of a wash sale for tax purposes, or

a U.S. holder (as defined below) whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

If a partnership holds the ADSs, the U.S. federal income tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Each such partner holding the ADSs is urged to consult his, her or its own tax advisor.

You are a U.S. holder if you are a beneficial owner of ADSs and you are, for U.S. federal income tax purposes:

an individual citizen or resident of the United States,

a domestic corporation,

an estate whose income is subject to U.S. federal income tax regardless of its source, or

a trust if (i) a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons are authorized to control all substantial decisions of the trust or (ii) the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

*You should consult your own tax advisor regarding the U.S. federal, state and local and other tax consequences of owning and disposing of ADSs in your particular circumstances.*

This discussion addresses only U.S. federal income taxation.

In general, and taking into account the earlier assumptions, for U.S. federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the Shares represented by those ADRs. Exchanges of Shares for ADRs, and ADRs for Shares, generally will not be subject to U.S. federal income tax.

**Taxation of dividends**

*U.S. Holders.* Under the U.S. federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a U.S. holder, the gross amount of any distribution we pay out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) is subject to U.S. federal income taxation. If you are a noncorporate U.S. holder, dividends paid to you that constitute qualified dividend income will be taxable to you at the preferential rates applicable to long-term capital gains provided that you hold ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period

## Edgar Filing: Ternium S.A. - Form 20-F

requirements. Dividends we pay with respect to the ADSs generally will be qualified dividend income but there can be no assurance in this regard.

You must generally include any Luxembourg tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when the depositary receives the dividend, actually or constructively.

---

## **Table of Contents**

The dividend will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations. Distributions in excess of current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the ADSs and thereafter as capital gain. However, we do not expect to calculate earnings and profits in accordance with U.S. federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend (as discussed above).

The amount of any dividend paid in foreign currency will equal the U.S. dollar value of the foreign currency received calculated by reference to the exchange rate in effect on the date the dividend is received by the depositary, regardless of whether the foreign currency is converted into U.S. dollars. If the foreign currency received as a dividend is converted into U.S. dollars on the date of receipt, you generally will not be required to recognize foreign currency gain or loss in respect of the dividend income. If the foreign currency received as a dividend is not converted into U.S. dollars on the date of receipt, you will have a basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the foreign currency will generally be treated as ordinary income or loss from sources within the United States.

For foreign tax credit purposes, dividends will be income from sources outside the United States and will generally constitute passive category income for purposes of computing the foreign tax credit. In certain circumstances, if you have held ADSs for less than a specified minimum period during which you are not protected from risk of loss, or are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for foreign taxes imposed on dividends that we pay.

Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to preferential rates. To the extent a refund of the tax withheld is available to you under Luxembourg law or under any applicable treaty, the amount of tax withheld that is refundable will not be eligible for credit against your U.S. federal income tax liability. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

### **Taxation of capital gains**

*U.S. Holders.* Subject to the PFIC rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your ADSs, you will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your ADSs. Capital gain of a noncorporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

### **Additional U.S. Federal Income Tax Considerations**

*PFIC rules.* Based on the Company's expected income and assets, the ADSs should not be treated as stock of a PFIC for U.S. federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If we were to be treated as a PFIC, unless a U.S. holder is permitted to elect and does elect to be taxed annually on a mark-to-market basis with respect to the ADSs, gain realized on the sale or other disposition of your ADSs would in general not be treated as capital gain. Instead, if you are a U.S. holder, you would be treated as if you had realized such gain and certain excess distributions ratably over your holding period for the ADSs and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, your ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your ADSs. Dividends that you receive from us and that are not treated as excess distributions will not be eligible for the special tax rates applicable to qualified dividend income if we are treated as a PFIC with respect to you either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

---

**Table of Contents**

**F. Dividends and Paying Agents**

Not applicable.

**G. Statement by Experts**

Not applicable.

**H. Documents on Display**

We are required to file annual and special reports and other information with the SEC. You may read and copy any documents filed by the Company at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains a website at <http://www.sec.gov> which contains reports and other information regarding registrants that file electronically with the SEC.

We are subject to the reporting requirements of the U.S. Securities Exchange Act of 1934, as amended, as applied to foreign private issuers (the Exchange Act). Because we are a foreign private issuer, the SEC's rules do not require us to deliver proxy statements or to file quarterly reports. In addition, our insiders are not subject to the SEC's rules that prohibit short-swing trading. We prepare quarterly and annual reports containing consolidated financial statements in accordance with IFRS. Our annual consolidated financial statements are certified by an independent accounting firm. We submit quarterly financial information to the SEC on Form 6-K simultaneously with or promptly following the publication of that information in Luxembourg or any other jurisdiction in which the Company's securities are listed, and will file annual reports on Form 20-F within the time period required by the SEC, which is currently four months from the end of the fiscal year on December 31. These quarterly and annual reports may be reviewed at the SEC's Public Reference Room. Reports and other information filed electronically with the SEC are also available at the SEC's website.

As a foreign private issuer under the Securities Act, we are not subject to the proxy rules of Section 14 of the Exchange Act or the insider short-swing profit reporting requirements of Section 16 of the Exchange Act.

We have appointed BNY Mellon to act as depositary for our ADSs. During the time the deposit agreement remains in force, we will furnish the depositary with:

our annual reports; and

summaries of all notices of general meetings of shareholders and other reports and communications that are made generally available to our shareholders.

The depositary will, as provided in the deposit agreement, if we so request, arrange for the mailing of summaries in English of the reports and communications to all record holders of our ADSs. Any record holder of ADSs may read the reports, notices, or summaries thereof, and communications at the depositary's office located at 480 Washington Blvd., Jersey City, New Jersey 07310.

Whenever a reference is made in this annual report to a contract or other document, please be aware that such reference is not necessarily complete and that you should refer to the exhibits that are a part of this annual report for a copy of the contract or other document. You may review a copy of the annual report at the SEC's public reference room in Washington, D.C.

**I. Subsidiary Information**

Not applicable.





**Table of Contents****Item 11. Quantitative and Qualitative Disclosures About Market Risk**

The multinational nature of our transactions, operations and customer base expose us to the risk of changes in interest rates, foreign currency exchange rates and commodity prices. We selectively manage these exposures through the use of derivative instruments to mitigate market risk and interest rate costs. We do not use derivative financial instruments for other purposes. In addition, in the ordinary course of business Ternium also faces risks with respect to financial instruments that are either non-financial or non-quantifiable. Such risks principally include country risk and credit risk and are not presented in the following analysis. For additional information about our financial risk management, see note 33 to our audited consolidated financial statements included elsewhere in this annual report.

The following tables provide a breakdown of Ternium's debt instruments at December 31, 2012, which included fixed and variable interest rate obligations detailed maturity date. The following information should be read together with note 33 "Financial Risk Management" to our audited consolidated financial statements included elsewhere in this annual report.

At December 31, 2012	Expected maturity in the year ending December 31,						
<i>In thousands of U.S. dollars</i>	2013	2014	2015	2016	2017	Thereafter	Total
<b>Non-current Debt</b>							
Fixed Rate		17,599	17,002				34,601
Floating Rate		617,378	218,936	273,625	102,283	55,931	1,268,153
<b>Current Debt</b>							
Fixed Rate	536,159						536,159
Floating Rate	585,450						585,450
<b>Total (1) (2)</b>	1,121,609	634,977	235,938	273,625	102,283	55,931	2,424,363

(1) Borrowings are primarily bank borrowings with third parties. See Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Principal Sources of Funding Financial Liabilities.

(2) As most borrowings are subject to floating rates that approximate market rates, with contractual repricing that occurs every one, three or six months, the fair value of each borrowing approximates its carrying amount and is not disclosed separately.

Management maintains sufficient cash and marketable securities and credit facilities to finance normal operations. Management monitors rolling forecasts of the group's liquidity reserve on the basis of expected cash flow. The weighted average interest rate of Ternium's debt was 5.99% at December 31, 2012. This figure, which incorporates a majority of instruments denominated in U.S. dollars and also includes the effect of derivative financial instruments, was calculated using the rates set for each instrument in its corresponding currency and weighted using the dollar-equivalent outstanding principal amount of said instruments at December 31, 2012.

**Total Debt by Currency as of December 31, 2012**

<i>In thousands of U.S. dollars</i>	
USD	1,704,893
ARP	543,014
COP	135,876
Other	40,580
<b>Total</b>	<b>2,424,363</b>

**Interest Rate Exposure Risk**

Interest rate movements create a degree of risk by affecting the amount of Ternium's interest payments and the value of Ternium's floating-rate debt. Most of Ternium's long-term borrowings are at variable rates. A minor portion of this debt is fixed through swaps, as described below. Ternium's total variable interest rate debt amounted to USD1.9 billion (76% of total borrowings) for the year ended December 31, 2012.



**Table of Contents****Interest Rate Derivative Contracts**

On September 27, October 12 and November 5, 2012, Ternium entered into several interest rate forward starting swap agreements that fix the interest rate to be paid over an aggregate amount of USD45 million, in an average range of 1.71% to 1.74%. These agreements will be effective starting on July 2014, will be due on July 2022 and have been accounted for as cash flow hedges. As of December 31, 2012, the after-tax cash flow hedge reserve related to these agreements amounted to a negative USD0.3 million.

**Foreign Exchange Exposure Risk**

Ternium's subsidiaries may use derivative contracts in order to hedge their exposure to exchange rate risk derived from their trade and financial operations. A significant portion of Ternium's business is carried out in currencies other than the U.S. dollar, Ternium's reporting currency. As a result of this foreign currency exposure, exchange rate fluctuations impact Ternium's results as reported in its income statement in the form of both translation risk and transaction risk. Translation risk is the risk that Ternium's consolidated financial statements for a particular period or as of a certain date may be affected by changes in the prevailing rates of the various functional currencies of the reporting subsidiaries against the U.S. dollar. Transaction risk is the risk that the value of transactions executed in currencies other than the subsidiary's functional currency may vary according to currency fluctuations.

Ternium's policy is to minimize the negative impact of fluctuations in the value of other currencies with respect to the U.S. dollar. Ternium's subsidiaries monitor their net operating cash flows in currencies other than the U.S. dollar, and analyze potential hedging according to market conditions. This hedging can be carried out by netting operational positions or by using financial derivatives. However, regulatory or legal restrictions in the countries in which Ternium's subsidiaries operate could limit the possibility of the Company carrying out its hedging policy.

The following table shows a breakdown of Ternium's assessed financial position exposure to currency risk as of December 31, 2012. These balances include intercompany positions where the intervening parties have different functional currencies.

USD million exposure to	Functional Currency		
	USD	ARP	BRL
U.S. dollar (USD)	(n/a)	53	
EU euro (EUR)	(53)	(8)	
Mexican peso (MXN)	(180)		
Colombian peso (COP)	(65)		
Other currencies	4		

We estimate that if the Argentine peso, Mexican peso, Colombian peso and Brazilian real had devaluated by 1% against the U.S. dollar with all other variables held constant, total pre-tax income for the year would have been USD2.1 million higher, as a result of net foreign exchange gains on translation of U.S. dollar-denominated financial position, mainly trade receivables, trade payables and other liabilities. This effect would have been offset by the change in the currency translation adjustment recorded in equity.

Considering the same variation of the currencies against the U.S. dollar of all net investments in non U.S. dollar operations (which amounted to USD2.5 billion as of December 31, 2012), the currency translation adjustment included in total equity would have been USD24.5 million lower, arising from the adjustment on translation of the equity related to the Mexican peso, the Argentine peso, the Colombian peso and the Brazilian real.

---

**Table of Contents**

**Foreign Exchange Derivative Contracts**

During 2012, Prosid Investments entered into several non-deliverable forward agreements to reduce the interest rate cost of Siderar's debt denominated in Argentine pesos. The notional amount hedged as of December 31, 2012 was AR\$1.4 billion with an average forward price of AR\$5.27 per U.S. dollar. As of December 31, 2012, the net fair value resulting from these agreements was a positive USD64 thousand.

**Commodities Exposure Risk**

In the ordinary course of its operations, Ternium's subsidiaries purchase raw materials, such as iron ore, coal and slabs, and other commodities, including electricity and natural gas. Commodity prices are generally volatile as a result of several factors, including those affecting supply and demand, political, social and economic conditions, and other circumstances. Ternium monitors its exposure to commodity price volatility on a regular basis and applies customary commodity price risk management strategies. During 2010, 2011 and 2012, Ternium has not hedged any commodity position. For further information on Ternium's long-term commodity and commodity-related supply commitments, see note 25(ii) to our audited, consolidated financial statements included elsewhere in this annual report.

**Item 12. Description of Securities Other Than Equity Securities**

**A. Debt Securities**

Not applicable.

**B. Warrants and Rights**

Not applicable.

**C. Other Securities**

Not applicable.

**D. American Depositary Shares**

According to our deposit agreement, holders of ADSs may have to pay to the Depositary, either directly or indirectly, fees or charges up to the amounts set forth below:

A fee of USD5.00 (or less) per 100 ADSs (or portion of 100 ADSs) for: issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property; and cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates.

A fee of USD0.02 (or less) per ADS for any cash distribution to ADS registered holders.

As necessary, charges for: taxes and other governmental charges the Depositary or the custodian have to pay on any ADS or share underlying an ADS (*e.g.*, share transfer taxes, stamp duty or withholding taxes); and any charges incurred by the depositary or its agents for servicing the deposited securities.

## Edgar Filing: Ternium S.A. - Form 20-F

Registration or transfer fees for transfer and registration of shares on our share register to or from the name of the Depositary or its agent when you deposit or withdraw shares.

Expenses of the Depositary for: cable, telex and facsimile transmissions; and conversion of foreign currency.

A fee equivalent to the fee that would be payable if securities distributed to ADS holders had been shares and the shares had been deposited for issuance of ADSs for distribution of securities distributed to holders of deposited securities which are distributed by the Depositary to ADS registered holders.

As necessary, charges for any costs incurred by the Depositary or its agents for servicing the deposited securities.

---

## **Table of Contents**

The Depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The Depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Depositary may collect its annual fee for Depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The Depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

### **Fees payable by the Depositary to the Company**

*Fees incurred in 2012.* In 2012, Ternium received no fees or other direct or indirect payment from the Depositary in connection with the deposited securities.

*Fees to be paid in the future.* Upon any listing of the Company's shares in a non-U.S. stock exchange allowing for cross border activity, the Depositary has agreed to reimburse the Company for expenses incurred related to the administration and maintenance of the ADS program, including investor relations expenses, annual NYSE listing fees and other program related expenses. There are limits on the amount of expenses for which the Depositary will reimburse the Company. The Depositary has also agreed to pay the standard out-of-pocket maintenance costs for the ADSs. The Company does not expect to receive any reimbursement from the Depositary in the near future.

## **PART II**

### **Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

### **Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

### **Item 15. Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-5(e) under the Exchange Act as of December 31, 2012). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2012, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to ensure that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective at a reasonable assurance level.

### **Management's report on internal control over financial reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934). Ternium's internal control over financial reporting was designed by management to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of its financial statements for external purposes in accordance with IFRS.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements or omissions. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Table of Contents**

Management conducted its assessment of the effectiveness of Ternium's internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management has concluded that Ternium's internal control over financial reporting, as of December 31, 2012, is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

The effectiveness of Ternium's internal control over financial reporting as of December 31, 2012 has been audited by PwC Luxembourg, as stated in their report included herein. See Report of Independent Registered Public Accounting Firm.

**Attestation Report of Registered Public Accounting Firm**

See page F-1 of the audited consolidated financial statements.

**Change in Internal Control over Financial Reporting**

During the period covered by this report, there were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 16A. Audit Committee Financial Expert**

On May 2, 2012, our board of directors determined that none of the independent members of the audit committee, meets the attributes defined in Item 16A of Form 20-F for audit committee financial experts. We do not have an audit committee financial expert because we have concluded that the membership of the audit committee as a whole has sufficient recent and relevant financial experience to properly discharge its functions. In addition, the audit committee, from time to time as it deems necessary, engages persons that meet all of the attributes of an audit committee financial expert as consultants.

**Item 16B. Code of Ethics**

We have adopted a code of ethics that applies specifically to our principal executive officers, and principal financial and accounting officer and controller, as well as persons performing similar functions. We have also adopted a code of conduct that applies to all company employees, including contractors, subcontractors and suppliers.

The text of our code of ethics for senior financial officers and code of conduct for employees is posted on our web site at: <http://www.ternium.com/en/ir/governance>.

**Item 16C. Principal Accountant Fees and Services***Fees Paid to the Company's Principal Accountant*

In 2012, PwC Luxembourg served as the principal external auditor for the Company. Fees paid to PwC Luxembourg and other PwC member firms in 2012 and 2011 are detailed below:

<i>In thousands of U.S. dollars</i>	<b>For the year ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Audit Fees	3,569	3,281
Audit-Related Fees	296	447
Tax Fees	159	24
All Other Fees	204	24

<b>Total</b>	4,228	3,776
--------------	-------	-------



---

## **Table of Contents**

### *Audit Fees*

Audit fees were paid for professional services rendered by the auditors for the audit of the consolidated financial statements of the Company and the statutory financial statements of the Company and its subsidiaries.

### *Audit-Related Fees*

Audit-related fees are typically services that are reasonably related to the performance of the audit or review of the consolidated financial statements and are not reported under the audit fee item above. This item includes fees for attestation services on financial information of the Company and its subsidiaries included in their annual reports that are filed with their respective regulators.

### *Tax Fees*

Tax fees were paid for tax compliance and tax advice professional services.

### *All Other Fees*

Fees disclosed in the table above under *All Other Fees* consisted primarily of fees paid for consulting services provided in connection with diagnostic analysis of internal control related to inventory management, manufacturing and sales orders.

### *Audit Committee's Pre-approval Policies and Procedures*

The Company's audit committee is responsible for, among other things, the oversight of the Company's independent auditors. The audit committee has adopted a policy of pre-approval of audit and permissible non-audit services provided by its independent auditors in its charter.

Under the policy, the audit committee makes its recommendations through the board of Directors to the shareholders' meeting concerning the continuing appointment or termination of the Company's independent auditors. On a yearly basis, the audit committee reviews together with management and the independent auditor, the audit plan, audit related services and other non-audit services and approves the related fees. Any changes to the approved fees must be reviewed and approved by the audit committee. In addition, the audit committee delegated to its Chairman the authority to consider and approve, on behalf of the Audit Committee, additional non-audit services that were not recognized at the time of engagement, which must be reported to the other members of the audit committee at its next meeting. No services outside the scope of the audit committee's approval can be undertaken by the independent auditor.

During 2012, the audit committee did not approve any fees pursuant to the *de minimis* exception to the pre-approval requirement provided by paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

### **Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

### **Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

On June 2, 2010, the Company's annual general shareholders' meeting granted an authorization to the Company and to the Company's subsidiaries to purchase, acquire or receive, from time to time shares of the Company, including shares represented by ADRs, on the following terms and conditions:

The acquisitions of shares may be made in one or more transactions as the Board of Directors of the Company or the board of directors or other governing body of the relevant entity, as applicable, considers advisable. The number of shares acquired as a block may amount to the maximum permitted amount of purchases;

---

**Table of Contents**

The maximum number of shares, including shares represented by ADRs, acquired pursuant to this authorization may not exceed 10% of the Company's issued and outstanding shares or, in the case of acquisitions made through a stock exchange in which the shares or ADRs are traded, such lower amount as may not be exceeded pursuant to any applicable laws or regulations of such market;

The purchase price per ADR to be paid in cash may not exceed 125% (excluding transaction costs and expenses), nor may it be lower than 75% (excluding transaction costs and expenses), in each case of the average of the closing prices of the ADRs on the New York Stock Exchange during the five trading days in which transactions in the ADRs were recorded in the New York Stock Exchange preceding (but excluding) the day on which the ADRs are purchased. In the case of purchases of shares other than in the form of ADRs, the maximum and minimum per share purchase prices shall be equal to the prices that would have applied in case of an ADR purchase pursuant to the formula above divided by the number of underlying shares represented by an ADR at the time of the relevant purchase. Such maximum and minimum purchase prices shall also apply to over-the-counter or off-market transactions. Compliance with maximum and minimum purchase price requirements in any and all acquisitions made pursuant to this authorization (including, without limitation, acquisitions carried out through the use of derivative financial instruments or option strategies) shall be determined on and as of the date on which the relevant transaction is entered into, irrespective of the date on which the transaction is to be settled;

The above maximum and minimum purchase prices shall, in the event of a change in the par value of the shares, a capital increase by means of a capitalization of reserves, a distribution of shares under compensation or similar programs, a stock split or reverse stock split, a distribution of reserves or any other assets, the redemption of capital, or any other transaction impacting the Company's equity be adapted automatically, so that the impact of any such transaction on the value of the shares shall be reflected;

The acquisitions of shares may not have the effect of reducing the Company's net assets below the sum of the Company's share capital plus its undistributable reserves;

Only fully paid-up shares may be acquired pursuant to this authorization;

The acquisitions of shares may be carried out for any purpose, as may be permitted under applicable laws and regulations, including, without limitation, to reduce the share capital of the Company, to offer such shares to third parties in the context of corporate mergers or acquisitions of other entities or participating interests therein, for distribution to the Company's or the Company's subsidiaries' directors, officers or employees or to meet obligations arising from convertible debt instruments;

The acquisitions of shares may be carried out by any and all means, as may be permitted under applicable laws and regulations, including through any stock exchange in which the shares or other securities representing shares are traded, through public offers to all shareholders of the Company to buy shares, through the use of derivative financial instruments or option strategies, or in over the counter or off-market transactions or in any other manner;

The acquisitions of shares may be carried out at any time and from time to time during the duration of the authorization, including during a tender offer period, as may be permitted under applicable laws and regulations;

The authorization granted to acquire shares shall be valid for such maximum period as may be provided for under applicable Luxembourg law as in effect from time to time (such maximum period being, as of to date, five years);

The acquisitions of shares shall be made at such times and on such other terms and conditions as may be determined by the Board of Directors of the Company or the board of directors or other governing body of the relevant Company subsidiary, provided that

## Edgar Filing: Ternium S.A. - Form 20-F

any such purchase shall comply with Article 49-2 et.seq. of the Luxembourg law of August 10, 1915 on commercial companies, as amended (or any successor law) and, in the case of acquisitions of shares made through a stock exchange in which the shares or other securities representing shares are traded, with any applicable laws and regulations of such market.

