Ternium

Annual Report 2006

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Company Profile

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

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

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

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

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

Operating and Financial Highlights

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

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

(1) EBITDA equals operating income of US$1.6 billion and US$1.4 billion in 2006 and 2005, respectively, plus depreciation and amortization of US$424.5 million and US$316.4 million in 2006 and 2005, respectively, and other non-cash items of US$13.3 million and US$54.3 million in 2006 and 2005, respectively (which related to the closure of certain facilities).

(2) Free cash flow equals net cash provided by operating activities of US$1.2 billion and US$1.3 billion in 2006 and 2005, respectively, less capital expenditures of US$0.4 billion and US$0.2 billion in 2006 and 2005, respectively.

(3) Each ADS represents 10 shares of Ternium common stock.

(4) Shares outstanding were 2,004,743,442 and 1,396,551,887 as of December 31, 2006 and 2005, respectively.

(5) During 2006, Ternium successfully streamlined staffing throughout its organization. Previously outsourced personnel became direct employees of the Company, while the aggregate number of direct employees and outsourced personnel decreased compared to 2005 levels.

Letter to Shareholders

Dear Shareholder,

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

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

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

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

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

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

Sincerely,

Paolo Rocca
Chairman

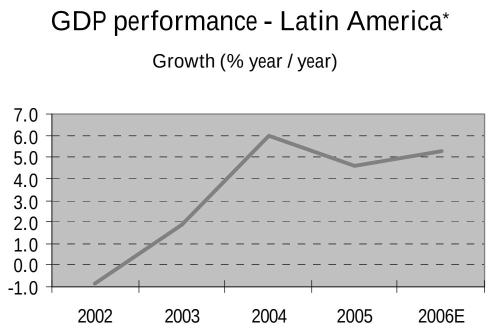
Business Review

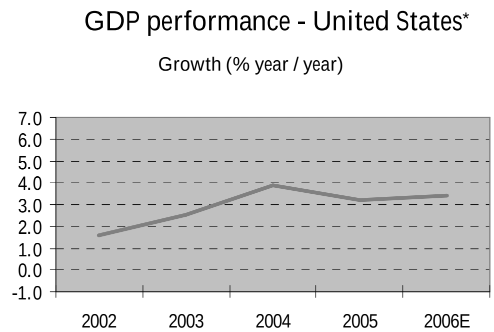
Market Background and Outlook

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

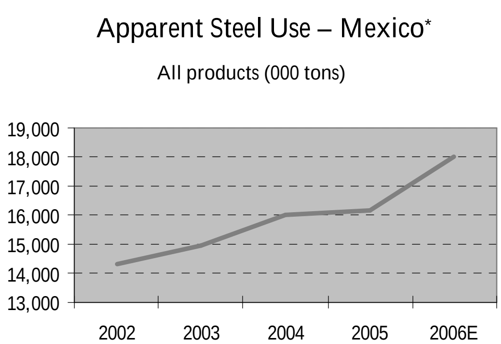
The Mexican economy performed well during the year. Growth rates picked up, aided by the good performance of the construction and industrial sectors. The U.S. economy also had a positive performance in 2006. GDP is estimated to have grown at a slightly higher rate than in 2005, although growth was uneven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

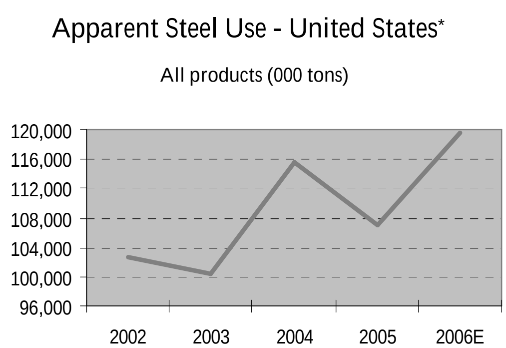
In 2006, South America's economies continued to enjoy strong growth, characterized by good pricing levels of commodities, healthy public finances, stable local currencies and relatively low local interest rates. The main economies in the region showed robust growth for the fourth year in a row, aided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





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





Steel consuming sectors such as construction, automotive and capital equipment showed mixed performance during 2006. In Mexico, all sectors continued expanding and at higher

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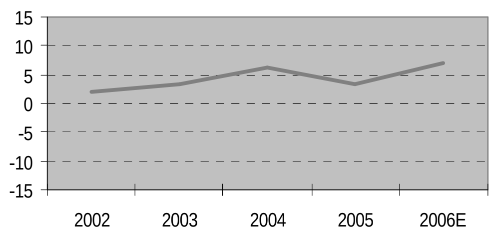
* Source: IISI.

growth rates, particularly automotive. In the U.S., on the other hand, activity in the automotive sector softened in 2006. Overall construction activity was good, helped by a strong year in non-residential construction, which offset a lower level of activity in residential construction.

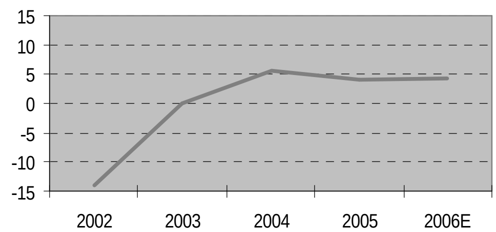
Construction – Mexico*

Growth (% year / year)



Construction - United States*

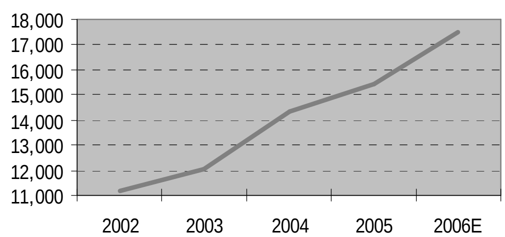
Growth (% year / year)



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

Apparent Steel Use – South and Central America ex Brazil*

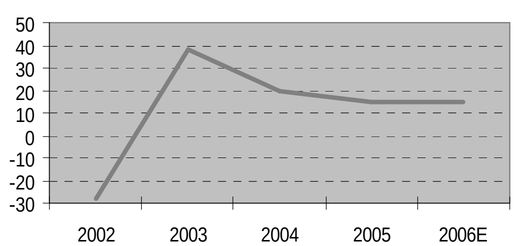
All products (000 tons)



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

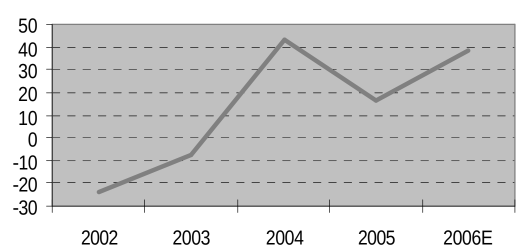
Construction – Argentina*

Growth (% year / year)



Construction – Venezuela*

Growth (% year / year)



* Source: IISI.

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

In the South and Central America Region, the outlook for 2007 is positive. The economies of the region should continue to enjoy a strong environment for commodities and favorable financial conditions. GDP performance is expected to be slightly lower compared to growth in 2006, as the main economies are likely to revert to more normal long-term growth trends. In this context, apparent steel use is expected to post another year of growth in the region, though at lower rates compared to 2006.

Summary of Results

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

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

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

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

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