---

## **Table of Contents**

In the future, we may, on the terms and subject to the conditions above referenced, initiate a share capital repurchase or similar program or engage in other transactions pursuant to which we would repurchase, directly or indirectly, the Company's ordinary shares, ADSs or both. In addition, we or our subsidiaries may enter into transactions involving sales or purchases of derivatives or other instruments (either settled in cash or through physical delivery of securities) with returns linked to the Company's ordinary shares, ADSs or both. The timing and amount of repurchase transactions under any such program, or sales or purchases of derivatives or other instruments, would depend on market conditions as well as other corporate and regulatory considerations.

### **Item 16F. Change in Registrant's Certifying Accountant**

Not applicable.

### **Item 16G. Corporate Governance**

Our corporate governance practices are governed by Luxembourg law (particularly the law of August 10th, 1915 on commercial companies) and our articles of association. As a Luxembourg company listed on the NYSE, we are not required to comply with all of the corporate governance listing standards of the NYSE. We, however, believe that our corporate governance practices meet or exceed, in all material respects, the corporate governance standards that are generally required for controlled companies by the NYSE but the following is a summary of the significant ways that our corporate governance practices differ from the corporate governance standards required for controlled companies by the NYSE (provided that our corporate governance practices may differ in non-material ways from the standards required by the NYSE that are not detailed here):

#### **Non-management Directors Meetings**

Under NYSE standards, non-management directors must meet at regularly scheduled executive sessions without management present and, if such group includes directors who are not independent, a meeting should be scheduled once per year including only independent directors. Neither Luxembourg law nor our articles of association require the holding of such meetings and we do not have a set policy for these meetings. Our articles of association provide, however, that the board shall meet as often as required by the interests of the Company and at least four times a year, upon notice by the chairperson or by any two directors.

In addition, NYSE-listed companies are required to provide a method for interested parties to communicate directly with the non-management directors as a group. While we do not have such a method, we have set up a compliance line for investors and other interested parties to communicate their concerns to members of our audit committee (which, as already stated, are independent).

#### **Audit Committee**

Under NYSE standards, listed U.S. companies are required to have an audit committee composed of independent directors that satisfies the requirements of Rule 10A-3 promulgated under the Exchange Act. Our articles of association currently require us to have an audit committee composed of three members, of which at least two must be independent (as defined in our articles of association) and our audit committee complies with such requirements. In accordance with NYSE standards, we have an audit committee entirely composed of independent directors.

Under NYSE standards, all audit committee members of listed U.S. companies are required to be financially literate or must acquire such financial knowledge within a reasonable period and at least one of its members shall have experience in

## **Table of Contents**

accounting or financial administration. In addition, if a member of the audit committee is simultaneously a member of the audit committee of more than three public companies, and the listed company does not limit the number of audit committees on which its members may serve, then in each case the board must determine whether the simultaneous service would prevent such member from effectively serving on the listed company's audit committee and shall publicly disclose its decision. No comparable provisions on audit committee membership exist under Luxembourg law or our articles of association.

### **Standards for Evaluating Director Independence**

Under NYSE standards, the board is required, on a case by case basis, to express an opinion with regard to the independence or lack of independence of each individual director. Neither Luxembourg law nor our articles of association require the board to express such an opinion. In addition, the definition of "independent" under the rules of the NYSE differs in some non-material respects from the definition contained in our articles of association.

### **Audit Committee Responsibilities**

Pursuant to our articles of association, the audit committee shall assist the board of directors in fulfilling its oversight responsibilities relating to the integrity of the Company's financial statements, including periodically reporting to the Board of Directors on its activity and the adequacy of the Company's system of internal controls over financial reporting. As per the audit committee charter, as amended, the audit committee shall make recommendations for the appointment, compensation, retention and oversight of, and consider the independence of, the Company's external auditors. The audit committee is required to review material transactions (as defined by the articles of association) between us or our subsidiaries with related parties and also perform the other duties entrusted to it by the board.

The NYSE requires certain matters to be set forth in the audit committee charter of U.S. listed companies. Our audit committee charter provides for many of the responsibilities that are expected from such bodies under the NYSE standard; however, due to our equity structure and holding company nature, the charter does not contain all such responsibilities, including provisions related to setting hiring policies for employees or former employees of independent auditors, discussion of risk assessment and risk management policies, and an annual performance evaluation of the audit committee.

### **Shareholder Voting on Equity Compensation Plans**

Under NYSE standards, shareholders must be given the opportunity to vote on equity-compensation plans and material revisions thereto, except for employment inducement awards, certain grants, plans and amendments in the context of mergers and acquisitions, and certain specific types of plans. We do not currently offer equity-based compensation to our directors, executive officers or employees, and therefore do not have a policy on this matter.

### **Disclosure of Corporate Governance Guidelines**

NYSE-listed companies must adopt and disclose corporate governance guidelines. Neither Luxembourg law nor our articles of association require the adoption or disclosure of corporate governance guidelines. Our board of directors follows corporate governance guidelines consistent with our equity structure and holding company nature, but we have not codified them and therefore do not disclose them on our website.

### **Code of Business Conduct and Ethics**

Under NYSE standards, listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Neither Luxembourg law nor our articles of association require the adoption or disclosure of such a code of conduct. We have adopted a code of conduct that applies to all directors, officers and employees, which is posted on our website and complies with the NYSE's requirements, except that it does not require the disclosure of waivers of the code for directors and officers. In addition, we have adopted a supplementary code of ethics for senior financial officers which is also posted on our website.

**Table of Contents****Chief Executive Officer Certification**

A chief executive officer of a U.S. company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards. In accordance with NYSE rules applicable to foreign private issuers, our chief executive officer is not required to provide the NYSE with this annual compliance certification. However, in accordance with NYSE rules applicable to all listed companies, our chief executive officer must promptly notify the NYSE in writing after any of our executive officers becomes aware of any noncompliance with any applicable provision of the NYSE's corporate governance standards. In addition, we must submit an executed written affirmation annually and an interim written affirmation each time a change occurs to the board or the audit committee.

**Item 16H Mine Safety Disclosure**

Not applicable.

**PART III****Item 17. Financial Statements**

We have responded to Item 18 in lieu of responding to this Item.

**Item 18. Financial Statements**

See pages F-1 through F-75 of this annual report.

**Item 19. Exhibits****Exhibit**

<b>Number</b>	<b>Description</b>
1.1	Updated and Consolidated Articles of Association of Ternium S.A., dated as of June 1, 2011*
2.1	Deposit Agreement entered into between Ternium S.A. and The Bank of New York**
4.1	Shareholders Agreement, dated January 9, 2006, between Tenaris S.A. and Inversora Siderurgica Limited***
4.2	Loan Agreement, dated July 12, 2007, between Hylsa, S.A. de C.V., Calyon New York branch, as Administrative Agent, and the banks named therein as Lenders. Refinancing Agreement, dated April 6, 2011, between Ternium Mexico, Credit Agricole Corporate and Investment Bank, acting as Administrative Agent, and certain banks parties to the Loan Agreement, dated July 12, 2007****
4.3	Amended and Restated Shareholders Agreement, dated January 16, 2012, between Caixa dos Empregados da Usiminas, Confab Industrial S.A., Metal One Corporation, Mitsubishi Corporation do Brasil, S.A., Nippon Steel Corporation, Nippon Usiminas Co., Ltd., Prosid Investments S.C.A., Siderar S.A.I.C., and Ternium Investments S.à.r.l.*****
8.1	List of subsidiaries of Ternium S.A.
12.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Independent Registered Public Accounting Firm
15.2	Consent of Independent Registered Public Accounting Firm

## Edgar Filing: Ternium S.A. - Form 20-F

- \* Incorporated by reference to the Annual Report on Form 20-F, filed by Ternium S.A. on June 30, 2010 (File No. 001-32734 11942825).
- \*\* Incorporated by reference to the Registration Statement on Form F-6, filed by Ternium S.A. on January 11, 2006 (File No. 333-130952).
- \*\*\* Incorporated by reference to the F-1 Registration Statement filed by Ternium S.A. on January 27, 2006 (File No. 333-130950).
- \*\*\*\* Incorporated by reference to the Annual Report on Form 20-F, filed by Ternium S.A. on April 25, 2012 (File No.001-32734 12780429).

**Table of Contents**

**SIGNATURES**

The registrant hereby certifies that it meets all the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

April 30, 2013

TERNIUM S.A.

By /s/ Pablo Brizzio

Name: Pablo Brizzio

Title: Chief Financial Officer

127



**Table of Contents**

## EXHIBIT INDEX

<b>Exhibit</b>	
<b>Number</b>	<b>Description</b>
1.1	Updated and Consolidated Articles of Association of Ternium S.A., dated as of June 1, 2011*
2.1	Deposit Agreement entered into between Ternium S.A. and The Bank of New York**
4.1	Shareholders Agreement, dated January 9, 2006, between Tenaris S.A. and Inversora Siderurgica Limited***
4.2	Loan Agreement, dated July 12, 2007, between Hylsa, S.A. de C.V., Calyon New York branch, as Administrative Agent, and the banks named therein as Lenders. Refinancing Agreement, dated April 6, 2011, between Ternium Mexico, Credit Agricole Corporate and Investment Bank, acting as Administrative Agent, and certain banks parties to the Loan Agreement, dated July 12, 2007****
4.3	Amended and Restated Shareholders Agreement, dated January 16, 2012, between Caixa dos Empregados da Usiminas, Confab Industrial S.A., Metal One Corporation, Mitsubishi Corporation do Brasil, S.A., Nippon Steel Corporation, Nippon Usiminas Co., Ltd., Prosid Investments S.C.A., Siderar S.A.I.C., and Ternium Investments S.àr.l.*****
8.1	List of subsidiaries of Ternium S.A.
12.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Independent Registered Public Accounting Firm
15.2	Consent of Independent Registered Public Accounting Firm

\* Incorporated by reference to the Annual Report on Form 20-F, filed by Ternium S.A. on June 30, 2010 (File No. 001-32734 11942825).

\*\* Incorporated by reference to the Registration Statement on Form F-6, filed by Ternium S.A. on January 11, 2006 (File No. 333-130952).

\*\*\* Incorporated by reference to the F-1 Registration Statement filed by Ternium S.A. on January 27, 2006 (File No. 333-130950).

\*\*\*\* Incorporated by reference to the Annual Report on Form 20-F, filed by Ternium S.A. on April 25, 2012 (File No.001-32734 12780429).

**Table of Contents**

**TERNIUM S.A.**

**Consolidated Financial Statements**

**as of December 31, 2012 and 2011 and**

**for the years ended on December 31, 2012, 2011 and 2010**

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

L 2227

R.C.S. Luxembourg: B 98 668

**Table of Contents**

**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page</b>
<u>Reports of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Income Statements for the years ended December 31, 2012, 2011 and 2010</u>	F-3
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010</u>	F-4
<u>Consolidated Statements of Financial Position as of December 31, 2012 and 2011</u>	F-5
<u>Consolidated Statements of Changes in Equity for the years ended December 31, 2012, 2011 and 2010</u>	F-6
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010</u>	F-9
<u>Index to the Notes to the Consolidated Financial Statements</u>	F-10

---

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

**Ternium S.A.**

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of income, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of Ternium S.A. and its subsidiaries at 31 December 2012 and 31 December 2011, and the results of their operations and their cash flows for each of the two years in the period ended 31 December 2012 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and in conformity with International Financial Reporting Standards as adopted by the European Union. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of 31 December 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's report on internal control over financial reporting appearing under Item 15. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers Société cooperative

Represented by

/s/ Mervyn R. Martins

Mervyn R. Martins

Luxemburg, April 30, 2013

*PricewaterhouseCoopers, Société coopérative, 400 Route d'Esch, B.P. 1443, L-1014 Luxembourg*

Edgar Filing: Ternium S.A. - Form 20-F

*T: +352 494848 1, F:+352 494848 2900, [www.pwc.lu](http://www.pwc.lu)*

*Cabinet de révision agréé. Expert-comptable (autorisation gouvernementale n°10028256)*

*R.C.S. Luxembourg B 65 477 - TVA LU25482518*

F-1

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

Ternium S.A.

In our opinion, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year ended December 31, 2010 present fairly, in all material respects, the results of operations and cash flows of Ternium S.A. and its subsidiaries for the year ended December 31, 2010 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and in conformity with International Financial Reporting Standards as adopted by the European Union. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PRICE WATERHOUSE & CO. S.R.L.

by /s/ Daniel A. López Lado (Partner)

Daniel A. López Lado

Buenos Aires, Argentina

June 30, 2011, except for the change in the composition of reportable segments and deconsolidation of the investment in Peña Colorada discussed in Notes 4 w) and 4 a) (2) to the consolidated financial statements, respectively, as to which the date is April 30, 2013

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

(All amounts in USD thousands)

**Consolidated Income Statements**

	Notes	Year ended December 31,		
		2012	2011	2010
<b>Continuing operations</b>				
Net sales	5	8,608,054	9,122,832	7,339,901
Cost of sales	6	(6,871,090)	(7,020,127)	(5,560,201)
<b>Gross profit</b>		1,736,964	2,102,705	1,779,700
Selling, general and administrative expenses	7	(809,181)	(839,362)	(738,304)
Other operating (expenses) income, net	9	(11,881)	(11,495)	2,162
<b>Operating income</b>		915,902	1,251,848	1,043,558
Interest expense		(144,439)	(100,712)	(72,953)
Interest income		19,226	39,981	87,323
Other financial (expenses) income, net	10	7,865	(239,691)	114,867
Equity in earnings of associated companies	3 & 14	(346,833)	10,137	12,867
<b>Income before income tax expense</b>		451,721	961,563	1,185,662
Income tax expense	11	(264,567)	(311,656)	(406,193)
<b>Profit for the year</b>		<b>187,154</b>	<b>649,907</b>	<b>779,470</b>
<b>Attributable to:</b>				
Equity holders of the Company		139,235	513,540	622,076
Non-controlling interest		47,919	136,367	157,394
		<b>187,154</b>	<b>649,907</b>	<b>779,470</b>
Weighted average number of shares outstanding		1,963,076,776	1,968,327,917	2,004,743,442
Basic and diluted earnings per share for profit attributable to the equity holders of the company (expressed in USD per share)		0.07	0.26	0.31

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





**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

(All amounts in USD thousands)

**Consolidated Statements of Comprehensive Income**

	Year ended December 31,		
	2012	2011	2010
<b>Profit for the year</b>	<b>187,154</b>	<b>649,907</b>	<b>779,470</b>
<b>Other comprehensive income:</b>			
Currency translation adjustment	(149,551)	(422,230)	30,494
Changes in the fair value of derivatives classified as cash flow hedges	17,556	14,134	14,729
Income tax relating to cash flow hedges	(2,808)	(6,701)	(4,419)
<b>Other comprehensive income from participation in non-consolidated companies:</b>			
Currency translation adjustment	(275,897)	(11,403)	5,421
Changes in the fair value of derivatives classified as cash flow hedges	1,438		
Others	(1,961)		
<b>Other comprehensive (loss) income for the period, net of tax</b>	<b>(411,223)</b>	<b>(426,200)</b>	<b>46,225</b>
<b>Total comprehensive income for the period</b>	<b>(224,069)</b>	<b>223,707</b>	<b>825,695</b>
<b>Attributable to:</b>			
Equity holders of the Company	(188,258)	172,862	684,635
Non-controlling interest	(35,811)	50,845	141,060
<b>Total comprehensive income for the period</b>	<b>(224,069)</b>	<b>223,707</b>	<b>825,695</b>

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

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

(All amounts in USD thousands)

**Consolidated Statements of Financial Position**

	Notes	December 31, 2012	December 31, 2011		
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment, net	12	4,438,117	3,969,187		
Intangible assets, net	13	965,206	977,711		
Investments in non-consolidated companies	14	1,710,514	94,875		
Other investments	15	7,137	14,087		
Deferred tax assets	21	12,541	8,101		
Receivables, net	16	72,827	124,201		
Trade receivables, net	17	5,029	7,526	5,195,688	
<b>Current assets</b>					
Receivables	16	187,212	91,516		
Derivative financial instruments	23	64	50		
Inventories, net	18	2,000,137	2,123,516		
Trade receivables, net	17	735,140	745,904		
Sidor financial asset	27		136,294		
Other investments	19	160,750	281,676		
Cash and cash equivalents	19	560,307	3,643,610	2,158,044	5,537,000
Non-current assets classified as held for sale			12,018	10,374	
			3,655,628	5,547,374	
<b>Total assets</b>		<b>10,866,999</b>	<b>10,743,062</b>		
<b>EQUITY</b>					
<b>Capital and reserves attributable to the company's equity holders</b>		5,420,883	5,756,371		
<b>Non-controlling interest</b>		1,074,763	1,084,827		
<b>Total equity</b>		6,495,646	6,841,198		
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					

Edgar Filing: Ternium S.A. - Form 20-F

Provisions	20	17,499		15,340	
Deferred income tax	21	682,091		740,576	
Other liabilities	22	224,956		196,974	
Trade payables		18,337		21,096	
Derivative financial instruments	23	271			
Borrowings	24	1,302,753	2,245,907	948,495	1,922,481
<b>Current liabilities</b>					
Current tax liabilities		153,071		106,625	
Other liabilities	22	88,540		112,923	
Trade payables		762,225		682,292	
Derivative financial instruments	23			29,902	
Borrowings	24	1,121,610	2,125,446	1,047,641	1,979,383
<b>Total liabilities</b>			4,371,353		3,901,864
<b>Total equity and liabilities</b>				<b>10,866,999</b>	<b>10,743,062</b>

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

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

(All amounts in USD thousands)

**Consolidated Statements of Changes in Equity**

	Attributable to the Company's equity holders (1)						Retained earnings	Total	Non-controlling interest	Total Equity
	Capital stock (2)	Treasury shares	Initial public offering expenses	Reserves (3)	Capital stock issue discount (4)	Currency translation adjustment				
<b>Balance at January 1, 2012</b>	<b>2,004,743</b>	<b>(150,000)</b>	<b>(23,295)</b>	<b>1,542,040</b>	<b>(2,324,866)</b>	<b>(864,353)</b>	<b>5,572,102</b>	<b>5,756,371</b>	<b>1,084,827</b>	<b>6,841,198</b>
Profit for the period							139,235	139,235	47,919	187,154
Other comprehensive income (loss) for the period										
Currency translation adjustment						(340,531)		(340,531)	(84,916)	(425,447)
Cash flow hedges, net of tax				14,800				14,800	1,385	16,185
Others				(1,761)				(1,761)	(200)	(1,961)
<b>Total comprehensive income for the period</b>				<b>13,039</b>		<b>(340,531)</b>	<b>139,235</b>	<b>(188,257)</b>	<b>(35,812)</b>	<b>(224,069)</b>
Dividends paid in cash (5)							(147,231)	(147,231)		(147,231)
Dividends paid in cash by subsidiary companies									(15,902)	(15,902)
Contributions from non-controlling shareholders in consolidated subsidiaries (6)									41,650	41,650

Edgar Filing: Ternium S.A. - Form 20-F

Balance at December 31, 2012	2,004,743	(150,000)	(23,295)	1,555,079	(2,324,866)	(1,204,884)	5,564,106	5,420,883	1,074,763	6,495,646
------------------------------------	-----------	-----------	----------	-----------	-------------	-------------	-----------	-----------	-----------	-----------

- (1) Shareholders' equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 25 (iii).
- (2) The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD 1.00 per share. As of December 31, 2012, there were 2,004,743,442 shares issued. All issued shares are fully paid.
- (3) Include legal reserve under Luxembourg law for USD 200.5 million, undistributable reserves under Luxembourg law for USD 1.4 billion, hedge accounting reserve, net of tax effect, for USD 1.2 million and reserves related to the acquisition of non-controlling interest in subsidiaries according to IAS 27 for USD (58.5) million.
- (4) Represents the difference between book value of non-monetary contributions received from shareholders under Luxembourg GAAP and IFRS.
- (5) Represents USD 0.075 per share (USD 0.75 per ADS).
- (6) Corresponds to the contribution made by Nippon Steel Corporation in Tenigal, S.R.L. de C.V.

Dividends may be paid by Ternium to the extent distributable retained earnings calculated in accordance with Luxembourg law and regulations exist. Therefore, retained earnings included in these consolidated financial statements may not be wholly distributable. See Note 25 (iii). The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

(All amounts in USD thousands)

**Consolidated Statements of Changes in Equity**

	Attributable to the Company's equity holders (1)						Total	Non-controlling interest	Total Equity	
	Capital stock (2)	Treasury shares (3)	Initial public offering expenses	Reserves (4)	Capital stock issue discount (5)	Currency translation adjustment				Retained earnings
<b>Balance at January 1, 2011</b>	<b>2,004,743</b>		<b>(23,295)</b>	<b>1,635,126</b>	<b>(2,324,866)</b>	<b>(517,432)</b>	<b>5,106,464</b>	<b>5,880,740</b>	<b>1,135,361</b>	<b>7,016,101</b>
Profit for the period							513,540	513,540	136,367	649,907
Other comprehensive income (loss) for the period										
Currency translation adjustment						(346,921)		(346,921)	(86,712)	(433,633)
Cash flow hedges, net of tax				6,243				6,243	1,190	7,433
Total comprehensive income for the period				6,243		(346,921)	513,540	172,862	50,845	223,707
Dividends paid in cash (6)				(99,329)			(47,902)	(147,231)		(147,231)
Dividends paid in cash by subsidiary companies									(140,579)	(140,579)
Repurchase of own shares to Usiminas (3)		(150,000)						(150,000)		(150,000)
Contributions from non-controlling shareholders in									39,200	39,200

## Edgar Filing: Ternium S.A. - Form 20-F

consolidated  
subsidiaries (7)

<b>Balance at December 31, 2011</b>	<b>2,004,743</b>	<b>(150,000)</b>	<b>(23,295)</b>	<b>1,542,040</b>	<b>(2,324,866)</b>	<b>(864,353)</b>	<b>5,572,102</b>	<b>5,756,371</b>	<b>1,084,827</b>	<b>6,841,198</b>
---	------------------	------------------	-----------------	------------------	--------------------	------------------	------------------	------------------	------------------	------------------

- (1) Shareholders' equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 25 (iii).
- (2) The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD 1.00 per share. As of December 31, 2011, there were 2,004,743,442 shares issued. All issued shares are fully paid.
- (3) See note 30.
- (4) Include legal reserve under Luxembourg law for USD 200.5 million, distributable reserves under Luxembourg law for USD 101.4 million, undistributable reserves under Luxembourg law for USD 1.4 billion, hedge accounting reserve, net of tax effect, for USD (14.9) million and reserves related to the acquisition of non-controlling interest in subsidiaries according to IAS 27 for USD (58.5) million.
- (5) Represents the difference between book value of non-monetary contributions received from shareholders under Luxembourg GAAP and IFRS.
- (6) Represents USD 0.075 USD per share (USD 0.75 per ADS).
- (7) Corresponds to the contribution made by Nippon Steel Corporation in Tenigal, S.R.L. de C.V.

Dividends may be paid by Ternium to the extent distributable retained earnings calculated in accordance with Luxembourg law and regulations exist. Therefore, retained earnings included in these consolidated financial statements may not be wholly distributable. See Note 25 (iii). The accompanying notes are an integral part of these consolidated financial statements.

F-7

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

(All amounts in USD thousands)

**Consolidated Statements of Changes in Equity**

	Attributable to the Company's equity holders (1)						Total	Non-controlling interest	Total Equity
	Capital stock (2)	Initial public offering expenses	Reserves (3)	Capital stock issue discount (4)	Currency translation adjustment	Retained earnings			
<b>Balance at January 1, 2010</b>	<b>2,004,743</b>	<b>(23,295)</b>	<b>1,726,216</b>	<b>(2,324,866)</b>	<b>(570,844)</b>	<b>4,484,388</b>	<b>5,296,342</b>	<b>964,897</b>	<b>6,261,239</b>
Profit for the period						622,076	622,076	157,394	779,470
Other comprehensive income (loss) for the period									
Currency translation adjustment					53,412		53,412	(17,497)	35,915
Cash flow hedges, net of tax			9,147				9,147	1,163	10,310
Total comprehensive income for the period			9,147		53,412	622,076	684,635	141,060	825,695
Dividends paid in cash (5)			(100,237)				(100,237)		(100,237)
Dividends paid in cash by subsidiary companies								(38,304)	(38,304)
Contributions from non-controlling shareholders in consolidated subsidiaries								4,900	4,900
Acquisition of business								62,808	62,808
<b>Balance at December 31, 2010</b>	<b>2,004,743</b>	<b>(23,295)</b>	<b>1,635,126</b>	<b>(2,324,866)</b>	<b>(517,432)</b>	<b>5,106,464</b>	<b>5,880,740</b>	<b>1,135,361</b>	<b>7,016,101</b>



## Edgar Filing: Ternium S.A. - Form 20-F

- (1) Shareholders' equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 25 (iii).
- (2) The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD 1.00 per share. As of December 31, 2010, there were 2,004,743,442 shares issued. All issued shares are fully paid.
- (3) Include legal reserve under Luxembourg law for USD 200.5 million, distributable reserves under Luxembourg law for USD 101.4 million, undistributable reserves under Luxembourg law for USD 1.4 billion, hedge accounting reserve, net of tax effect, for USD (22.4) million and reserves related to the acquisition of non-controlling interest in subsidiaries according to IAS 27 for USD (58.5) million.
- (4) Represents the difference between book value of non-monetary contributions received from shareholders under Luxembourg GAAP and IFRS.
- (5) Represents USD 0.05 USD per share (USD 0.50 per ADS).

Dividends may be paid by Ternium to the extent distributable retained earnings calculated in accordance with Luxembourg law and regulations exist. Therefore, retained earnings included in these consolidated financial statements may not be wholly distributable. See Note 25 (iii). The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

(All amounts in USD thousands)

**Consolidated Statements of Cash Flows**

	Notes	Year ended December 31,		
		2012	2011	2010
<b>Cash flows from operating activities</b>				
Income from continuing operations:		<b>187,154</b>	<b>649,907</b>	<b>779,470</b>
Adjustments for:				
Depreciation and amortization	<b>12 &amp; 13</b>	370,855	395,989	374,201
Income tax accruals less payments	<b>31 (b)</b>	44,370	(260,264)	226,355
Equity in losses (earnings) of non-consolidated companies	<b>3 &amp; 14</b>	346,833	(10,137)	(12,867)
Interest accruals less payments	<b>31 (b)</b>	816	43,047	(59)
Changes in provisions	<b>20</b>	5,754	29,932	5,543
Changes in working capital	<b>31 (b)</b>	23,533	(399,292)	(437,079)
Net foreign exchange results and others		75,777	173,188	(138,308)
<b>Net cash provided by operating activities</b>		<b>1,055,092</b>	<b>622,370</b>	<b>797,256</b>
<b>Cash flows from investing activities</b>				
Capital expenditures	<b>12 &amp; 13</b>	(1,022,592)	(577,001)	(339,378)
Acquisition of business:				
Purchase consideration	<b>3</b>	(2,243,610)		(75,000)
Cash acquired	<b>3</b>			6,593
Decrease (Increase) in other investments	<b>15 &amp; 19</b>	127,875	588,212	(820,672)
Proceeds from the sale of property, plant and equipment		2,143	1,696	1,693
Proceeds from Sidor financial asset	<b>27</b>	136,719	133,084	767,382
Dividends received from associated companies	<b>14</b>	4,718		302
Contributions in associated companies	<b>14</b>			(302)
<b>Net cash (used in) provided by investing activities</b>		<b>(2,994,747)</b>	<b>145,991</b>	<b>(459,382)</b>
<b>Cash flows from financing activities</b>				
Dividends paid in cash to company's shareholders		(147,231)	(147,231)	(100,237)
Dividends paid in cash by subsidiary companies		(15,902)	(140,579)	(38,304)
Contributions from non-controlling shareholders in consolidated subsidiaries		41,650	39,200	4,900
Repurchase of treasury shares	<b>30</b>		(150,000)	
Proceeds from borrowings		1,284,659	666,180	35,441
Repayments of borrowings		(814,976)	(632,140)	(555,216)
<b>Net cash provided by (used in) financing activities</b>		<b>348,200</b>	<b>(364,570)</b>	<b>(653,416)</b>

<b>(Decrease) Increase in cash and cash equivalents</b>	<b>(1,591,455)</b>	<b>403,791</b>	<b>(315,542)</b>
<b>Movement in cash and cash equivalents</b>			
At January 1,	2,158,044	1,779,295	2,093,800
Effect of exchange rate changes	(6,282)	(25,042)	1,037
(Decrease) Increase in cash and cash equivalents	(1,591,455)	403,791	(315,542)
<b>Cash and cash equivalents at December 31, (1)</b>	<b>560,307</b>	<b>2,158,044</b>	<b>1,779,295</b>

- (1) It includes restricted cash of USD 941, USD 248 and USD 12,343 as of December 31, 2012, 2011 and 2010, respectively. In addition, the Company had other investments with a maturity of more than three months for USD 160,750, USD 281,676 and USD 848,800 as of December 31, 2012, 2011 and 2010, respectively.

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

---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**INDEX TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

1	<u>General information</u>
2	<u>Basis of presentation</u>
3	<u>Acquisition of business - Usinas Siderúrgicas de Minas Gerais S.A. - USIMINAS</u>
4	<u>Accounting policies</u>
5	<u>Segment information</u>
6	<u>Cost of sales</u>
7	<u>Selling, general and administrative expenses</u>
8	<u>Labor costs (included in cost of sales and selling, general and administrative expenses)</u>
9	<u>Other operating income (expenses), net</u>
10	<u>Other financial income (expenses), net</u>
11	<u>Income tax expense</u>
12	<u>Property, plant and equipment, net</u>
13	<u>Intangible assets, net</u>
14	<u>Investments in non-consolidated companies</u>
15	<u>Other investments, net - non current</u>
16	<u>Receivables, net - non-current and current</u>
17	<u>Trade receivables, net - non-current and current</u>
18	<u>Inventories, net</u>
19	<u>Cash, cash equivalents and other investments</u>
20	<u>Allowances and provisions - non-current and current</u>
21	<u>Deferred income tax</u>
22	<u>Other liabilities - non-current and current</u>
23	<u>Derivative financial instruments</u>
24	<u>Borrowings</u>
25	<u>Contingencies, commitments and restrictions on the distribution of profits</u>
26	<u>Earnings per share</u>
27	<u>Discontinued operations - Nationalization of Sidor</u>
28	<u>Related party transactions</u>
29	<u>Investments in Mexico</u>
30	<u>Repurchase of shares from Usiminas concurrently with secondary public offering</u>
31	<u>Other required disclosures</u>
32	<u>Recently issued accounting pronouncements</u>
33	<u>Financial risk management</u>
34	<u>Subsequent events</u>

---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**Notes to the Consolidated Financial Statements**

**1. GENERAL INFORMATION**

Ternium S.A. (the Company or Ternium ), was incorporated on December 22, 2003 to hold investments in flat and long steel manufacturing and distributing companies. The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD 1.00 per share. As of December 31, 2012, there were 2,004,743,442 shares issued. All issued shares are fully paid.

Following a corporate reorganization carried out during fiscal year 2005, in January 2006 the Company successfully completed its registration process with the United States Securities and Exchange Commission ( SEC ). Ternium 's ADSs began trading on the New York Stock Exchange under the symbol TX on February 1, 2006. The Company 's initial public offering was settled on February 6, 2006. On January 31, 2011, the Company filed with the SEC a registration statement on form F-3 relating to sales of equity and debt securities.

The Company was initially established as a public limited liability company (société anonyme) under Luxembourg 's 1929 holding company regime. Until termination of such regime on December 31, 2010, holding companies incorporated under the 1929 regime (including the Company) were exempt from Luxembourg corporate and withholding tax over dividends distributed to shareholders.

On January 1, 2011, the Company became an ordinary public limited liability company (société anonyme) and, effective as from that date, the Company is subject to all applicable Luxembourg taxes (including, among others, corporate income tax on its worldwide income) and its dividend distributions will generally be subject to Luxembourg withholding tax. However, dividends received by the Company from subsidiaries in high income tax jurisdictions, as defined under Luxembourg law, will continue to be exempt from corporate income tax in Luxembourg under Luxembourg 's participation exemption.

As part of the Company 's corporate reorganization in connection with the termination of Luxembourg 's 1929 holding company regime, on December 6, 2010, the Company contributed its equity holdings in all its subsidiaries and all its financial assets to its Luxembourg wholly-owned subsidiary Ternium Investments S.à.r.l., or Ternium Investments, in exchange for newly issued corporate units of Ternium Investments. As the assets contributed were recorded at their historical carrying amount in accordance with Luxembourg GAAP, the Company 's December 2010 contribution of such assets to Ternium Investments resulted in a non-taxable revaluation of the accounting value of the Company 's assets under Luxembourg GAAP. The amount of the December 2010 revaluation was equal to the difference between the historical carrying amounts of the assets contributed and the value at which such assets were contributed and amounted to USD 4.0 billion. However, for the purpose of these consolidated financial statements, the assets contributed by Ternium to its wholly-owned subsidiary Ternium Investments were recorded based on their historical carrying amounts in accordance with IFRS, with no impact on the financial statements.

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**1. GENERAL INFORMATION (continued)**

Following the completion of the corporate reorganization, and upon its conversion into an ordinary Luxembourg holding company, the Company voluntarily recorded a special reserve exclusively for tax-basis purposes. As of December 31, 2012 and 2011, this special tax reserve amounted to USD 7.6 billion and USD 7.7 billion, respectively. The Company expects that, as a result of its corporate reorganization, its current overall tax burden will not increase, as all or substantially all of its dividend income will come from high income tax jurisdictions. In addition, the Company expects that dividend distributions for the foreseeable future will be imputed to the special reserve and therefore should be exempt from Luxembourg withholding tax under current Luxembourg law.

**2. BASIS OF PRESENTATION**

These consolidated financial statements have been prepared in accordance with IFRS (International Financial Reporting Standards) issued and effective or issued and early adopted as at the time of preparing these statements (February 2013), as issued by the International Accounting Standards Board, and adopted by the European Union ( EU ). These consolidated financial statements are presented in thousands of United States dollars ( USD ), except otherwise indicated.

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

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

Certain comparative amounts have been reclassified to conform to changes in presentation in the current period. These reclassifications do not have a material effect on the Company's consolidated financial statements.

These consolidated financial statements have been approved for issue by the Board of Directors on February 20, 2013.

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

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**2. BASIS OF PRESENTATION (continued)**

Company	Country of Organization	Main activity	Percentage of ownership at December 31,		
			2012	2011	2010
Ternium S.A.	Luxembourg	Holding	100.00%	100.00%	100.00%
Ternium Investments S.à.r.l. (1)	Luxembourg	Holding	100.00%	100.00%	100.00%
Ternium Solutions A.G. (2)	Switzerland	Services	100.00%	100.00%	
Ternium Brasil S.A. (3)	Brazil	Holding	100.00%	100.00%	100.00%
Siderúrgica do Norte Fluminense S.A. (4)	Brazil	Manufacturing and selling of steel products	100.00%	100.00%	100.00%
Ylopa - Servicios de Consultoría Lda. (5)	Portugal	Holding			94.38%
Consorcio Siderurgia Amazonia S.L. (formerly Consorcio Siderurgia Amazonia S.L.U.) (6)	Spain	Holding	94.38%	94.38%	94.38%
Secor - Servicios Corporativos S.A. (6)	Venezuela	Holding	94.53%	94.38%	94.38%
Ternium Internacional España S.L.U. (3)	Spain	Marketing of steel products	100.00%	100.00%	100.00%
Siderar S.A.I.C. (7)	Argentina	Manufacturing and selling of flat steel products	60.94%	60.94%	60.94%
Impeco S.A. (8)	Argentina	Manufacturing of pipe products	60.97%	60.97%	60.97%
Prosid Investments S.C.A. (8)	Uruguay	Holding	60.94%	60.94%	60.94%
Inversiones Basilea S.A. (9)	Chile	Purchase and sale of real estate and other		60.94%	60.94%
Ternium Mexico S.A. de C.V. (10)	Mexico	Holding	88.72%	88.72%	88.72%
Hylsa S.A. de C.V. (11)	Mexico	Manufacturing and selling of steel products	88.72%	88.72%	88.72%
Las Encinas S.A. de C.V. (11)	Mexico	Exploration, exploitation and pelletizing of iron ore	88.72%	88.72%	88.72%
Ferropak Comercial S.A. de C.V. (11)	Mexico	Scrap services company	88.72%	88.72%	88.72%
Ferropak Servicios S.A. de C.V. (11)	Mexico	Services	88.72%	88.72%	88.72%
Galvacer America Inc (11)	USA	Distributing company	88.72%	88.72%	88.72%
Galvamet America Corp (11)	USA	Manufacturing and selling of insulated panel products	88.72%	88.72%	88.72%
Transamerica E. & I. Trading Corp. (11)	USA	Scrap services company	88.72%	88.72%	88.72%
Técnica Industrial S.A. de C.V. (11)	Mexico	Services	88.72%	88.72%	88.72%
Ternium Gas México S.A. de C.V. (formerly Sefimsa S.A. de C.V.) (12)	Mexico	Financial Services	88.72%	88.72%	88.72%
Ecore Holding S. de R.L. de C.V. (11)	Mexico	Holding	88.72%	88.72%	88.72%
Neotec L.L.C. (11)	USA	Holding	88.72%	88.72%	88.72%
Treasury Services S.A. de C.V. (11)	Mexico	Financial Services	88.72%	88.72%	88.72%
APM, S.A. de C.V. (11)	Mexico	Manufacturing and selling of steel products	88.72%	88.72%	88.72%
Acedor, S.A. de C.V. (11)	Mexico	Holding	88.72%	88.72%	88.72%
Empresas Stabilit S.A. de C.V. (13)	Mexico	Holding			88.72%
Acerus S.A. de C.V. (11)	Mexico	Manufacturing and selling of steel products	88.72%	88.72%	88.72%
Imsa Monclova S.A. de C.V. (11)	Mexico	Services	88.72%	88.72%	88.72%
Ternium Internacional Guatemala S.A. (14)	Guatemala	Selling of steel products	99.98%	99.98%	88.72%

Edgar Filing: Ternium S.A. - Form 20-F

Corporativo Grupo Imsa S.A. de C.V. (11)	Mexico	Services	88.72%	88.72%	88.72%
--	--------	----------	--------	--------	--------

F-13



**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**2. BASIS OF PRESENTATION (continued)**

Company	Country of Organization	Main activity	Percentage of ownership at December 31,		
			2012	2011	2010
Ternium USA Inc. (11)	USA	Manufacturing and selling of steel products	88.72%	88.72%	88.72%
Servicios Integrales Nova de Monterrey S.A. de C.V. (15)	Mexico	Medical and Social Services	66.09%	66.09%	66.09%
Ternium Guatemala S.A. (16)	Guatemala	Manufacturing and selling of steel products			88.72%
Ternium Internacional Nicaragua S.A.	Nicaragua	Manufacturing and selling of steel products	99.38%	99.38%	88.18%
Ternium Internacional Honduras S.A. de C.V.	Honduras	Manufacturing and selling of steel products	99.18%	99.18%	88.01%
Ternium Internacional El Salvador S.A. de C.V.	El Salvador	Manufacturing and selling of steel products	99.91%	99.91%	88.66%
Ternium Internacional Costa Rica S.A.	Costa Rica	Manufacturing and selling of steel products	99.98%	99.98%	88.72%
Ferrasa S.A.S. (17)	Colombia	Manufacturing and selling of steel products	54.00%	54.00%	54.00%
Perfilamos del Cauca S.A.S. (17)	Colombia	Manufacturing and selling of steel products	54.00%	54.00%	54.00%
Figuraciones S.A.S. (17)	Colombia	Manufacturing and selling of steel products	54.00%	54.00%	54.00%
Siderúrgica de Caldas S.A.S. (17)	Colombia	Manufacturing and selling of steel products	54.00%	54.00%	54.00%
Procesadora de Materiales Industriales S.A.	Colombia	Scrap services company	32.40%	32.40%	32.40%
Recolectora Industrial de Colombia S.A. (18)	Colombia	Scrap services company			28.70%
Desechos Industriales de Colombia S.A. (18)	Colombia	Scrap services company			29.70%
Tenigal S. de R.L. de C.V. (19)	Mexico	Manufacturing and selling of steel products	51.00%	51.00%	51.00%
Ternium Investments Switzerland AG (3)	Switzerland	Holding	100.00%	100.00%	100.00%
Ternium Internacional S.A. (20)	Uruguay	Holding and marketing of steel products	100.00%	100.00%	100.00%
Ternium International Ecuador S.A. (21)	Ecuador	Marketing of steel products	100.00%	100.00%	100.00%
Ternium International USA Corporation (21)	USA	Marketing of steel products	100.00%	100.00%	100.00%
Ternium Internationaal B.V. (21)	Netherlands	Marketing of steel products	100.00%	100.00%	100.00%
Ternium Internacional Perú S.A. (22)	Peru	Marketing of steel products		100.00%	100.00%
Ternium Internacional de Colombia S.A.S. (formerly Ternium Internacional de Colombia S.A.) (21)	Colombia	Marketing of steel products	100.00%	100.00%	100.00%
Ternium Procurement S.A. (20)	Uruguay	Procurement services	100.00%	100.00%	100.00%
Ternium International Inc. (20)	Panama	Marketing of steel products	100.00%	100.00%	100.00%
Ternium Engineering & Services S.A. (23)	Uruguay	Engineering and other services	100.00%	100.00%	100.00%
Ternium Ingeniería y Servicios de Argentina S.A.	Argentina	Engineering and other services	100.00%	100.00%	100.00%
Ternium Ingeniería y Servicios de México S.A. de C.V.	Mexico	Engineering and other services	100.00%	100.00%	100.00%
Ternium Treasury Services S.A. (20)	Uruguay	Financial Services	100.00%	100.00%	100.00%
Ternium Treasury Services B.V. (20)	Netherlands	Financial Services	100.00%	100.00%	100.00%
Ferrasa Panamá, S.A. (24)	Panama	Manufacturing and selling of steel products	54.00%	54.00%	54.00%
Aceros Transformados de Panamá, S.A. (24)	Panama	Manufacturing and selling of steel products	54.00%	54.00%	54.00%



**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**2. BASIS OF PRESENTATION (continued)**

- (1) Incorporated in the fourth quarter of 2010.
- (2) Indirectly through Ternium Investments S.à.r.l. Total voting rights held: 100.00%. Incorporated in the first quarter of 2011.
- (3) Indirectly through Ternium Investments S.à.r.l. Total voting rights held: 100.00%.
- (4) Indirectly through Ternium Brasil S.A. Total voting rights held: 100.00%. Incorporated during 2010.
- (5) This company was dissolved as of December 27, 2011.
- (6) Since December 27, 2011, indirectly through Ternium Investments S.à.r.l. (85.77%) and Prosid Investments S.C.A. (8.76%). Total voting rights held: 100.00%. Before that, indirectly through Ylopa Servicios de Consultoría Lda.
- (7) Indirectly through Ternium Internacional España S.L.U. Total voting rights held: 60.94%.
- (8) Indirectly through Siderar S.A.I.C and Ternium Internacional S.A. Total voting rights held 100.00%.
- (9) This company was dissolved as of November 14, 2012.
- (10) Indirectly through Siderar S.A.I.C., Inversiones Basilea S.A. and Ternium Internacional España S.L.U. Total voting rights held 99.93%.
- (11) Indirectly through Ternium Mexico S.A. de C.V. Total voting rights held: 100.00%.
- (12) Indirectly through Ternium Mexico S.A. de C.V. and Tenigal S. de R.L. de C.V. Total voting rights held: 100.00%.
- (13) Merged with Ternium Mexico S.A. de C.V. during the fourth quarter of 2011.
- (14) Indirectly through Ternium Internacional España S.L.U. Total voting rights held: 100%.
- (15) Indirectly through Ternium Mexico S.A. de C.V. Total voting rights held: 74.50%.
- (16) This company was merged with Ternium Internacional Guatemala, S.A. during the first quarter of 2011.
- (17) Indirectly through Ternium Internacional España S.L.U. Total voting rights held: 54.00%. Incorporated during 2010. (See note 3.)
- (18) These companies were sold during the second quarter of 2011.
- (19) Indirectly through Ternium Internacional España S.L.U. Total voting rights held: 51.00%. Incorporated during 2010. (See note 31.)
- (20) Indirectly through Ternium Investments Switzerland AG. Total voting rights held: 100.00%.
- (21) Indirectly through Ternium Internacional S.A. Total voting rights held 100.00%.
- (22) This company was dissolved as of February 18, 2012.
- (23) Indirectly through Ternium Internacional Inc. Total voting rights held 100.00%.
- (24) Indirectly through Ternium Treasury Services S.A. Total voting rights held: 54.00%. Incorporated during 2010. (See note 3.)

**3. ACQUISITION OF BUSINESS USINAS SIDERÚRGICAS DE MINAS GERAIS S.A. USIMINAS**

On November 27, 2011, the Company's wholly-owned Luxembourg subsidiary Ternium Investments S.à.r.l., together with the Company's Argentine majority-owned subsidiary Siderar S.A.I.C. (and Siderar's wholly-owned Uruguayan subsidiary Prosid Investments S.C.A.), and Confab Industrial S.A., a Brazilian subsidiary of Tenaris S.A. (TenarisConfab), entered into share purchase agreements with Camargo Corrêa, Votorantim and Caixa dos Empregados da Usiminas (Usiminas employee pension fund, or CEU) for the acquisition of 139.7 million ordinary shares of Usinas Siderúrgicas de Minas Gerais S.A. USIMINAS (Usiminas), representing 27.66% of Usiminas' voting capital, at a price of BRL 36.0 (approximately USD 19.0) per ordinary share.

With strategically located facilities near the main consumers of steel in Brazil and iron ore mines in the Serra Azul region, Usiminas is organized under four main business units: Mining, Steel, Steel Processing and Capital Goods.

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**3. ACQUISITION OF BUSINESS USINAS SIDERÚRGICAS DE MINAS GERAIS S.A. USIMINAS (continued)**

Upon closing of the transaction on January 16, 2012, Ternium Investments, Siderar and TenarisConfab joined Usiminas' existing control group through the acquisition of 84.7, 30.0, and 25.0 million ordinary shares, respectively. In addition, Nippon Steel acquired from CEU 8.5 million ordinary shares. In addition, Ternium Investments, Siderar, Prosid and TenarisConfab entered into an amended and restated Usiminas shareholders' agreement with Nippon Steel, Mitsubishi, Metal One and CEU, governing Ternium Investments, Siderar (and Prosid) and TenarisConfab's rights within the Usiminas control group; most decisions in that control group are subject for its approval to a 65% majority of the control group shares. As a result of these transactions, the control group, which holds 322.7 million ordinary shares representing the majority of Usiminas' voting rights, is now formed as follows: Nippon Group 46.1%, Ternium/Tenaris Group 43.3%, and CEU 10.6%. The rights of Ternium Investments, Siderar (and Prosid) and TenarisConfab within the Ternium/Tenaris Group are governed under a separate shareholders agreement.

Ternium holds 35.6% of Usiminas' voting rights over the control group and 22.71% of Usiminas' ordinary shares, and has a participation in Usiminas' results of 11.32%.

As of the date of issuance of these consolidated financial statements, the Company has completed its purchase price allocation procedures and determined a notional goodwill included within the investment balance of USD 583 million, according to the following calculation:

<b>Opening net assets at January 16, 2012</b>	<b>9,690,397</b>
Percentage of interest of the Company over opening net assets (1)	11.62%
<b>Interest of the Company over opening net assets</b>	<b>1,126,306</b>
Net assets at fair value vs. book value	534,531
Goodwill	582,773
<b>Total Purchase consideration</b>	<b>2,243,610</b>

(1) This percentage of interest is calculated considering treasury shares.

The Company has performed an impairment test over its investment in Usiminas as of December 31, 2012, and subsequently wrote down the investment by USD 275 million. The impairment was mainly due to expectations of a weaker industrial environment in Brazil, where industrial production and consequently steel demand have been suffering downward adjustments. In addition, a higher degree of uncertainty regarding future prices of iron ore led to a reduction in Ternium's forecast of long term iron ore prices that affected cash flow expectations.

## Edgar Filing: Ternium S.A. - Form 20-F

In 2012, the Company's investment in Usiminas, which is accounted for under the equity method, contributed a total loss of USD 364 million mainly as a result of the above mentioned impairment of goodwill, a USD 51 million depreciation of the difference between the fair value and book value of net assets and a USD 37 million loss from Usiminas' net losses in the year.

To determine the recoverable value, the Company used the value in use, which was calculated as the present value of the expected cash flows, considering the expected prices for the years covered by the projection. As of December 31, 2012 the discount rate used to test the investment in Usiminas for impairment was 9.6%.

F-16

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**3. ACQUISITION OF BUSINESS USINAS SIDERÚRGICAS DE MINAS GERAIS S.A. USIMINAS (continued)**

As a result of this impairment charge and considering the results and all other adjustments to the equity, the investment in Usiminas as of December 31, 2012, is as follows:

Purchase consideration	2,243,610
Dividends received	(4,718)
Share of results	(88,556)
Other comprehensive income	(282,662)
Impairment charge	(275,334)
<b>At December 31, 2012</b>	<b>1,592,340</b>

The aggregated amounts disclosed as Other comprehensive income are mainly attributable to a currency translation adjustment generated by the investment in Usiminas being maintained in Brazilian real and are calculated as provided by IAS 21. The effects of changes in foreign exchange rates .

On February 18, 2013, Usiminas published its annual accounts as of and for the year ended December 31, 2012, which include the following information:

Summarized balance sheet (in million USD)	As of December 31, 2012
<b>Assets</b>	
Non-current	10,763
Current	5,276
<b>Total Assets</b>	<b>16,039</b>
<b>Liabilities</b>	
Non-current	(4,335)
Current	(2,645)
<b>Total Liabilities</b>	<b>(6,980)</b>

Edgar Filing: Ternium S.A. - Form 20-F

**Minority interest** (932)

**Shareholders equity** 8,127

	As of December 31, 2012
<b>Summarized income statement (in million USD)</b>	
Net sales	6,502
Cost of sales	(6,162)
<b>Gross Profit</b>	<b>340</b>
Selling, general and administrative expenses	(439)
Other operating expenses, net	
<b>Operating income</b>	<b>(99)</b>
Financial income (expenses), net	(253)
Equity in earnings(losses) of associated companies	31
<b>Income before income tax</b>	<b>(321)</b>
Income tax expense	58
<b>Net Income before minority interest</b>	<b>(263)</b>
Minority interest in other subsidiaries	(56)
<b>Net income (loss) for the year/period</b>	<b>(319)</b>

F-17

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**3. ACQUISITION OF BUSINESS USINAS SIDERÚRGICAS DE MINAS GERAIS S.A. USIMINAS (continued)**

Ternium Investments and Siderar financed their BRL 4.1 billion share (approximately USD 2.2 billion) of the Usiminas acquisition with cash on hand and, in the case of Ternium Investments, a USD 700 million term loan with a syndicate of banks led by Credit Agricole Corporate and Investment Bank as administrative agent (the Ternium facility).

Ternium Investments' loans under the Ternium Facility are to be repaid in nine consecutive and equal semi-annual installments commencing on January 2013. The Ternium facility contains covenants customary for transactions of this type, including limitations to additional debt; limitations on the sale of certain assets and compliance with financial ratios (e.g., leverage ratio and minimum cash requirements). There are no limitations to the payment of dividends or capital expenditures under the Ternium facility, except in case of non-compliance with the above mentioned covenants.

**4. ACCOUNTING POLICIES**

These Consolidated Financial Statements have been prepared following the same accounting policies used in the preparation of the audited Consolidated Financial Statements for the year ended December 31, 2011, except for the changes described below.

The Company has early-adopted the following standards, together with the consequential amendments to other IFRS, for the year ended December 31, 2012:

IFRS 10, Consolidated financial statements : IFRS 10 was issued in May 2011 and replaces all the guidance on control and consolidation in IAS 27, Consolidated and separate financial statements , and SIC-12, Consolidation special purpose entities . Full retrospective application is required in accordance with the transition provisions of the standard, unless impracticable, in which case the Company applies it from the earliest practicable date.

IFRS 11, Joint arrangements : IFRS 11 was issued in May 2011 and replaces all the guidance on joint arrangements included in IAS 31, Interests in joint ventures .

IFRS 12, Disclosure of interests in other entities : IFRS 12 was issued in May 2011, and provides disclosure requirements on interests in subsidiaries, associates, joint arrangements, and unconsolidated structured entities.

IAS 27, Separate financial statements : IAS 27 was amended in May 2011 following the issuance of IFRS 10. The revised IAS 27 deals only with the accounting for subsidiaries, associates and joint arrangements in the separate financial statements of the parent company.



## Edgar Filing: Ternium S.A. - Form 20-F

The Company has applied the above standards retrospectively. The above standards did not result in significant changes to the Company's financial statements as at the date of the early adoption. Investments in joint ventures are shown together with investments in associates under the caption "Investments in non-consolidated companies". The main change is the deconsolidation of Consorcio Minero Benito Juarez Peña Colorada S.A. de C.V., which was proportionately consolidated until December 31, 2011. Accordingly, no additional disclosures have been considered necessary. See also note 14.

F-18

---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

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

**(a) Group accounting**

*(1) Subsidiary companies and transactions with non-controlling interests*

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Company uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at the fair values at the acquisition date. Indemnification assets are recognized at the same time that the Company recognizes the indemnified item and measures them on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. The Company measures the value of a reacquired right recognized as an intangible asset on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals in determining its fair value.

On an acquisition-by-acquisition basis, the Company recognizes any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

The measurement period is the earlier of the date that the acquirer receives the information that it is looking for or cannot obtain the information and one year after the acquisition date. Where the accounting for a business combination is not complete by the end of the reporting period in which the business combination occurred provisional amounts are reported.

The Company treats transactions with non-controlling interests as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.



---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

When the Company ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group. However, the fact that the functional currency of some subsidiaries is their respective local currency, generates some financial gains (losses) arising from intercompany transactions, that are included in the consolidated income statement under Other financial expenses, net.

*(2) Investments in non-consolidated companies*

Associated companies are those entities in which Ternium has significant influence, but which it does not control.

Prior to January 1, 2012, the Company reported its interests in jointly controlled entities using proportionate consolidation. The Company's share of the assets, liabilities, income, expenses and cash flows of jointly controlled entities were combined on a line-by-line basis with similar items in the Company's financial statements. Where the Company transacted with its jointly controlled entities, unrealized profits and losses were eliminated to the extent of the Company's interest in the joint venture.

The Company has early adopted IFRS 11, Joint arrangements, on January 1, 2012, and has applied the new policy of equity value for interests in joint ventures occurring on or after January 1, 2010, in accordance with the transition provisions of that Standard. The Company recognizes its investment in joint ventures at the beginning of the earliest period presented (January 1, 2010) as the deemed cost of the Company's investments in joint ventures for applying equity accounting.

Investments in non-consolidated companies are accounted for using the equity method of accounting. Under this method, interests in joint ventures and associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the post-acquisition profits or losses in the income statement, and its share of post-acquisition changes in reserves recognized in reserves and in other comprehensive income in the income statement. Unrealized gains on transactions among the Company and its non-consolidated companies are eliminated to the extent of the Company's interest in such non-consolidated companies; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When the Company's share of losses in a non-consolidated company equals or exceeds its interest in such non-consolidated company, the Company does not recognize further losses unless it has incurred obligations or made payments on behalf of such non-consolidated company.

---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

The Company's investment in associates and joint ventures includes notional goodwill identified on acquisition.

The Company determines at each reporting date whether there is any objective evidence that the investment is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognizes the amount within Equity on earnings (losses) of non-consolidated companies.

**(b) Foreign currency translation**

*(1) Functional and presentation currency*

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

Due to changes in the primary economic environment in which its Mexican subsidiaries operate and in accordance with International Financial Reporting Standards, the Company performed a functional currency review and concluded that the functional currency of its Mexican subsidiaries should change prospectively to the U.S. dollar, effective as of January 1, 2012. The main indicators of such change in economic environment are: an increase of revenues determined and denominated in U.S. dollars (which is expected to continue increasing); the elimination of Mexican import duties on steel products effective 2012; an increase in the weight of raw material costs with U.S. dollar-denominated prices; and a determination that capital expenditures in Mexico (which are made to increase supply capabilities in connection with growing automobile exports to the U.S. market) are mainly incurred in U.S. dollars.

*(2) Subsidiary companies*

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

- (i) assets and liabilities are translated at the closing rate of each statement of financial position;
- (ii) income and expenses for each income statement are translated at average exchange rates; and
- (iii) all resulting translation differences are recognized within other comprehensive income.

## Edgar Filing: Ternium S.A. - Form 20-F

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

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

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the date of the transactions or valuation where items are re-measured.

F-21

---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

At the end of each reporting period: (i) monetary items denominated in currencies other than the functional currency are translated using the closing rates, (ii) non-monetary items that are measured in terms of historical cost in a currency other than the functional currency are translated using the exchange rates prevailing at the date of the transactions; and (iii) non-monetary items that are measured at fair value in a currency other than the functional currency are translated using the exchange rates prevailing at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than the functional currency are recorded as gains and losses from foreign exchange and included in Other financial income (expenses), net in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss, while translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available for sale reserve in equity. Ternium had no such assets or liabilities for any of the periods presented.

**(c) Financial instruments**

*Non derivative financial instruments*

Non derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Ternium non derivative financial instruments are classified into the following categories:

Financial instruments at fair value through profit or loss: comprises mainly cash and cash equivalents and investments in debt securities held for trading;

Held-to-maturity instruments: measured at amortized cost using the effective interest method less impairment losses. As of December 31, 2012 and 2011, there are no instruments classified under this category;

Loans and receivables: measured at amortized cost using the effective interest method less impairment losses;

Available-for-sale ( AFS ) financial assets: gains and losses arising from changes in fair value are recognized within other comprehensive income ( OCI ) with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in OCI is included in the income statement for the period. As of December 31, 2012 and 2011, there are no instruments classified under

this category;

Other financial liabilities: measured at amortized cost using the effective interest method.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets and liabilities are recognized and derecognized on the settlement date.

F-22



---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

Financial assets are initially measured at fair value, net of transaction costs, except for those financial assets classified as financial assets at fair value through profit or loss.

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

*Impairment of financial assets*

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Company first assesses whether objective evidence of impairment exists.

For loans and receivables category and for held-to-maturity investments, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

*Derivative financial instruments*

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

**(d) Property, plant and equipment**

Land and buildings comprise mainly factories and offices. All property, plant and equipment are recognized at historical acquisition or construction cost less accumulated depreciation and accumulated impairment (if applicable), except for land, which is carried at acquisition cost less accumulated impairment (if applicable). There are no material residual values for property, plant and equipment items.

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

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

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



**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

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

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

Land	No depreciation
Buildings and improvements	10-45 years
Production equipment	5-20 years
Vehicles, furniture and fixtures and other equipment	5-10 years

Property, plant and equipment used in mining activities are depreciated over its useful life or over the remaining life of the mine if shorter and there is no alternative use possible.

The assets' useful lives are reviewed, and adjusted if appropriate, at each year end.

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

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

**(e) Intangible assets***(1) Information system projects*

Generally, costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. However, costs directly related to the acquisition and implementation of information systems are recognized as intangible assets if they have a probable economic benefit exceeding the cost beyond one year and comply with the recognition criteria of IAS 38.

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

*(2) Mining concessions*

## Edgar Filing: Ternium S.A. - Form 20-F

Mining license was recognized as a separate intangible asset upon the acquisition of the investment in Mexico and comprises the right to exploit the mines and is recognized at its fair value at acquisition date less accumulated amortization.

These mining concessions were granted for a 50-year period; following the expiration of the initial concession term, the concessions are renewable for an additional 50- year term in accordance with, and subject to the procedures set forth in, applicable Mexican mining law.

F-24

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

Amortization charge is calculated by using the unit-of-production method, on the basis of actual mineral extracted in each period compared to the estimated mineral reserves, and is included in cost of sales. Any change in the estimation of reserves is accounted for prospectively. The resulting amortization rate for the years ended December 31, 2012 and 2011, is approximately 9% per year.

*(3) Exploration costs*

Exploration and evaluation costs are measured at cost. Costs directly associated with exploration activities and leasehold acquisition costs are capitalized until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are charged to expense. If it is determined that commercial discovery has been achieved, costs incurred are reclassified into Property, Plant and Equipment or Intangible Assets according to the nature of the expenditure and amortization starts. Exploration costs are tested for impairment annually. No impairment losses have been recorded for any of the years presented.

*(4) Goodwill*

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

Goodwill is allocated to Cash-generating units (CGU) for the purpose of impairment testing. The allocation is made to those cash-generating units expected to benefit from the business combination which generated the goodwill being tested.

As of December 31, 2012, the carrying amount of goodwill allocated to the Mexico CGU was USD 662.3 million, of which USD 619.8 million corresponds to steel operations and USD 42.5 million to mining operations. The carrying amount of goodwill allocated to other CGUs totaled USD 1.5 million.

*(5) Research and development*

Research expenditures are recognized as expenses as incurred. Development costs are recorded as cost of sales in the income statement as incurred because they do not fulfill the criteria for capitalization. Research and development expenditures for the years ended December 31, 2012, 2011 and 2010 totaled USD 8.8 million, USD 8.8 million and USD 5.7 million, respectively.

*(6) Customer relationships acquired in a business combination*

In accordance with IFRS 3 (revised) and IAS 38, Ternium has recognized the value of customer relationships separately from goodwill in connection with the acquisitions of Grupo Imsa and Ferrasa S.A.S.

Customer relationships are amortized using the straight-line method over a useful life of approximately 10 years.



**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

*(7) Trademarks acquired in a business combination*

In accordance with IFRS 3 and IAS 38, Ternium has recognized the value of trademarks separately from goodwill in connection with the acquisitions of Grupo Imsa and Ferrasa S.A.S.

Trademarks are amortized using the straight-line method over a useful life of between 5 to 10 years.

**(f) Impairment**

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

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

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

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

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

As a result of the above factors, actual cash flows and values could vary significantly from the forecasted future cash flows and related values derived using discounting techniques. Based on the information currently available, however, Ternium believes that it is not reasonably possible that the variation would cause the carrying amount to exceed the recoverable amount of the CGUs.





**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

Except for the impairment in connection with the investment in Usiminas, at December 31, 2012, 2011 and 2010, no impairment provisions were recorded in connection with assets that have an indefinite useful life (including goodwill). For the impairment in connection with the investment in Usiminas, see note 3 (a).

**(g) Other investments**

Other investments consist primarily of investments in financial debt instruments and equity investments where the Company holds a minor equity interest and does not exert significant influence.

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

Income from financial instruments is recognized in Other financial income (expenses), net in the income statement. The fair value of quoted investments are based on current bid prices. If the market for a financial investment is not active or the securities are not listed, the Company estimates the fair value by using standard valuation techniques. Dividends from investments in equity instruments are recognized in the income statement when the Company's right to receive payments is established.

**(h) Inventories**

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

The cost of iron ore produced in our mines comprises all direct costs necessary to extract and convert stockpiled inventories into raw materials, including stripping costs, depreciation of fixed assets related to the mining activity and amortization of mine exploration costs for those under-production mines.

The Company assesses the recoverability of its inventories considering their selling prices, if the inventories are damaged, or if they have become wholly or partially obsolete (see note 4 (x) (4)).

**(i) Trade receivables and other receivables**

Trade and other receivables are carried at face value less an allowance for doubtful accounts, if applicable. This amount does not differ significantly from fair value.

## Edgar Filing: Ternium S.A. - Form 20-F

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

F-27

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

**(j) Cash and cash equivalents**

Cash and cash equivalents and highly liquid short-term securities are carried at fair market value or at a historical cost which approximates fair market value.

For purposes of the cash flow statement, cash and cash equivalents comprise cash, bank current accounts and short-term highly liquid investments (original maturity of three months or less at date of acquisition) and overdrafts.

In the consolidated statement of financial position, bank overdrafts are included in borrowings within current liabilities.

**(k) Non-current assets (disposal groups) classified as held for sale**

Non-current assets (disposal groups) are classified as assets held for sale, complying with the recognition criteria of IFRS 5, and stated at the lower of carrying amount and fair value less cost to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

The carrying value of non-current assets classified as held for sale, at December 31, 2012 and 2011 totals USD 12.0 million and USD 10.4 million, respectively, which corresponds principally to land and other real estate items. Sale is expected to be completed within a one-year period.

**(l) Borrowings**

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

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

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

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

Deferred income taxes are calculated using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

## Edgar Filing: Ternium S.A. - Form 20-F

The principal temporary differences arise on fixed assets, intangible assets, inventories valuation and provisions for pensions. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted at year end. Under IFRS, deferred income tax assets (liabilities) are classified as non-current assets (liabilities).

F-28

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

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

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

Under Mexican law, Ternium's subsidiaries are required to pay their employees an annual benefit which is determined as a percentage of taxable profit for the year.

**(n) Employee liabilities**

*(1) Pension obligations and other post-employment obligations*

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

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

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

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

The Company has not early adopted the IAS 19 revised. The impact of adoption as of January 1, 2013, on the change in value of the pension plans is expected to be an approximately USD 88.0 million increase in the present value of unfunded obligations, with the corresponding impact recognized in equity.

Mexico

Ternium Mexico has defined benefit and defined contribution plans.

---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

The valuation of the liabilities for the defined benefit employee retirement plans (pensions and seniority premiums) covers all employees and is based primarily on their years of service, their present age and their remuneration at the date of retirement. The cost of the employee retirement plans (pension, health-care expenses and seniority premiums) is recognized as an expense in the year in which services are rendered in accordance with actuarial studies made by independent actuaries. The formal retirement plans are congruent with and complementary to the retirement benefits established by the Mexican Institute of Social Security. Additionally, the Company has established a plan to cover health-care expenses of retired employees. The Company has established irrevocable trust funds for the payment of pensions and seniority premiums, as well as for health-care expenses.

The defined contribution plans provides a benefit equivalent to the capital accumulated with the company's contributions, which are provided as a match of employees' contributions to the plan. The plan provides vested rights according to the years of service and the cause of retirement.

**Argentina**

Siderar implemented an unfunded defined benefit employee retirement plan for certain senior officers. The plan is designed to provide certain benefits to those officers (additional to those contemplated under applicable Argentine labor laws) in case of termination of the employment relationship due to certain specified events, including retirement. Benefits provided by the plan are denominated in U.S. Dollars and are calculated based on a seven-year salary average.

*(2) Termination benefits*

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

*(3) Other compensation obligations*

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

During 2007, Ternium launched an incentive retention program (the Program) applicable to certain senior officers and employees of the Company, who will be granted a number of Units throughout the duration of the Program. The value of each of these Units is based on Ternium's shareholders' equity (excluding non-controlling interest). Also, the beneficiaries of the Program are entitled to receive cash amounts based on (i) the amount of dividend payments made by Ternium to its shareholders, and (ii) the number of Units held by each beneficiary to the Program. Units vest ratably over a period of four years and will be redeemed by the Company ten years after grant date, with the option of an early redemption at seven years after grant date. As the cash payment of the benefit is tied to the book value of the shares, and not to their market value, Ternium valued this long-term incentive program as a long term benefit plan as classified in IAS 19.

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

As of December 31, 2012 and 2011, the outstanding liability corresponding to the Program amounts to USD 15.2 million and USD 12.5 million, respectively. The total value of the units granted to date under the program, considering the number of units and the book value per share as of December 31, 2012 and 2011, is USD 16.6 million and USD 15.1 million, respectively.

*(4) Social security contributions*

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

**(o) Provisions and other liabilities**

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

**(p) Trade payables**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

**(q) Revenue recognition**

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

Interest income is recognized on an effective yield basis.

**(r) Borrowing Costs**

The Company capitalizes the borrowing costs incurred to finance construction, acquisition or production of qualifying assets. In the case of specific borrowings, Ternium determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that

## Edgar Filing: Ternium S.A. - Form 20-F

borrowing during the period less any investment income on the temporary investment of those borrowings. For general borrowings, Ternium determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that Ternium capitalizes during a period will not exceed the amount of borrowing costs incurred during that period. At December 31, 2012, the capitalized borrowing costs are not material, amounting to USD 0.3 million.

F-31



---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

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

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

Commissions, freight and other selling expenses, including shipping and handling costs, are recorded in Selling, general and administrative expenses in the Consolidated Income Statement.

**(t) Removal of waste materials to access mineral deposits**

Costs associated with the removal of overburden and other waste materials are usually known as stripping costs. Stripping costs can be incurred before the mining production commences ( development stripping ) or during the production stage ( production stripping ).

Until December 31, 2012, development stripping costs are expensed when incurred, while production stripping costs are included in the cost of the inventory produced (that is extracted) at each mine individually during the period they are incurred. The impact of stripping costs associated with development is non-material.

Commencing January 1, 2013, development stripping costs that contribute to the future economic benefits of mining operations are capitalized as tangible assets (work in progress). Production stripping costs which are part of on-going activities are included in the cost of the inventory produced (that is extracted) at each mine during the period in which they are incurred.

Capitalization of development stripping costs finishes when the commercial production of the mine commences. At that time, all development stripping costs are presented within mining assets and depreciated on a unit-of-production basis. It is considered that commercial production begins when the production stage of mining operations begins and continues throughout the life of a mine.

**(u) Earnings per share**

Earnings per share are calculated by dividing the net income attributable to shareholders by the daily weighted average number of ordinary shares issued during the year (see Note 26).

**(v) Derivative financial instruments and hedging activities**

Ternium designates certain derivatives as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction. These transactions are classified as cash flow hedges (mainly interest rate swaps, collars, currency forward contracts on highly probable forecast transactions and commodities contracts). The effective portion of the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI. Amounts accumulated in OCI are recognized in the income statement in the same period as any offsetting losses and gains on the hedged item. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. The fair value of Ternium derivative financial instruments (asset or liability) continues to be reflected in the statement of financial

position.

F-32

---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

For transactions designated and qualifying for hedge accounting, Ternium documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. At December 31, 2012, the effective portion of designated cash flow hedges amounts to USD 0.2 million (net of taxes) and is included under changes in the fair value of derivatives classified as cash flow hedges line item in the statement of comprehensive income (see Note 32 (a)).

More information about accounting for derivative financial instruments and hedging activities is included in Note 34 Financial risk management .

**(w) Segment information**

Following the new internal organization and reporting used by the Chief Operating Decision Maker ( CODM ) for making decisions, allocating resources and assessing performance, the Company is organized in two reportable segments: Steel and Mining.

The Steel segment includes the sales of steel products, which comprises slabs, hot rolled coils and sheets, cold rolled coils and sheets, tin plate, welded pipes, hot dipped galvanized and electro-galvanized sheets, pre-painted sheets, billets (steel in its basic, semi-finished state), wire rod and bars and other tailor-made products to serve its customers requirements.

The Steel segment comprises three operating segments: Mexico, Southern Region and Other markets. These three segments have been aggregated considering the economic characteristics and financial effects of each business activity in which the entity engages; the related economic environment in which it operates; the type or class of customer for the products; the nature of the products; and the production processes. The Mexico operating segment comprises the Company s businesses in Mexico. The Southern region operating segment manages the businesses in Argentina, Paraguay, Chile, Bolivia and Uruguay. The Other markets operating segment includes businesses mainly in United States, Colombia, Guatemala, Costa Rica, El Salvador, Nicaragua and Honduras.

The Mining segment includes the sales of mining products, mainly iron ore and pellets, and comprises the mining activities of Las Encinas, an iron ore mining company in which Ternium holds a 100% equity interest. Under management view, it also includes the 50% of the operations and results performed by Peña Colorada, another iron ore mining company in which Ternium maintains that same percentage over its equity interest. Both mining operations are located in Mexico.

Ternium s Chief Operating Decision Maker (the Chief Executive Officer, CEO ) holds monthly meetings with senior management, in which operating and financial performance information is reviewed, including financial information that differs from IFRS principally as follows:

The use of direct cost methodology to calculate the inventories, while under IFRS is at full cost, including absorption of production overheads and depreciation.

## Edgar Filing: Ternium S.A. - Form 20-F

The use of costs based on previously internally defined cost estimates, while, under IFRS, costs are calculated at historical cost (with the FIFO method).

F-33

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

Under IFRS, the results of Peña Colorada are aggregated in equity in earnings of non-consolidated companies, while under management view, these results are included considering 50% of the operations on a line by line basis.

Other timing and non-significant differences.

Most information on segment assets is not disclosed as it is not reviewed by the CODM.

Comparative amounts have been reclassified to disclose the information according to the reportable segments as of December 31, 2012.

**(x) Critical Accounting Estimates**

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

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

*(1) Goodwill impairment test*

Assessment of the recoverability of the carrying value of goodwill requires significant judgment. Management evaluates goodwill allocated to the operating units for impairment on an annual basis or whenever there is an impairment indicator.

Goodwill is tested at the level of the CGU. Impairment testing of the CGU is carried out and the value in use determined in accordance with the accounting policy stated in Note 4(f). The discount rates used for these tests are based on Ternium's weighted average cost of capital adjusted for specific country and currency risks associated with the cash flow projections. The discount rate used at December 31, 2012 was 10.0% and no impairment charge resulted from the impairment test performed.

*(2) Income taxes*

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



---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

Also, when assessing the recoverability of tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies.

*(3) Loss contingencies*

Ternium is subject to various claims, lawsuits and other legal proceedings that arise in the ordinary course of business, including customer claims in which a third party is seeking reimbursement or indemnity. The Company's liability with respect to such claims, lawsuits and other legal proceedings cannot be estimated with certainty. Periodically, management reviews the status of each significant matter and assesses potential financial exposure. If the potential loss from the claim or proceeding is considered probable and the amount can be reasonably estimated, a liability is recorded. Management estimates the amount of such liability based on the information available and the assumptions and methods it has concluded are appropriate, in accordance with the provisions of IFRS. Accruals for such contingencies reflect a reasonable estimate of the losses to be incurred based on information available, including the relevant litigation or settlement strategy, as of the date of preparation of these financial statements. As additional information becomes available, management will reassess its evaluation of the pending claims, lawsuits and other proceedings and revise its estimates. The loss contingencies provision amounts to USD 17.5 million and USD 15.3 million as of December 31, 2012 and 2011, respectively.

*(4) Allowance for obsolescence of supplies and spare parts and slow-moving inventory*

Management assesses the recoverability of its inventories considering their selling prices or whether they are damaged or have become wholly or partly obsolete.

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

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

As of December 31, 2012 and 2011, the Company recorded no allowance for net realizable value and USD 66.1 million and USD 59.9 million, respectively, as allowance for obsolescence.

*(5) Valuation of the Sidor financial asset*

The Sidor financial asset recorded as a result of the nationalization of Sidor was treated as a receivable and valued at its amortized cost using the applicable effective interest rate. The discount rate used to measure this receivable at amortized cost was estimated on the basis of management's best estimate of market rates adjusted to reflect specific risks.





---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

The initial measurement of the receivable and its subsequent measurements until November 8, 2010, were performed on the basis of its discounted amount using an annual discount rate of 14.36%. This discount rate was estimated on the basis of the yield (13.3%) of Venezuelan sovereign debt with maturities similar to that of the receivable held by Ternium against CVG; however, as the Venezuelan sovereign debt with similar maturities was governed by New York law, while the receivable with CVG was governed by Venezuelan law, the discount rate was further adjusted to adequately reflect the specific risk of Ternium's receivable. After the rescheduling of the last unpaid installment agreed on December 18, 2010, the annual discount rate used to measure the receivable was estimated at 6.28%, on the basis of the specific risks associated to the third-party promissory notes received as guarantee for full payment of CVG obligations.

For further information on the Sidor nationalization and the rescheduling of the related receivable, refer to Note 27.

*(6) Useful Lives and Impairment of Property, Plant and Equipment and Other Long-lived Assets*

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

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

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

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

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

whether evidence is available of obsolescence or physical damage of an asset.

## Edgar Filing: Ternium S.A. - Form 20-F

whether significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite; and

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

F-36

---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**4. ACCOUNTING POLICIES (continued)**

None of the Company's CGUs were tested for impairment, other than for the investment in Usiminas and goodwill test (see note 4 (x) (1)), in 2012 and 2011, as no impairment indicators were identified. Furthermore, based on information currently available, management believes that the recognition of a future impairment charge is not reasonably possible. For the impairment in connection with the investment in Usiminas, see note 3 (a).

*(7) Allowances for doubtful accounts*

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

Allowances for doubtful accounts are adjusted periodically in accordance with the aging of overdue accounts. For this purpose, trade accounts receivable overdue by more than 90 days, and which are not covered by a credit collateral, guarantee or similar surety, are fully provisioned. As of December 31, 2012 and 2011, allowance for doubtful accounts totals USD 15.3 million and USD 16.1 million, respectively.

**5. SEGMENT INFORMATION**

***REPORTABLE OPERATING SEGMENTS***

Following the new internal organization and reporting used by the Chief Operating Decision Maker ( CODM ) for making decisions, allocating resources and assessing performance, the Company is organized in two reportable segments: Steel and Mining.

The Steel segment includes the sales of steel products, which comprises slabs, hot rolled coils and sheets, cold rolled coils and sheets, tin plate, welded pipes, hot dipped galvanized and electro-galvanized sheets, pre-painted sheets, billets (steel in its basic, semi-finished state), wire rod and bars and other tailor-made products to serve its customers' requirements.

The Steel segment comprises three operating segments: Mexico, Southern Region and Other markets. These three segments have been aggregated considering the economic characteristics and financial effects of each business activity in which the entity engages; the related economic environment in which it operates; the type or class of customer for the products; the nature of the products; and the production processes. The Mexico operating segment comprises the Company's businesses in Mexico. The Southern region operating segment manages the businesses in Argentina, Paraguay, Chile, Bolivia and Uruguay. The Other markets operating segment includes businesses mainly in United States, Colombia, Guatemala, Costa Rica, El Salvador, Nicaragua and Honduras.

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**5. SEGMENT INFORMATION (continued)**

The Mining segment includes the sales of mining products, mainly iron ore and pellets, and comprises the mining activities of Las Encinas, an iron ore mining company in which Ternium holds a 100% equity interest. Under management view, it also includes the 50% of the operations and results performed by Peña Colorada, another iron ore mining company in which Ternium maintains that same percentage over its equity interest. Both mining operations are located in Mexico.

Ternium's Chief Operating Decision Maker (CEO) holds monthly meetings with senior management, in which operating and financial performance information is reviewed, including financial information that differs from IFRS principally as follows:

The use of direct cost methodology to calculate the inventories, while under IFRS is at full cost, including absorption of production overheads and depreciation.

The use of costs based on previously internally defined cost estimates, while, under IFRS, costs are calculated at historical cost (with the FIFO method).

Under IFRS, the results of Peña Colorada are aggregated in equity in earnings of non-consolidated companies, while under management view, these results are included considering 50% of the operations on a line by line basis.

Other timing and non-significant differences.

Most information on segment assets is not disclosed as it is not reviewed by the CODM.

Comparative amounts have been reclassified to disclose the information according to the reportable segments as of December 31, 2012.

	<b>Year ended December 31, 2012</b>			
	<b>Steel</b>	<b>Mining</b>	<b>Inter-segment eliminations</b>	<b>Total</b>
<b>IFRS</b>				
Net sales	8,601,134	190,698	(183,778)	8,608,054
Cost of sales	(6,914,658)	(132,357)	175,925	(6,871,090)
Gross profit	1,686,476	58,341	(7,853)	1,736,964

Edgar Filing: Ternium S.A. - Form 20-F

Selling, general and administrative expenses (SG&A)	(804,690)	(4,491)	(809,181)
Other operating income, net	(12,261)	380	(11,881)
<b>Operating income - IFRS</b>	<b>869,525</b>	<b>54,230</b>	<b>(7,853)</b>

**Management view**

Net sales	8,601,134	498,171	(491,251)	8,608,054
Operating income	798,368	266,209	(7,853)	1,056,724

**Reconciliation items:**

Differences in Cost of sales				(120,118)
Differences related to Peña Colorada (Line by line vs Equity method)				(20,704)

**Operating income - IFRS** **915,902**

Financial income (expense), net				(117,348)
Equity in earnings of non-consolidated companies				(346,833)

**Income before income tax expense - IFRS** **451,721**

Depreciation and amortization - IFRS	(355,246)	(15,608)		(370,854)
--------------------------------------	-----------	----------	--	-----------

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**5. SEGMENT INFORMATION (continued)**

	Year ended December 31, 2011			Total
	Steel	Mining	Inter-segment eliminations	
<b>IFRS</b>				
Net sales	9,058,948	213,231	(149,347)	9,122,832
Cost of sales	(7,000,661)	(164,340)	144,875	(7,020,127)
Gross profit	2,058,287	48,891	(4,473)	2,102,705
Selling, general and administrative expenses (SG&A)	(833,431)	(5,931)		(839,362)
Other operating income, net	(10,788)	(707)		(11,495)
<b>Operating income - IFRS</b>	<b>1,214,068</b>	<b>42,253</b>	<b>(4,473)</b>	<b>1,251,848</b>
Financial income (expense), net				(300,422)
Equity in earnings of non-consolidated companies				10,137
<b>Income before income tax expense - IFRS</b>				<b>961,563</b>
Depreciation and amortization - IFRS	(379,352)	(16,637)		(395,989)
	Year ended December 31, 2010			Total
	Steel	Mining	Inter-segment eliminations	
<b>IFRS</b>				
Net sales	7,265,669	201,921	(127,689)	7,339,901
Cost of sales	(5,517,236)	(170,654)	127,689	(5,560,201)
Gross profit	1,748,433	31,267		1,779,700
Selling, general and administrative expenses (SG&A)	(734,073)	(4,231)		(738,304)
Other operating income, net	4,666	(2,504)		2,162
<b>Operating income - IFRS</b>	<b>1,019,026</b>	<b>24,532</b>		<b>1,043,558</b>
Financial income (expense), net				129,237

Edgar Filing: Ternium S.A. - Form 20-F

Equity in earnings of non-consolidated companies			12,867
<b>Income before income tax expense - IFRS</b>			<b>1,185,662</b>
Depreciation and amortization - IFRS	(355,719)	(18,482)	(374,201)

F-39

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**5. SEGMENT INFORMATION (continued)****GEOGRAPHICAL INFORMATION**

There are no revenues from external customers attributable to the Company's country of incorporation (Luxembourg).

For purposes of reporting geographical information, net sales are allocated based on the customer's location. Allocation of depreciation and amortization is based on the geographical location of the underlying assets.

	Mexico	Year ended December 31, 2012		Total
		Southern region	Other markets	
Net sales	4,475,139	2,746,585	1,386,330	8,608,054
Non-current assets (1)	4,114,225	1,220,886	68,212	5,403,323
	Mexico	Year ended December 31, 2011		Total
		Southern region	Other markets	
Net sales	4,544,807	2,980,256	1,597,769	9,122,832
Non-current assets (1)	3,631,484	1,230,370	85,044	4,946,898
	Mexico	Year ended December 31, 2010		Total
		Southern region	Other markets	
Net sales	3,829,130	2,422,787	1,087,984	7,339,901
Non-current assets (1)	3,986,611	1,278,707	60,095	5,325,413

**REVENUES BY PRODUCT**

	Year ended December 31,		
	2012	2011	2010
Semi-finished (1)	857		30
Hot rolled	2,495,684	2,749,607	2,264,308
Cold rolled	1,342,036	1,458,875	1,213,813
Coated (2)	2,808,765	2,926,301	2,410,849
Roll-formed and tubular (3)	611,551	657,262	487,381



Edgar Filing: Ternium S.A. - Form 20-F

<b>Flat steel products</b>	7,258,893	7,792,045	6,376,381
Semi-finished (4)	28,136	91,955	147,282
Hot rolled (5)	1,284,958	1,125,922	685,854
<b>Long steel products</b>	1,313,094	1,217,877	833,136
<b>TOTAL STEEL PRODUCTS</b>	8,571,987	9,009,922	7,209,517
<b>Other products</b>	36,067	112,910	130,384
<b>TOTAL SALES</b>	8,608,054	9,122,832	7,339,901

F-40

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

- (1) Semi-finished includes slabs.
- (2) Coated includes hot-dipped galvanized, electrogalvanized, pre-painted, tin plate and tin-free steel.
- (3) Roll-formed and tubular includes steel pipes, tubular products, beams, insulated panels, roofing and cladding, roof tiles and steel decks.
- (4) Semi-finished includes billets and round bars.
- (5) Hot rolled includes wire rod, bars and stirrups.

F-41

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**6. COST OF SALES**

	Year ended December 31,		
	2012	2011	2010
<b>Inventories at the beginning of the year</b>	2,123,516	1,943,115	1,341,045
Acquisition of business			76,771
Translation differences	(103,129)	(227,982)	28,052
<b>Plus: Charges for the year</b>			
Raw materials and consumables used and other movements	5,474,845	6,101,699	4,877,797
Services and fees	114,612	124,233	92,590
Labor cost	556,720	535,555	451,479
Depreciation of property, plant and equipment	306,584	313,871	286,896
Amortization of intangible assets	10,851	16,558	19,453
Maintenance expenses	387,672	332,357	320,861
Office expenses	7,360	5,631	5,342
Insurance	7,743	6,783	7,220
Charge of obsolescence allowance	12,289	6,197	11,598
Recovery from sales of scrap and by-products	(44,085)	(40,532)	(40,654)
Others	16,249	26,158	24,866
<b>Less: Inventories at the end of the period</b>	(2,000,137)	(2,123,516)	(1,943,115)
<b>Cost of Sales</b>	<b>6,871,090</b>	<b>7,020,127</b>	<b>5,560,201</b>

**7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

	Year ended December 31,		
	2012	2011	2010
Services and fees (1)	97,443	96,750	110,317
Labor cost	212,820	205,938	170,673
Depreciation of property plant and equipment	8,788	15,057	16,906
Amortization of intangible assets	44,632	50,503	50,946
Maintenance expenses	6,904	17,648	11,099
Taxes	113,898	120,040	89,424
Office expenses	44,988	37,014	32,979
Freight and transportation	263,083	269,630	232,184
Increase of allowance for doubtful accounts	855	322	(392)
Others	15,770	26,460	24,168

## Edgar Filing: Ternium S.A. - Form 20-F

<b>Selling, general and administrative expenses</b>	<b>809,181</b>	<b>839,362</b>	<b>738,304</b>
---	----------------	----------------	----------------

- (1) Includes fees accrued for professional services rendered by PwC to Ternium S.A. and its subsidiaries during the year ended December 31, 2012 that amounted to USD 4,228, including USD 3,569 for audit services, USD 296 for audit-related services, USD 159 for tax services and USD 204 for all other services.

F-42

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**8. LABOR COSTS (Included Cost of sales and Selling, General and Administrative expenses)**

	Year ended December 31,		
	2012	2011	2010
Wages, salaries and social security costs	699,899	672,689	568,434
Termination benefits	37,176	38,093	27,547
Pension benefits (Note 22 (i))	32,465	30,711	26,171
<b>Labor costs</b>	<b>769,540</b>	<b>741,493</b>	<b>622,152</b>

**9. OTHER OPERATING INCOME (EXPENSES), NET**

	Year ended December 31,		
	2012	2011	2010
Results from the sale of sundry assets	3,916	(4,176)	(4,681)
Provision for legal claims and other matters (Note 20 and 25 (ii))	(5,754)	(29,932)	(5,543)
Fees related to the repurchase of shares from Usiminas (Note 30)		10,200	
Others	(10,043)	12,413	12,386
<b>Other operating (expenses) income, net</b>	<b>(11,881)</b>	<b>(11,495)</b>	<b>2,162</b>

**10. OTHER FINANCIAL INCOME (EXPENSES), NET**

	Year ended December 31,		
	2012	2011	2010
Net foreign exchange gain (1)	11,429	(236,098)	123,412
Change in fair value of financial instruments	11,041	7,968	1,545
Debt issue costs	(5,814)	(5,078)	(4,562)
Others	(8,791)	(6,483)	(5,528)
<b>Other financial income, net</b>	<b>7,865</b>	<b>(239,691)</b>	<b>114,867</b>

Edgar Filing: Ternium S.A. - Form 20-F

- (1) See note 4 (b)(1), in connection with the change in functional currency in Mexican subsidiaries.

F-43

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**11. INCOME TAX EXPENSE**

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

	Year ended December 31,		
	2012	2011	2010
Current tax	(298,082)	(365,207)	(408,268)
Deferred tax (Note 21)	34,252	42,433	(2,344)
Deferred tax - effect of changes in tax rates	(5,769)		
Effect of change in fair value of cash flow hedge	2,808	6,701	4,419
Recovery of income tax (1)	2,224	4,417	
<b>Income tax expense</b>	<b>(264,567)</b>	<b>(311,656)</b>	<b>(406,193)</b>

- (1) Represents gains recorded in 2011 and 2012 for several income tax claims filed against the tax authorities for which definitive favorable rulings were obtained in such years.

Income tax expense for the years ended December 31, 2012, 2011 and 2010 differed from the amount computed by applying the statutory income tax rate in force in each country in which the company operates to pre-tax income as a result of the following:

	Year ended December 31,		
	2012	2011	2010
Income before income tax	451,721	961,563	1,185,662
Income tax expense at statutory tax rate	(208,748)	(288,352)	(363,500)
Non taxable income	1,013	5,929	2,593
Non deductible expenses	(53,289)	(28,198)	(40,956)
Unrecognized tax losses		(5,452)	(4,330)
Recovery of income tax	2,224	4,417	
Effect of changes in tax rate	(5,769)		
<b>Income tax expense</b>	<b>(264,567)</b>	<b>(311,656)</b>	<b>(406,193)</b>

Tax rates used to perform the reconciliation between tax expense (income) and accounting profit are those in effect at each relevant date or period in each applicable jurisdiction.

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**12. PROPERTY, PLANT AND EQUIPMENT, NET**

	Year ended December 31, 2012						
	Land	Buildings and improvements	Production equipment	Vehicles, furniture and fixtures	Work in progress	Spare parts	Total
<b>Cost</b>							
Values at the beginning of the year	476,987	1,720,296	3,791,217	146,526	531,846	37,231	6,704,103
Translation differences	(4,255)	(152,844)	(190,298)	(10,058)	(37,534)	(5,125)	(400,114)
Additions	32,653	703	10,541	5,375	907,618	21,218	978,108
Capitalized borrowing costs					349		349
Disposals / Consumptions		(1,278)	(10,025)	(4,546)	(21,263)	(691)	(37,803)
Transfers	(6,628)	201,317	153,015	5,331	(359,664)		(6,629)
Values at the end of the year	498,757	1,768,194	3,754,450	142,628	1,021,352	52,633	7,238,014
<b>Depreciation</b>							
Accumulated at the beginning of the year		(648,820)	(1,960,146)	(123,936)		(2,013)	(2,734,915)
Translation differences		76,255	156,373	9,262		286	242,176
Depreciation charge		(101,891)	(206,962)	(5,182)		(1,337)	(315,372)
Disposals / Consumptions		522	4,836	2,857		(1)	8,214
Accumulated at the end of the year		(673,934)	(2,005,899)	(116,999)		(3,065)	(2,799,897)
<b>At December 31, 2012</b>	<b>498,757</b>	<b>1,094,260</b>	<b>1,748,551</b>	<b>25,629</b>	<b>1,021,352</b>	<b>49,568</b>	<b>4,438,117</b>

	Year ended December 31, 2011						
	Land	Buildings and improvements	Production equipment	Vehicles, furniture and fixtures	Work in progress	Spare parts	Total
<b>Cost</b>							
Values at the beginning of the year	489,750	1,799,404	4,088,812	152,280	312,749	37,148	6,880,142
Translation differences	(59,328)	(158,079)	(397,830)	(12,920)	(49,772)	(2,955)	(680,883)
Additions	46,565	2,514	4,171	4,359	470,323	3,171	531,103
Disposals / Consumptions		(10,412)	(10,458)	(3,942)	(1,315)	(133)	(26,260)
Transfers		86,869	106,521	6,749	(200,139)		(0)



Edgar Filing: Ternium S.A. - Form 20-F

Values at the end of the year	476,987	1,720,296	3,791,217	146,526	531,846	37,231	6,704,102
<b>Depreciation</b>							
Accumulated at the beginning of the year		(611,089)	(1,936,395)	(127,363)		(1,610)	(2,676,457)
Translation differences		53,672	189,656	10,570		130	254,028
Depreciation charge		(96,190)	(222,775)	(9,393)		(570)	(328,928)
Disposals / Consumptions		4,787	9,369	2,250		37	16,443
Accumulated at the end of the year		(648,820)	(1,960,146)	(123,936)		(2,013)	(2,734,915)
<b>At December 31, 2011</b>	<b>476,987</b>	<b>1,071,476</b>	<b>1,831,071</b>	<b>22,590</b>	<b>531,846</b>	<b>35,218</b>	<b>3,969,187</b>

F-45

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**13. INTANGIBLE ASSETS, NET**

	Year ended December 31, 2012						Total
	Information system projects	Mining concessions	Exploration costs	Customer relationships and other contractual rights	Trademarks	Goodwill	
<b>Cost</b>							
Values at the beginning of the year	138,022	111,321	17,670	290,321	73,665	663,807	1,294,806
Translation differences	(8,003)			(149)			(8,152)
Additions	35,496		8,988				44,484
Transfers							
Values at the end of the year	165,515	111,321	26,658	290,172	73,665	663,807	1,331,138
<b>Depreciation</b>							
Accumulated at the beginning of the year	(85,259)	(50,849)		(125,304)	(55,684)		(317,096)
Translation differences	6,653				(6)		6,647
Depreciation charge	(7,379)	(8,883)		(31,001)	(8,220)		(55,483)
Accumulated at the end of the year	(85,985)	(59,732)		(156,305)	(63,910)		(365,932)
<b>At December 31, 2012</b>	<b>79,530</b>	<b>51,589</b>	<b>26,658</b>	<b>133,867</b>	<b>9,755</b>	<b>663,807</b>	<b>965,206</b>

	Year ended December 31, 2011						Total
	Information system projects	Mining concessions	Exploration costs	Customer relationships and other contractual rights	Trademarks	Goodwill	
<b>Cost</b>							
Values at the beginning of the year	117,983	109,809	24,539	324,670	81,023	750,127	1,408,151
Translation differences	(14,306)	(14,981)	(1,929)	(34,349)	(7,358)	(86,320)	(159,243)
Additions	34,345		11,553				45,898
Transfers		16,493	(16,493)				
Values at the end of the year	138,022	111,321	17,670	290,321	73,665	663,807	1,294,807
<b>Depreciation</b>							

Edgar Filing: Ternium S.A. - Form 20-F

Accumulated at the beginning of the year	(82,411)	(47,600)		(108,711)	(47,701)		(286,423)
Translation differences	8,372	6,635		15,032	6,349		36,388
Depreciation charge	(11,220)	(9,884)		(31,625)	(14,332)		(67,061)
Accumulated at the end of the year	(85,259)	(50,849)		(125,304)	(55,684)		(317,096)
<b>At December 31, 2011</b>	<b>52,763</b>	<b>60,472</b>	<b>17,670</b>	<b>165,017</b>	<b>17,981</b>	<b>663,807</b>	<b>977,710</b>

F-46

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**14. INVESTMENTS IN NON-CONSOLIDATED COMPANIES**

	<b>As of December 31,</b>	
	<b>2012</b>	<b>2011</b>
At the beginning of the year	94,875	96,212
Other comprehensive income	(276,420)	(11,404)
(Disposals)/Acquisitions	2,243,610	(70)
Dividends received from non-consolidated companies	(4,718)	
Equity in earnings of non-consolidated companies	(71,499)	10,137
Impairment charge	(275,334)	
<b>At the end of the year</b>	<b>1,710,514</b>	<b>94,875</b>

The principal investments in non-consolidated companies, all of which are unlisted, except for Usiminas, are:

Company	Country of incorporation	Main activity	Voting rights at		Value at	
			December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Usinas Siderurgicas de Minas Gerais S.A. - USIMINAS (1)	Brazil	Manufacturing and selling of steel products	22.71%		1,592,340	
Consortio Minero Benito Juarez Peña Colorada S.A.de C.V. (2)	Mexico	Exploration, exploitation and pelletizing of iron ore	50.00%	50.00%	106,167	85,563
Exiros B.V. (3)	Netherlands	Holding company	50.00%	50.00%	8,986	7,299
Finma S.A.I.F. (4)	Argentina	Consulting and financial services company	33.33%	33.33%	1,977	1,429
Arhsa S.A. (4)	Argentina	Consulting and financial services company	33.33%	33.33%	867	380
Techinst S.A. (5)	Argentina	Consulting and financial services company	33.33%	33.33%	177	204
					<b>1,710,514</b>	<b>94,875</b>

(1)

## Edgar Filing: Ternium S.A. - Form 20-F

Indirectly through the participation in Prosid Investments S.C.A., Siderar S.A.I.C. and Ternium Investments S.à r.l. since January 16, 2012.

- (2) Indirectly through the participation in Ternium México S.A. de C.V.
- (3) Indirectly through the participation in Ternium Investments Switzerland A.G.
- (4) Indirectly through the participation in Siderar S.A.I.C.
- (5) Indirectly through the participation in Ternium Treasury Services S.A.

Value of investment	USIMINAS
<b>At January 1, 2012</b>	
Purchase consideration	2,243,610
Dividends received	(4,718)
Share of results	(88,556)
Other comprehensive income	(282,662)
Impairment charge	(275,334)
<b>At December 31, 2012</b>	
	<b>1,592,340</b>

F-47

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**14. INVESTMENTS IN NON-CONSOLIDATED COMPANIES (continued)**

For information related to Usiminas net assets and results as of and for the year ended December 31, 2012, see note 3 (a).

The following information includes net assets in connection with the investment in Consorcio Minero Benito Juárez Peña Colorada S.A. de C.V.. As mentioned in note 4, this investment was deconsolidated retrospectively, as it was proportionately consolidated until December 31, 2011.

Summarized balance sheet (in million USD)	As of December 31,	
	2012	2011
<b>Assets</b>		
Non-current	184	144
Current	127	100
<b>Total Assets</b>	<b>311</b>	<b>244</b>
<b>Liabilities</b>		
Non-current	(28)	(25)
Current	(71)	(48)
<b>Total Liabilities</b>	<b>(99)</b>	<b>(73)</b>
<b>Net assets</b>	<b>212</b>	<b>171</b>

**15. OTHER INVESTMENTS, NET - NON CURRENT**

	As of December 31,	
	2012	2011
Investments in debt instruments	6,950	13,900
Others	187	187
<b>Other investments, net - Non-current</b>	<b>7,137</b>	<b>14,087</b>

**16. RECEIVABLES, NET NON CURRENT AND CURRENT**

	<b>As of December 31,</b>	
	<b>2012</b>	<b>2011</b>
Receivables with related parties (Note 28)	115	197
Employee advances and loans	7,792	8,163
Advances to suppliers for the purchase of property, plant and equipment	57,347	98,455
Advances to suppliers for the purchase of property, plant and equipment with related parties (Note 28)	4,314	290
Tax credits	295	12,582
Others	2,964	4,514
<b>Receivables, net - Non-current</b>	<b>72,827</b>	<b>124,201</b>

F-48

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**16. RECEIVABLES, NET NON CURRENT AND CURRENT (continued)**

	<b>As of December 31,</b>	
	<b>2012</b>	<b>2011</b>
Value added tax	73,716	12,014
Tax credits	36,371	43,299
Employee advances and loans	8,922	8,980
Advances to suppliers	32,877	5,841
Advances to suppliers with related parties (Note 28)	8	955
Expenses paid in advance	5,075	6,962
Government tax refunds on exports	3,840	3,092
Receivables with related parties (Note 28)	1,772	286
Others	24,631	10,086
<b>Receivables, net - Current</b>	<b>187,212</b>	<b>91,515</b>

**17. TRADE RECEIVABLES, NET NON CURRENT AND CURRENT**

	<b>As of December 31,</b>	
	<b>2012</b>	<b>2011</b>
Trade receivables	5,029	7,672
Allowance for doubtful accounts (Note 20)		(146)
<b>Trade receivables, net - Non-current</b>	<b>5,029</b>	<b>7,526</b>

	<b>As of December 31,</b>	
	<b>2012</b>	<b>2011</b>
Current accounts	726,986	715,543
Trade receivables with related parties (Note 28)	23,458	46,363
Allowance for doubtful accounts (Note 20)	(15,304)	(16,002)
<b>Trade receivables, net - Current</b>	<b>735,140</b>	<b>745,904</b>

**18. INVENTORIES, NET**



Edgar Filing: Ternium S.A. - Form 20-F

	As of December 31,	
	2012	2011
Raw materials, materials and spare parts	575,212	580,150
Goods in process	1,001,625	1,055,660
Finished goods	397,765	414,586
Goods in transit	91,637	133,032
Obsolescence allowance (Note 20)	(66,102)	(59,912)
<b>Inventories, net</b>	<b>2,000,137</b>	<b>2,123,516</b>

F-49

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**19. CASH, CASH EQUIVALENTS AND OTHER INVESTMENTS**

	As of December 31,	
	2012	2011
<b>(i) Other investments</b>		
Deposits with maturity of more than three months	<b>160,750</b>	<b>281,676</b>
<b>(ii) Cash and cash equivalents</b>		
Cash and banks	98,052	115,502
Restricted cash	941	248
Deposits with maturity of less than three months	461,314	2,042,294
<b>Cash and cash equivalents</b>	<b>560,307</b>	<b>2,158,044</b>

**20. ALLOWANCES AND PROVISIONS NON CURRENT AND CURRENT**

Provisions and allowances - Non-current	Deducted from assets Allowance for doubtful accounts	Liabilities Legal claims and other matters
<b>Year ended December 31, 2012</b>		
Values at the beginning of the year	146	15,340
Translation differences	(5)	(1,488)
Additions		6,185
Reversals	(141)	(431)
Uses		(2,108)
<b>At December 31, 2012</b>		<b>17,498</b>
<b>Year ended December 31, 2011</b>		
Values at the beginning of the year	354	16,144
Translation differences	(23)	(2,228)
Additions		31,289
Reversals	(185)	(1,357)
Uses		(28,508)
<b>At December 31, 2011</b>	<b>146</b>	<b>15,340</b>



**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**20. ALLOWANCES AND PROVISIONS NON CURRENT AND CURRENT (continued)**

Provisions and allowances - Current	Deducted from assets	
	Allowance for doubtful accounts	Obsolescence allowance
<b>Year ended December 31, 2012</b>		
Values at the beginning of the year	16,002	59,911
Translation differences	(174)	(1,676)
Additions	1,442	27,769
Reversals	(445)	(15,480)
Uses	(1,521)	(4,422)
<b>At December 31, 2012</b>	<b>15,304</b>	<b>66,102</b>
<b>Year ended December 31, 2011</b>		
Values at the beginning of the year	16,860	67,488
Translation differences	(1,103)	(7,305)
Additions	2,640	32,458
Reversals	(2,133)	(26,261)
Uses	(262)	(6,469)
<b>At December 31, 2011</b>	<b>16,002</b>	<b>59,911</b>

**21. DEFERRED INCOME TAX**

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

Changes in deferred income tax are as follows:

	Year ended December 31,	
	2012	2011
At beginning of the year	(732,475)	(857,087)
Translation differences	34,442	82,177
Effect of changes in tax rate	(5,769)	
Deferred tax credit (charge)	34,252	42,435
<b>At end of the year</b>	<b>(669,550)</b>	<b>(732,475)</b>



**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**21. DEFERRED INCOME TAX**

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

<b>Deferred tax liabilities</b>	<b>Fixed assets</b>	<b>Inventories</b>	<b>Intangible assets</b>	<b>Other</b>	<b>Total at December 31, 2012</b>
At beginning of year	(580,780)	(59,415)	(49,881)	(169,700)	(859,776)
Translation differences	18,198	38	1,512	19,222	38,970
Effect of changes in tax rate	(1,232)	(1,159)			(2,391)
Income statement credit (charge)	47,872	12,154	(20,341)	(16,104)	23,581
<b>At end of year</b>	<b>(515,942)</b>	<b>(48,382)</b>	<b>(68,710)</b>	<b>(166,582)</b>	<b>(799,616)</b>

<b>Deferred tax assets</b>	<b>Provisions</b>	<b>Trade Receivables</b>	<b>Tax losses (1)</b>	<b>Other</b>	<b>Total at December 31, 2012</b>
At beginning of year	60,414	8,804	15,879	42,204	127,301
Translation differences	(3,341)	(373)		(814)	(4,528)
Effect of changes in tax rate			(3,481)	103	(3,378)
Income statement credit (charge)	(2,415)	(140)	5,795	7,431	10,671
<b>At end of year</b>	<b>54,658</b>	<b>8,291</b>	<b>18,193</b>	<b>48,924</b>	<b>130,066</b>

(1) As of December 31, 2012, the recognized deferred tax assets on tax losses amount to USD 18,193 and the net unrecognized deferred tax assets amount to USD 15,659. According to the tax law in force in the jurisdictions in which the tax losses are generated, these amounts do not have a certain expiration date.

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

The amounts shown in the statement of financial position include the following:

As of December 31,

Edgar Filing: Ternium S.A. - Form 20-F

	2012	2011
Deferred tax assets to be recovered after more than 12 months	83,341	73,102
Deferred tax liabilities to be settled after more than 12 months	(720,231)	(799,749)
	<b>(636,890)</b>	<b>(726,647)</b>

22. OTHER LIABILITIES NON CURRENT AND CURRENT

	As of December 31,	
	2012	2011
<b>(i) Other liabilities - Non-current</b>		
Termination benefits	3,323	4,238
Pension benefits	175,802	151,752
Other	45,831	40,984
<b>Other liabilities - Non-current</b>	<b>224,956</b>	<b>196,974</b>

F-52

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**22. OTHER LIABILITIES NON CURRENT AND CURRENT (continued)***Pension benefits*

The amounts recognized in the consolidated statement of financial position are determined as follows:

	<b>Year ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Present value of unfunded obligations	282,824	246,825
Unrecognized prior service costs	(3,150)	(3,529)
Unrecognized actuarial losses	(83,465)	(71,646)
Fair value of plan assets	(20,407)	(19,898)
<b>Liability in the statement of financial position</b>	<b>175,802</b>	<b>151,752</b>

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

	<b>Year ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Current service cost	6,276	6,000
Interest cost	21,805	21,708
Amortization of prior service costs	658	818
Net actuarial losses recognized in the year	3,726	2,185
<b>Total included in labor costs</b>	<b>32,465</b>	<b>30,711</b>

Changes in the liability recognized in the consolidated statement of financial position are as follows:

	<b>Year ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
At the beginning of the year	151,752	162,189
Transfers, new participants and funding of the plan	(17,445)	(19,321)
Total expense	32,465	30,711
Translation differences	10,927	(20,764)



Edgar Filing: Ternium S.A. - Form 20-F

Contributions paid	(1,897)	(1,063)
<b>At the end of the year</b>	<b>175,802</b>	<b>151,752</b>

F-53

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**22. OTHER LIABILITIES - NON CURRENT AND CURRENT (continued)**

The principal actuarial assumptions used were as follows:

Mexico	Year ended December 31,	
	2012	2011
Discount rate	8.25%	8.75%
Rate of compensation increase	4.00%	4.00%
<b>Argentina</b>	<b>Year ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Discount rate	7.00%	7.00%
Rate of compensation increase	2.00%	2.00%
	<b>As of December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>(ii) Other liabilities - Current</b>		
Payroll and social security payable	70,070	95,684
Termination benefits	10,459	8,547
Related Parties (Note 28)	3,323	4,052
Others	4,688	4,640
<b>Other liabilities - Current</b>	<b>88,540</b>	<b>112,923</b>

**23. DERIVATIVE FINANCIAL INSTRUMENTS****Net fair values of derivative financial instruments**

The net fair values of derivative financial instruments at December 31, 2012 and 2011 were as follows:

	Year ended December 31,	
	2012	2011
<b>Contracts with positive fair values:</b>		
Foreign exchange contracts	64	50

	<b>64</b>	<b>50</b>
<b>Contracts with negative fair values:</b>		
Interest rate swap contracts	(271)	(19,264)
Foreign exchange contracts		(10,638)
	<b>(271)</b>	<b>(29,902)</b>

Derivative financial instruments breakdown is as follows:

*(a) Interest rate contracts*

Fluctuations in market interest rates create a degree of risk by affecting the amount of the Company's interest payments and the value of its floating-rate debt. As of December 31, 2012, most of the Company's long-term borrowings were at variable rates.

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**23. DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

On February 23, 2007, Ternium Mexico entered into several interest rate collar agreements that fix the interest rate to be paid over an aggregate notional amount of USD 140 million, in an average range of 4.19% to 6.00%. These agreements were due in March 2012.

On June 18, 2008, Ternium Mexico entered into several knock-in swap agreements in an average swap level of 5.22% and a knock-in level of 2.5%. These agreements were due in July 2012 and as of December 31, 2012, there is no residual on the notional amount.

On September 27, October 12 and November 5, 2012, Ternium entered into several interest rate starting forward swap agreements that fix the interest rate to be paid over an aggregate amount of USD 45 million, in an average rate of 1.71% to 1.74%. These agreements will be effective starting on July 2014, will be due on July 2022 and have been accounted for as cash flow hedges. As of December 31, 2012, the after-tax cash flow hedge reserve related to these agreements amounted to USD (0.2) million.

Changes in fair value of derivative instruments designated as cash flow hedges for each of the years presented are included below:

	Gross amount	Cash flow hedges Income Tax	Total
At December 31, 2010	(31,964)	9,590	(22,374)
(Decrease) / Increase	(657)	197	(460)
Reclassification to income statement	22,994	(6,898)	16,096
At December 31, 2011	(9,627)	2,889	(6,738)
(Decrease) / Increase	(553)	165	(388)
Reclassification to income statement	9,910	(2,973)	6,937
At December 31, 2012	(270)	81	(189)

The gross amount of the pre-tax reserve recorded in other comprehensive income at December 31, 2012 (amounting to a loss of USD 0.3 million) is expected to be reclassified to the income statements beginning on July 2014.

*(b) Foreign exchange contracts*

From time to time, Ternium's subsidiaries enter into derivative agreements to manage their exposure to currencies other than the USD.

During 2011, Prosid Investments entered into several non-deliverable forward agreements to manage the exchange rate exposure generated by Siderar's debt in ARS against USD. The notional amount hedged as of December 31, 2012 was ARS 1.4 billion with an average forward price of 5.27 ARS per USD.

## Edgar Filing: Ternium S.A. - Form 20-F

Furthermore, during 2011, Ferrasa Colombia S.A.S. has been hedging the exposure of certain trade receivables denominated in its local currency through non-deliverable forward agreements. As of December 31, 2012, there is no residual notional amount on these agreements.

F-55

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**23. DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

On December 14, 2011, Ternium Mexico S.A. de C.V. entered into a forward agreement over an aggregate notional amount of MXN 627.5 million, at an exchange rate of 13.94 MXN per USD, to manage its operating exposure in MXN. This agreement were due in January 19, 2012 and as of December 31, 2012, there is no residual notional amount on this agreement.

During December 2011 and in connection with the purchase of the investment in Usiminas (see note 3 (a)), both Ternium Investments S.a.r.l., through its Zug branch, and Prosid Investments entered into several non-deliverable forward and forward exchange collar agreements to manage the exchange rate exposure generated by the share purchase agreement in BRL against USD. The notional amount hedged as of December 31, 2011 by Ternium Investments S.a.r.l. and Prosid Investments was BRL 2.9 billion and BRL 1.0 billion, respectively. These agreements were due in January 2012 and had been accounted for as cash flow hedges. As of December 31, 2012, there is no residual cash flow hedge reserve related to these agreements.

The net fair values of the exchange rate derivative contracts as of December 31, 2012 and December 31, 2011 were as follows:

Currencies	Contract	Notional amount	Fair Value at December 31,	
			2012	2011
BRL/USD	ND Forward (1)			(8,902)
ARS/USD	ND Forward	1.4 billion ARS	64	(1,653)
MXN/USD	Forward			(83)
COP/USD	ND Forward			50
			<b>64</b>	<b>(10,588)</b>

(1) These foreign exchange contracts were accounted for as cash flow hedges.

USD: US dollars; ARS: Argentine pesos; BRL: Brazilian reales; MXN: Mexican pesos; COP: Colombian pesos; GTQ: Guatemalan quetzales; CRC: Costa Rican colon.

**24. BORROWINGS**

Year ended December 31,  
2012                      2011

(i) Non-current

Edgar Filing: Ternium S.A. - Form 20-F

Bank borrowings	1,309,743	951,469
Less: debt issue costs	(6,990)	(2,974)
	<b>1,302,753</b>	<b>948,495</b>
<b>(ii) Current</b>		
Bank borrowings	1,127,007	1,050,068
Less: debt issue costs	(5,397)	(2,427)
	<b>1,121,610</b>	<b>1,047,641</b>
<b>Total Borrowings</b>		
	<b>2,424,363</b>	<b>1,996,136</b>

F-56

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**24. BORROWINGS (continued)**

The maturity of borrowings is as follows:

	Expected Maturity Date			At December 31, (1)	
	2013	2014	2015 and thereafter	2012	2011
Fixed Rate	536,159	17,599	17,002	570,760	484,996
Floating Rate	585,450	617,378	650,775	1,853,603	1,511,140
<b>Total</b>	<b>1,121,609</b>	<b>634,977</b>	<b>667,777</b>	<b>2,424,363</b>	<b>1,996,136</b>

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

The weighted average interest rates which incorporate instruments denominated mainly in US dollars and Argentina pesos and which also include the effect of derivative financial instruments- at year-end were as follows:

	Year ended December 31,	
	2012	2011
Bank borrowings	5.99%	5.13%

The nominal average interest rates shown above were calculated using the rates set for each instrument in its corresponding currency and weighted using the dollar-equivalent outstanding principal amount of said instruments at December 31, 2012 and 2011, respectively.

Breakdown of borrowings by currency is as follows:

Currency	Interest rates	December 31,	
		2012	2011
USD	Floating	1,699,371	1,357,795
USD	Fixed	5,522	1,690
ARS	Floating	328	467
ARS	Fixed	542,686	460,946
BRL	Floating	18,028	17,177



Edgar Filing: Ternium S.A. - Form 20-F

COP	Floating	135,876	125,300
CRC	Fixed	6,887	6,475
GTQ	Fixed	15,665	15,885
MXN	Floating		10,401
<b>Total Borrowings</b>		<b>2,424,363</b>	<b>1,996,136</b>

USD: US dollars; ARS: Argentine pesos; BRL: Brazilian reales; MXN: Mexican pesos; COP: Colombian pesos; GTQ: Guatemalan quetzales; CRC: Costa Rican colon.

On April 6, 2011, the Company's subsidiary Ternium Mexico, S.A. de C.V. (Ternium Mexico), Crédit Agricole Corporate and Investment Bank, acting as Administrative Agent, and certain banks parties to a loan agreement dated as of July 12, 2007, partially refinanced a syndicated loan facility that had been incurred to finance Ternium's 2007 acquisition of Grupo Imsa, a company subsequently merged into Ternium Mexico.

F-57

---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**24. BORROWINGS (continued)**

The outstanding balance of the facility refinanced amounted to USD 1.0 billion. As part of the refinancing, the final maturity date of bank loans in a principal amount of USD 0.8 billion was extended to July 23, 2014 (with the extended loans being payable in four consecutive and equal semi-annual installments commencing on January 26, 2013), and the applicable margin structure for the extended loans was amended. On July 26, 2012, Ternium Mexico repaid the remaining USD 0.2 billion principal amount of the loans that was not refinanced.

**25. CONTINGENCIES, COMMITMENTS AND RESTRICTIONS ON THE DISTRIBUTION OF PROFITS**

Ternium is involved in litigation arising from time to time in the ordinary course of business. The Company recorded a provision for those cases in which there is a probable cash outflow and the outcome can be reliably estimated. Based on management's assessment and the advice of legal counsel, it is not anticipated that the ultimate resolution of existing litigation would be material to Ternium's consolidated financial position, results of operations or liquidity.

*(i) Tax claims*

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

The Administración Federal de Ingresos Públicos (AFIP - the Argentine tax authority) has challenged the charge to income of certain disbursements that Siderar has treated as expenses necessary to maintain industrial installations, which as such should be deducted in the year in which they take place. The AFIP asserts that these are investments or improvements that must be capitalized and, therefore, it made a jeopardy assessment of income tax due on a nominal tax basis plus fines and interest in fiscal years 1995 to 1999 amounting to approximately USD 17.3 million as of December 31, 2012.

The Company appealed these assessments before the National Tax Court, as in the view of its legal and tax advisors, there are reasons that would likely result in a favorable ruling for the Company.

On April 13, 2005 the Company was notified of a ruling issued by the National Tax Court reducing the assessments made by the AFIP for fiscal years 1995 and 1996. The ruling was appealed both by the Company and the AFIP.

On June 10, 2010 the Company was notified of a ruling issued by the Court of Appeals in federal administrative law which mainly resulted in favor of the Company. The ruling was appealed both by the Company and the AFIP.

On June 8, October 31 and October 15, 2012 the Company was notified of a ruling issued by the National Tax Court reducing partially the assessments made by the AFIP for the fiscal years 1997, 1998 and 1999, respectively. The ruling was appealed both by the Company and the AFIP.

Based on the above, the Company recognized a provision amounting to USD 1.8 million as of December 31, 2012 as management considers there could be a potential cash outflow.



---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**25. CONTINGENCIES, COMMITMENTS AND RESTRICTIONS ON THE DISTRIBUTION OF PROFITS (continued)***(b) Ternium Mexico. SAT Income tax claim for fiscal year 2004*

On January 26, 2012, the Mexican tax authorities notified Ternium Mexico and its subsidiary Acerus S.A. de C.V. of a tax assessment that challenges the value attributed by a predecessor of Acerus to a capital reduction made in 2004 (i.e., prior to the Company's investment in Ternium Mexico's predecessor Grupo Imsa in 2007) and assesses an income tax deficiency. The tax authorities assert that the capital reduction should have been valued at a price significantly higher than the value attributed at the time by the shareholder. The proposed assessment represents an estimated contingency of MXN 4,230 Million (approximately USD 325 million) at December 31, 2012, in taxes and penalties. On April 2, 2012, Ternium Mexico filed an appeal to this assessment before the Mexican tax authorities and reserved the right to further appeal to the tax courts. The Company believes that it is not probable that the ultimate resolution of the matter will result in an obligation. Accordingly, no provision was recorded in these Consolidated Financial Statements.

*(ii) Commitments*

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

(a) Siderar entered into a contract with Tenaris, a related company of Ternium, for the supply of steam generated at the power generation facility that Tenaris owns in the compound of the Ramallo facility of Siderar. Under this contract, Tenaris has to provide 250 tn/hour of steam, and Siderar has the obligation to take or pay this volume. The amount of this outsourcing agreement totals USD 79.9 million and is due to terminate in 2018.

(b) Siderar, within the investment plan, has entered into several commitments to acquire new production equipment for a total consideration of USD 99.8 million.

(c) Siderar is a party to a long-term contract with Air Liquide Argentina S.A. for the supply of oxygen, nitrogen and argon. The agreement requires Siderar to take or pay minimum daily amounts of these gases for an aggregate amount of USD 52.7 million to satisfy Siderar's current production needs through 2021, and to make incremental purchases of these gases for an aggregate amount of USD 141.3 million to satisfy the requirements through 2030 of a new separation facility to be constructed as part of Siderar's expansion plan. As a result of the several global crises that began in 2008 and the uncertainties surrounding the evolution of steel demand in the domestic and global markets, Siderar put the new separation facility project on hold and the parties engaged in discussions for the renegotiation of the contract. In February 2011, Siderar and Air Liquide Argentina reached agreement on the terms of the renegotiation; the obligations of the parties under the agreement related to the new separation facility were suspended through September 30, 2012, and Siderar agreed to purchase from Air Liquide Argentina certain equipment for an aggregate amount of approximately USD 21.8 million. As of December 31, 2012, Siderar paid advances in connection with equipment purchase orders in an amount of USD 12.8 million. On May 15, 2012, Siderar notified to Air Liquide Argentina its decision to resume the construction of the new facility and, as a result, Air Liquide Argentina will be required to repurchase all the equipment purchase orders at the price paid by Siderar. On January 30, 2013, Siderar and Air Liquide Argentina reached a new agreement on the new term for the separation facility project and the parties' rights and obligations related to it. As a consequence of this new agreement, Air Liquide Argentina will have to repurchase the purchase orders of the previously mentioned equipment.



---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**25. CONTINGENCIES, COMMITMENTS AND RESTRICTIONS ON THE DISTRIBUTION OF PROFITS (continued)**

(d) Siderar assumed fixed commitments for the purchase of raw materials for a total amount of USD 444.2 million to be expended during 2013.

(e) The production process of Ternium Mexico's (former Hylsa's plants) requires a large amount of electricity. On December 20, 2000, Hylsa entered into a 25-year contract with Iberdrola Energía Monterrey, S.A. de C.V. (Iberdrola), a Mexican subsidiary of the Spanish Company Iberdrola Energía, S.A., for the supply to four of Mexico's plants of a contracted electrical demand of 111.2 MW, for a contracted amount of USD 0.8 billion, which is due to terminate in 2027. There are no penalties if consumption is lower in 30 MW per year. This contract effectively started on April 30, 2002, and currently supplies approximately 24% of Ternium Mexico's electricity needs.

(f) Several Ternium Mexico's subsidiaries which have facilities throughout the Mexican territory are parties to a long term energy purchase agreement for approximately 90 MW of electricity as purchased capacity with Tractebel Energía de Monterrey, S. de R.L. de C.V., distributed among each plant defined as a capacity user. Each capacity user is committed to pay Tractebel for the purchased capacity and for the net energy delivered. Ternium Mexico is required to provide its best estimate of its expected nomination for capacity and energy under the specific limits and timelines. The monthly payments are calculated considering the capacity charges, energy charges, back-up power charges, and transmission charges, less any steam credits. The contracted amount is of USD 183 million and the contract will terminate in 2018.

(g) Grupo Imsa (now Ternium Mexico), together with Grupo Marcegaglia, Duferco International Investment Holding and Donkuk Steel Mill Co., were parties to a ten-year steel slab off-take framework agreement with Corus UK Limited (now Tata Steel UK Limited) dated as of December 16, 2004, which was supplemented by bilateral off-take agreements. Under the agreements, the off-takers could be required to purchase, in the aggregate, approximately 78% of the steel slab production of Corus' former Teesside facility in the North East of England, of which Grupo Imsa's share was 15.38%, or approximately 0.5 million tons per year, of the total production.

In addition, the off-takers were required to make, in the aggregate and according to their respective pro rata shares, significant payments to Corus to finance capital expenditures. In December 2007, all of Grupo Imsa's rights and obligations under this contract were assigned to Ternium Procurement S.A. (formerly known as Ivory S.A.).

On April 7, 2009, Ternium Procurement S.A., together with the other off-takers, declared the early termination of the off-take framework agreement and their respective off-take agreements with Corus pursuant to a provision allowing the off-takers to terminate the agreements upon the occurrence of certain events specified in the off-take framework agreement. Corus initially denied the occurrence of the alleged termination event, stated that it would pursue specific performance and initiated an arbitration proceeding against the off-takers and Ternium Mexico (as guarantor of Ternium Procurement's obligations) seeking damages arising out of the alleged wrongful termination of the off-take agreements, which damages Corus did not quantify but stated that would exceed USD 150 million (approximately USD 29.7 million in the case of Ternium Procurement), the maximum aggregate cap on liability that the off-takers would have under the off-take framework agreement (a limitation that Corus disputed).

---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**25. CONTINGENCIES, COMMITMENTS AND RESTRICTIONS ON THE DISTRIBUTION OF PROFITS (continued)**

In addition, Corus threatened to submit to arbitration further claims in tort against the off-takers, and also threatened to submit such claims against certain third-parties to such agreements, including the Company. The off-takers and Ternium Mexico, in turn, denied Corus' claims and brought counterclaims against Corus which, in the aggregate, would also be greater than USD 150 million.

On May 12, 2009, Corus, by a letter from its lawyers, alleged that the off-takers' termination notice amounted to a repudiatory breach of the agreements and stated that it accepted that the agreements had come to an end and that it would no longer pursue a claim for specific performance in the arbitration; the claim for damages, for all losses caused by the alleged off-takers' wrongful repudiation of the agreements, however, would be maintained. On July 9, 2009, Corus submitted an amended request for arbitration adding tortious claims against the off-takers and adding to its claims the payment of punitive or exemplary damages.

On December 21, 2010, the arbitration tribunal issued a partial final award where it held that the off-takers had invalidly terminated the off-take agreements. The tribunal also held that the maximum aggregate USD 150 million liability cap (out of which approximately USD 29.7 million corresponds to Ternium Procurement) provided in the off-take framework agreement applied to all of Corus' claims against the off-takers, including tort as well as contract claims. The tribunal formally admitted new claims and counterclaims into the arbitration proceedings on April 10, 2011.

On April 15, 2011, the arbitration tribunal issued a second partial final award where it held that the off-takers should pay to the claimant GBP 1.6 million for its reasonable legal and other costs incurred before the first partial final award. The off-takers paid that amount around mid-May. In addition, on May 27, 2011, the off-takers paid to Tata an aggregate amount of USD 16.3 million (of which Ternium Procurement paid USD 3.2 million) as indemnification for one of its claims under the arbitration proceedings.

On June 16, 2011, Tata, the off-takers and Ternium Mexico settled the dispute, and the off-takers, in exchange for a full release and discharge of each of them and their respective representatives and affiliates, from all claims and disputes that Tata may have against any of them in relation to the off-take framework agreement and its related agreements, agreed to pay to Tata an aggregate amount of USD 124 million (including the USD16.3 million previously paid) and authorized their agent under the off-take agreements to transfer to Tata UK£1.8 million and 0.5 million which had been received by the agent from the off-takers under the off-take framework agreement before the early termination of such agreement. Ternium Procurement paid to Tata its share of the settlement amount (i.e., USD21.3 million) on June 17, 2011.

On June 21, 2011, Tata notified the arbitration tribunal that the arbitration proceedings were withdrawn. On July 8, 2011 and as a consequence of the settlement reached among the parties, the tribunal declared the termination of the arbitration proceedings.

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**25. CONTINGENCIES, COMMITMENTS AND RESTRICTIONS ON THE DISTRIBUTION OF PROFITS (continued)***(iii) Restrictions on the distribution of profits*

Under Luxembourg law, at least 5% of net income per year calculated in accordance with Luxembourg law and regulations must be allocated to a reserve until such reserve has reached an amount equal to 10% of the share capital. At December 31, 2012, this reserve reached the above-mentioned threshold.

As of December 31, 2012, Ternium may pay dividends up to USD 6.0 billion in accordance with Luxembourg law and regulations.

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

	<b>At December 31, 2012</b>
Share capital	2,004,743
Legal reserve	200,474
Non distributable reserves	1,414,122
Accumulated profit at January 1, 2011 (1)	5,982,630
Loss for the year	(7,329)
<b>Total shareholders' equity under Luxembourg GAAP</b>	<b>9,594,640</b>

- (1) As a result of the repurchase of its own shares from Usiminas on February 15, 2011 (see Note 30), the Company is required under applicable Luxembourg law to create a new non-distributable reserve in the amount of USD 150 million.

**26. EARNINGS PER SHARE**

As of December 31, 2012, the capital was USD 2,004,743,442 represented by 2,004,743,442 shares, each having a nominal value of USD 1.00 each.

For fiscal years 2012, 2011 and 2010, the weighted average of shares outstanding totaled 1,963,076,776, 1,968,327,917 and 2,004,743,442 shares, respectively. See note 30.

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the daily weighted average number of ordinary shares outstanding during the year.



Edgar Filing: Ternium S.A. - Form 20-F

	2012	2011	2010
Profit from continuing operations attributable to equity holders of the Company	139,235	513,540	622,076
Weighted average number of ordinary shares in issue	1,963,076,776	1,968,327,917	2,004,743,442
Basic and diluted earnings per share from continuing operations attributable to equity holders of the Company (USD per share)	0.07	0.26	0.31

F-62

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**27. DISCONTINUED OPERATIONS NATIONALIZATION OF SIDOR**

On March 31, 2008, Ternium S.A. (the Company) controlled, through its Spanish subsidiary Consorcio Siderurgia Amazonia S.L. (Amazonia), approximately 59.7% of Venezuelan steelmaker Sidor C.A., while Corporación Venezolana de Guayana, or CVG (a Venezuelan governmental entity), and Banco de Desarrollo Económico y Social de Venezuela, or BANDES (a bank owned by the Venezuelan government), held approximately 20.4% of Sidor. On April 8, 2008, the Venezuelan government announced its intention to take control over Sidor, and on July 12, 2008, Venezuela, acting through CVG, assumed operational control and complete responsibility for Sidor's operations.

On May 7, 2009, the Company and Amazonia completed the transfer of their entire 59.7% interest in Sidor to CVG, and the Company agreed to receive an aggregate amount of USD 1.97 billion as compensation for its Sidor shares. Of that amount, CVG paid USD 400 million in cash at closing. The balance was divided in two tranches: the first tranche of USD 945 million was scheduled to be paid in six equal quarterly installments beginning in August 2009 until November 2010, while the second tranche would be due in November 2010, subject to quarterly mandatory prepayment events. CVG made all payments required to be made under the agreements governing the transfer of Sidor to Venezuela except for November 2010 payment.

On December 18, 2010, the Company and Amazonia reached an agreement with CVG on the rescheduling of the unpaid balance of USD 257.4 million, and CVG agreed to make a USD 7 million cash payment and five quarterly installments, beginning on February 15, 2011 and ending on February 15, 2012. The final two installments, however, were not paid when due and, on July 20, 2012, the Company and Amazonia initiated arbitration proceedings against Venezuela before the International Centre for Settlement of Investment Disputes (ICSID), seeking payment of the unpaid amounts. On October 10, 2012, the Company received the payment of the outstanding amount of USD 136.7 million. The receipt of that payment resolved the pending dispute relating to the nationalization of Sidor.

In the year ended December 31, 2012 and 2011, the Company recorded gains in the amount of USD 0.4 million and USD 11.4 million, respectively. These gains are included in Interest income in the Income Statement and represent the accretion income over the receivable held against CVG.

**28. RELATED PARTY TRANSACTIONS**

As of December 31, 2012, Techint owned 62.02% of the Company's share capital and Tenaris held 11.46% of the Company's share capital. Each of Techint and Tenaris were controlled by San Faustin S.A., a Luxembourg company (San Faustin). Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin (RP STAK), a Dutch private foundation (Stichting), held shares in San Faustin sufficient in number to control San Faustin. No person or group of persons controls RP STAK.

For commitments with Related parties, see note 25.

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**28. RELATED PARTY TRANSACTIONS (continued)**

The following transactions were carried out with related parties:

	Year ended December 31,		
	2012	2011	2010
<b>(i) Transactions</b>			
<b>(a) Sales of goods and services</b>			
Sales of goods to non-consolidated parties	171	14,182	
Sales of goods to other related parties	216,392	167,786	172,337
Sales of services to non-consolidated parties	173	109	65
Sales of services to other related parties	616	1,682	1,763
	<b>217,352</b>	<b>183,759</b>	<b>174,165</b>
<b>(b) Purchases of goods and services</b>			
Purchases of goods from non-consolidated parties	312,106	111,900	84,206
Purchases of goods from other related parties	75,482	58,219	49,735
Purchases of services from non-consolidated parties	43,708	42,762	38,939
Purchases of services from other related parties	248,647	129,844	114,377
	<b>679,943</b>	<b>342,725</b>	<b>287,257</b>
<b>(c) Financial results</b>			
Income with non-consolidated parties		95	78
Expenses with other related parties	(308)	(21)	(982)
	<b>(308)</b>	<b>74</b>	<b>(904)</b>
<b>(d) Dividends</b>			
Dividends received from non-consolidated parties	<b>4,718</b>		<b>302</b>
<b>(ii) Year-end balances</b>			
	At December 31,		
	2012	2011	
<b>a) Arising from sales/purchases of goods/services and other transactions</b>			

## Edgar Filing: Ternium S.A. - Form 20-F

Receivables from non-consolidated parties	1,102	16,124
Receivables from other related parties	24,243	30,723
Advances to suppliers with other related parties	4,321	1,245
Payables to non-consolidated parties	(69,746)	(24,042)
Payables to other related parties	(68,792)	(50,265)
Borrowings to non-consolidated parties		(12,182)
	<b>(108,872)</b>	<b>(38,397)</b>

### (iii) Officers and Directors compensation

During the year ended December 31, 2012 the cash compensation of Officers and Directors amounted to USD 13,076. In addition, Officers received 660.000 Units for a total amount of USD 1,883 in connection with the incentive retention program mentioned in note 4 (n)(3).

F-64

---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**29. INVESTMENTS IN MEXICO**

On October 4, 2010, Ternium and Nippon Steel Corporation signed a definitive agreement to form an operation in Mexico for the manufacturing and sale of hot-dip galvanized and galvanized steel sheets to serve the Mexican automobile market. The company was established in November 2010 and operates under the name of Tenigal, S.R.L. de C.V. Ternium and Nippon Steel hold 51% and 49% participations in Tenigal, respectively.

Tenigal plans to build a hot-dip galvanizing plant in the vicinity of Monterrey City (equivalent to the state-of-the-art equipment now in operation at Nippon Steel's steelworks in Japan) with a production capacity of 400,000 metric tons per year. Ternium expects that construction of the facility would require a total investment of approximately USD 350 million. The plant is currently expected to commence production of high-grade and high-quality galvanized and galvanized automotive steel sheets, including outer-panel and high-strength qualities, in 2013. Tenigal is expected to serve the requirements of the growing automotive industry in Mexico, including those of the Japanese car makers.

In addition, Ternium Mexico plans to construct new pickling, cold-rolling, annealing and tempering lines at the same site. Part of the output from these lines will be used to supply the Tenigal plant. Ternium expects that construction of these lines would require a total investment of approximately USD 700 million. As of December 31, 2012, the amount invested in property, plant and equipment totaled USD 245 million.

**30. REPURCHASE OF SHARES FROM USIMINAS CONCURRENTLY WITH SECONDARY PUBLIC OFFERING**

On January 31, 2011, Ternium entered into a transaction and registration rights agreement with its 14.3% shareholder Usiminas and Techint Holdings S.à.r.l. ( Techint ). The transaction and registration rights agreement provided, among other things, for a SEC-registered underwritten public offering of up to all of Ternium shares held by Usiminas (less the number of shares that Ternium and Techint agreed to purchase as discussed below) in the form of ADSs listed on the New York Stock Exchange. Neither Ternium nor Techint offered to sell any Ternium shares or ADSs in the public offering.

On February 9, 2011, Ternium and Techint, following the pricing of the underwritten public offering mentioned above, entered into purchase agreements with Usiminas relating to their concurrent purchase transactions of Ternium shares. Under these agreements, on February 15, 2011, Ternium and Techint purchased from Usiminas 41,666,666 and 27,777,780 Ternium shares for a total consideration of USD 150 million and USD 100 million, respectively. In connection with the sale of Ternium's shares by Usiminas, Ternium collected a USD 10.2 million fee, included in Other operating income (expenses), net and was reimbursed of all expenses relating to the offering and concurrent purchase.

Following consummation of these transactions, Techint owns directly 62.02% of the Company's share capital and Tenaris holds directly 11.46% of the Company's share capital (both including treasury shares) and Usiminas no longer owns any Ternium shares. In addition, the two members of Ternium's Board of Directors nominated by Usiminas resigned from the Ternium Board.

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**30. REPURCHASE OF SHARES FROM USIMINAS CONCURRENTLY WITH SECONDARY PUBLIC OFFERING (continued)**

Related to the dividends distributed on May 2, 2012, and June 9, 2011, and as these treasury shares are held by one of Ternium's subsidiaries, the dividends attributable to these treasury shares amounting to USD 3.1 million and USD 3.1 million, respectively, were included in equity as less dividend paid.

**31. OTHER REQUIRED DISCLOSURES****(a) Statement of comprehensive income**

	Gross amount	Cash flow hedges Income Tax	Total	Currency translation adjustment
At December 31, 2010	(31,964)	9,590	(22,374)	(679,457)
(Decrease) / Increase	(657)	197	(460)	(433,633)
Reclassification to income statement	22,994	(6,898)	16,096	
At December 31, 2011	(9,627)	2,889	(6,738)	(1,113,090)
(Decrease) / Increase	(553)	165	(388)	(425,448)
Reclassification to income statement	9,910	(2,973)	6,937	
At December 31, 2012	(270)	81	(189)	(1,538,538)

**(b) Statement of cash flows**

	2012	At December 31, 2011	2010
<b>(i) Changes in working capital (1)</b>			
Inventories	20,250	(410,088)	(496,678)
Receivables and others	(86,319)	(8,635)	32,487
Trade receivables	38,219	(136,547)	(170,630)
Other liabilities	(41,456)	25,332	63,062

Edgar Filing: Ternium S.A. - Form 20-F

Trade payables	92,839	130,646	134,681
	<b>23,533</b>	<b>(399,292)</b>	<b>(437,078)</b>
<b>(ii) Income tax accrual less payments</b>			
Tax accrued (Note 11)	264,567	311,656	406,193
Taxes paid	(220,197)	(571,920)	(179,838)
	<b>44,370</b>	<b>(260,264)</b>	<b>226,355</b>
<b>(iii) Interest accruals less payments</b>			
Interest accrued	150,302	105,570	70,771
Interest paid	(149,486)	(62,523)	(70,830)
	<b>816</b>	<b>43,047</b>	<b>(59)</b>

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

F-66

---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**32. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

**The following standards, amendments to standards and interpretations are not mandatory for the financial year beginning January 1, 2012 and have not been early adopted:**

**(i) International Accounting Standard 19 (amended 2011), Employee benefits**

In June 2011, the IASB issued IAS 19 (amended 2011), Employee benefits, which makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. IAS 19 (amended 2011) must be applied for annual periods beginning on or after 1 January 2013. See also note 4 (n)(1).

**(ii) International Accounting Standard 1 (amended 2011), Presentation of financial statements**

In June 2011, the IASB issued IAS 1 (amended 2011), Presentation of financial statements. The amendment requires entities to separate items presented in Other Comprehensive Income into two groups, based on whether or not they may be recycled to profit or loss in the future. IAS 1 (amended 2011) must be applied for annual periods beginning on or after 1 July 2012.

**(iii) International Financial Reporting Standard 9 (amended 2011), Financial Instruments**

In November 2009, the IASB issued IFRS 9 Financial Instruments which establishes principles for the financial reporting of financial assets by simplifying their classification and measurement. This interpretation is applicable for annual periods beginning on or after 1 January 2015. Earlier application is not permitted for entities that prepare financial statements in accordance with IFRS as adopted by the EU, since the interpretation is not yet adopted by the EU.

**(iv) International Financial Reporting Standard 13, Fair value measurement**

In May 2011, the IASB issued IFRS 13, Fair value measurement. IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. IFRS 13 must be applied for annual periods beginning on or after 1 January 2013.

**(v) IFRIC Interpretation 20, Stripping costs in the production phase of a surface mine**

In October 2011, the IFRIC issued IFRIC Interpretation 20, Stripping costs in the production phase of a surface mine. IFRIC addresses the recognition of production stripping costs as an asset and the measurement of the stripping activity asset. IFRIC 20 must be applied for annual periods beginning on or after 1 January 2013.

The Company's management is currently assessing the potential impact that the application of these standards may have on the Company's financial condition or results of operations.

**The following standards, amendments to standards and interpretations are not effective for the financial year beginning January 1, 2012, but the Company has decided to early adopt them:**

**(i) International Financial Reporting Standard 10, Consolidated financial statements**



## Edgar Filing: Ternium S.A. - Form 20-F

In May 2011, the IASB issued IFRS 10, Consolidated financial statements . IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 and SIC-12. IFRS 10 must be applied for annual periods beginning on or after 1 January 2013.

F-67

---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**32. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (continued)**

**(ii) International Financial Reporting Standard 11, Joint arrangements**

In May 2011, the IASB issued IFRS 11, *Joint arrangements*. IFRS 11 sets out the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that defined type of joint arrangement. IFRS 11 must be applied for annual periods beginning on or after 1 January 2013.

**(iii) International Financial Reporting Standard 12, Disclosures of interest in other entities**

In May 2011, the IASB issued IFRS 12, *Disclosures of interest in other entities*. This standard includes the disclosure requirements for all forms of interest in other entities. IFRS 12 must be applied for annual periods beginning on or after 1 January 2013.

**33. FINANCIAL RISK MANAGEMENT**

**1) Financial risk factors**

Ternium's activities expose the Company to a variety of risks: market risk (including the effects of changes in foreign currency exchange rates, interest rates and commodities prices), credit risk and liquidity risk.

Ternium's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance. Ternium's subsidiaries may use derivative financial instruments to hedge certain risk exposures.

**1.1) Market Risk**

*(i) Foreign exchange rate risk*

Ternium operates and sells its products in different countries, and as a result is exposed to foreign exchange rate volatility. In addition, the Company entered into several borrowings that contain covenants providing for the compliance with certain financial ratios, including ratios measured in currencies other than the U.S. dollar. This situation exposes Ternium to a risk of non-compliance derived from volatility in foreign exchange rates. Ternium's subsidiaries may use derivative contracts in order to hedge their exposure to exchange rate risk derived from their trade and financial operations.

Ternium general policy is to minimize the negative impact of fluctuations in the value of other currencies with respect to the U.S. dollar. Ternium's subsidiaries monitor their net operating cash flows in currencies other than the U.S. dollar, and analyze potential hedging according to market conditions. This hedging can be carried out by netting operational positions or by financial derivatives. However, regulatory or legal restrictions in the countries in which Ternium's subsidiaries operate, could limit the possibility of the Company carrying out its hedging policy.



**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**33. FINANCIAL RISK MANAGEMENT (continued)**

Ternium has foreign operations, whose net assets are exposed to foreign currency translation risk, some of which may impact net income. The fact that some subsidiaries have measurement currencies other than the U.S. dollar may, at times, distort the results of the hedging efforts as reported under IFRS.

The following table shows a breakdown of Ternium's assessed financial position exposure to currency risk as of December 31, 2012. These balances include intercompany positions where the intervening parties have different functional currencies.

USD million Exposure to	Functional Currency	
	USD	ARS
US dollar (USD)		53
EU euro (EUR)	(53)	(8)
Mexican peso (MXN)	(180)	
Colombian peso (COP)	(65)	
Other currencies	4	

We estimate that if the Argentine peso, Mexican peso, Colombian peso and Brazilian real had weakened by 1% against the US dollar with all other variables held constant, total pre-tax income for the year would have been USD 2.1 million higher (USD 16.3 million lower as of December 31, 2011), as a result of foreign exchange gains/losses on translation of US dollar-denominated financial position, mainly trade receivables, trade payables and other liabilities. This effect would have been offset by the change in the currency translation adjustment recorded in equity.

Considering the same variation of the currencies against the US dollar of all net investments in foreign operations amounting to USD 2.5 billion, the currency translation adjustment included in total equity would have been USD 24.5 million lower (USD 37.2 million lower as of December 31, 2011; see note 4 (b) (1)), arising from the adjustment on translation of the equity related to the Mexican peso, the Argentine peso, the Colombian peso and the Brazilian real.

*(ii) Interest rate risk*

Ternium manages its exposure to interest rate volatility through its financing alternatives and hedging instruments. Borrowings issued at variable rates expose the Company to the risk of increased interest expense in the event of a raise in market interest rates, while borrowings issued at fixed rates expose the Company to a variation in its fair value. The Company's interest-rate risk mainly arises from long-term borrowings that bear variable-rate interest that is partially fixed through different derivative transactions, such as swaps and structures with options. The Company's general policy is to maintain a balance between instruments exposed to fixed and variable rates; which can be modified according to long term market conditions.

Ternium's nominal weighted average interest rate for its debt instruments, which also includes the effect of derivative financial instruments, was 5.99% and 5.13% for 2012 and 2011, respectively. These rates were calculated using the rates set for each instrument in its corresponding currency and weighted using the dollar-equivalent outstanding principal amount of each instrument as of December 31, 2012 and 2011, respectively.



---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**33. FINANCIAL RISK MANAGEMENT (continued)**

Ternium's total variable interest rate debt amounted to USD 1,843 million (76.0% of total borrowings) at December 31, 2012 and USD 1,511 million (75.7% of total borrowings) at December 31, 2011.

If interest rates on the aggregate average notional of US dollar denominated borrowings held during 2012, excluding borrowings with derivatives contracts mentioned in Note 23(a), had been 100 basis points higher with all other variables held constant, total pre-tax income for the year ended December 31, 2012 would have been USD 21.6 million lower (USD 12.1 million lower as of December 31, 2011).

*(iii) Commodity price risk*

In the ordinary course of its operations, Ternium purchases raw materials (such as iron ore, coal and slabs) and other commodities (including electricity and gas). Commodity prices are generally volatile as a result of several factors, including those affecting supply and demand, political, social and economic conditions, and other circumstances. Ternium monitors its exposure to commodity price volatility on a regular basis and applies customary commodity price risk management strategies. For further information on long-term commitments, see note 25(ii).

**1.2) Credit risk**

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. Ternium's subsidiaries have credit guidelines in place to ensure that derivative and treasury counterparties are limited to high credit quality financial institutions.

Ternium has no significant concentrations of credit risk from customers. No single customer accounts for more than five percent of Ternium's sales. Ternium's subsidiaries have policies in place to ensure that sales are made to customers with an appropriate credit history, and that credit insurances, letters of credit or other instruments are requested to reduce credit risk whenever deemed necessary. The subsidiaries maintain allowances for potential credit losses. The utilization of credit limits is regularly monitored.

Trade and other receivables are carried at face value less allowance for doubtful accounts, if applicable. This amount does not differ significantly from fair value. The other receivables do not contain significant impaired assets.

As of December 31, 2012, trade receivables total USD 740.2 million. These trade receivables are collateralized by guarantees under letter of credit and other bank guarantees of USD 5.7 million, credit insurance of USD 507.0 million and other guarantees of USD 18.8 million.

As of December 31, 2012, trade receivables of USD 651.8 million were fully performing.

As of December 31, 2012, trade receivables of USD 71.1 million were past due. These trade receivables as of December 31, 2012, are past due less than 3 months.

The amount of the allowance for doubtful accounts was USD 15.3 million as of December 31, 2012.



**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**33. FINANCIAL RISK MANAGEMENT (continued)**

The carrying amounts of the Company's trade and other receivables as of December 31, 2012, are denominated in the following currencies:

Currency	USD million
US dollar (USD)	561
EU euro (EUR)	23
Argentine peso (ARS)	91
Mexican peso (MXN)	220
Colombian peso (COP)	105
	<b>1,000</b>

**1.3) Liquidity risk**

Management maintains sufficient cash and marketable securities and credit facilities to finance normal operations. Management monitors rolling forecasts of the group's liquidity reserve on the basis of expected cash flow.

The Company has negotiated additional credit facilities in its Argentine subsidiaries and renegotiated a part of an existing credit facility in Mexico (see note 24).

The table below analyses financial liabilities into relevant maturity groups based on the remaining period at the date of the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

USD million	2013	2014	2015	2016	Thereafter
Borrowings	1,122	635	236	274	157
Interests to be accrued (1)	81	39	24	12	3
Trade payables and other liabilities	736	3	3	3	9
Derivatives financial instruments					
<b>Total</b>	<b>1,939</b>	<b>677</b>	<b>263</b>	<b>289</b>	<b>169</b>



## Edgar Filing: Ternium S.A. - Form 20-F

(1) These amounts do not include the effect of derivative financial instruments.

As of December 31, 2012 total borrowings less cash and cash equivalents and other current investments amounted to USD 1,703.3 million.

### **1.4) Capital risk**

Ternium seeks to maintain an adequate debt/equity ratio considering the industry and the markets where it operates. The year-end ratio debt over debt plus equity is 0.27 and 0.23 as of December 31, 2012 and 2011, respectively. The Company does not have to comply with regulatory capital adequacy requirements as known in the financial services industry.

F-71

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**33. FINANCIAL RISK MANAGEMENT (continued)****2) Financial instruments by category and fair value hierarchy level**

The accounting policies for financial instruments have been applied to the line items below. According to the scope and definitions set out in IFRS 7 and IAS 32, employers' rights and obligations under employee benefit plans, and non-financial assets and liabilities such as advanced payments and income tax payables, are not included.

At December 31, 2012 (in USD thousands)	Loans and receivables	Assets at fair value through profit and loss	Total
<b>(i) Assets as per statement of financial position</b>			
Receivables	46,196		46,196
Derivative financial instruments		64	64
Trade receivables	740,169		740,169
Other investments	16,737	150,963	167,700
Cash and cash equivalents	55,016	505,291	560,307
<b>Total</b>	<b>858,118</b>	<b>656,318</b>	<b>1,514,436</b>

At December 31, 2012 (in USD thousands)	Derivatives	Other financial liabilities	Total
<b>(ii) Liabilities as per statement of financial position</b>			
Other liabilities		26,347	26,347
Trade payables		727,795	727,795
Derivative financial instruments	271		271
Borrowings		2,424,363	2,424,363
<b>Total</b>	<b>271</b>	<b>3,178,505</b>	<b>3,178,776</b>

At December 31, 2011 (in USD thousands)	Loans and receivables	Assets at fair value through profit and loss	Total
<b>(i) Assets as per statement of financial position</b>			
Receivables	32,226		32,226
Derivative financial instruments		50	50
Trade receivables	753,430		753,430
Other investments	46,535	249,041	295,576

Edgar Filing: Ternium S.A. - Form 20-F

Cash and cash equivalents	26,345	2,131,699	2,158,044
<b>Total</b>	<b>858,536</b>	<b>2,380,790</b>	<b>3,239,326</b>

At December 31, 2011 (in USD thousands)	Derivatives	Other financial liabilities	Total
<b>(ii) Liabilities as per statement of financial position</b>			
Other liabilities		13,117	13,117
Trade payables		670,282	670,282
Derivative financial instruments	29,902		29,902
Borrowings		1,996,135	1,996,135
<b>Total</b>	<b>29,902</b>	<b>2,679,534</b>	<b>2,709,436</b>

F-72

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**33. FINANCIAL RISK MANAGEMENT (continued)*****Fair Value by Hierarchy***

Following the requirements contained in paragraph 27B of IFRS 7, Ternium categorizes each class of financial instrument measured at fair value in the statement of financial position into three levels, depending on the significance of the judgment associated with the inputs used in making the fair value measurements. Level 1 comprises financial assets and financial liabilities whose fair values have been determined on the basis of quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 includes financial assets and financial liabilities for which fair values have been estimated using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Level 3 comprises financial instruments for which inputs to estimate fair value of the assets or liabilities are not based on observable market data (unobservable inputs).

Description	Fair value measurement at December 31, 2012 (in USD thousand):		
	Total	Level 1	Level 2
<b>Financial assets at fair value through profit or loss</b>			
Cash and cash equivalents	505,291	389,032	116,259
Other investments	150,963	130,926	20,037
Derivatives financial instruments	64		64
<b>Total assets</b>	<b>656,318</b>	<b>519,958</b>	<b>136,360</b>

<b>Financial liabilities at fair value through profit or loss</b>			
Derivatives financial instruments	271		271
<b>Total liabilities</b>	<b>271</b>		<b>271</b>

Description	Fair value measurement at December 31, 2011 (in USD thousand):		
	Total	Level 1	Level 2
<b>Financial assets at fair value through profit or loss</b>			
Cash and cash equivalents	2,131,699	1,971,016	160,683
Other investments	249,041	213,654	35,387
Derivatives financial instruments	50		50
<b>Total assets</b>	<b>2,380,790</b>	<b>2,184,670</b>	<b>196,120</b>

## Edgar Filing: Ternium S.A. - Form 20-F

### Financial liabilities at fair value through profit or loss

Derivatives financial instruments	29,902	29,902
<b>Total liabilities</b>	<b>29,902</b>	<b>29,902</b>

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy and there were no financial assets and liabilities considered as Level 3.

### 3) Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized in the statement of financial position at cost and subsequently measured at fair value. Changes in fair value are disclosed under Other financial income (expenses), net line item in the income statement. Ternium does not hedge its net investments in foreign entities.

F-73

---

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**33. FINANCIAL RISK MANAGEMENT (continued)**

Ternium designates certain derivatives as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction. These transactions are classified as cash flow hedges (mainly interest rate swaps, collars and commodities contracts). The effective portion of the fair value of derivatives that are designated and qualify as cash flow hedges is recognized within other comprehensive income. Amounts accumulated in other comprehensive income are recognized in the income statement in the same period than any offsetting losses and gains on the hedged item. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. The fair value of Ternium derivative financial instruments (asset or liability) continues to be reflected on the statement of financial position.

For transactions designated and qualifying for hedge accounting, Ternium documents at inception the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. At December 31, 2012, the effective portion of designated cash flow hedges amounts to USD 0.2 million (net of taxes) and is included as Cash flow hedges line item in the statement of comprehensive income.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 23. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognized immediately in the income statement.

**4) Fair value estimation**

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

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

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

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

**Table of Contents**

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011

and for the years ended December 31, 2012, 2011 and 2010

**34. SUBSEQUENT EVENTS**

On February 4, 2013, the Company announced that it was made aware by Tenaris S.A. (Tenaris) of the filing of a lawsuit in Brazil by Companhia Siderúrgica Nacional (CSN) and various entities affiliated with CSN against Ternium Investments S.à.r.l., its subsidiary Siderar, and Confab Industrial S.A. (Confab), a Brazilian subsidiary of Tenaris. The entities named in the CSN lawsuit had acquired a participation in Usinas Siderúrgicas de Minas Gerais S.A. USIMINAS (Usiminas) in January 2012.

As informed by Tenaris, the CSN lawsuit alleges that, under applicable Brazilian laws and rules, the acquirers were required to launch a tag-along tender offer to all minority holders of Usiminas ordinary shares for a price per share equal to 80% of the price per share paid in such acquisition, or 28.8 Brazilian reais (BRL), and seeks an order to compel the acquirers to launch an offer at that price plus interest. If so ordered, the offer would need to be made to 182,609,851 ordinary shares of Usiminas not belonging to Usiminas' control group; Ternium Investments and Siderar's respective shares in the offer would be 60.6% and 21.5%. None of the Ternium subsidiaries named in the CSN lawsuit has yet been properly notified of the claims.

Ternium believes that CSN's allegations are groundless and without merit, as confirmed by several opinions of Brazilian counsel and previous decisions by Brazil's securities regulator Comissão de Valores Mobiliários, including a February 2012 decision determining that the above mentioned acquisition did not trigger any tender offer requirement. Accordingly, Ternium will defend itself vigorously.

Pablo Brizzio

Chief Financial Officer

F-75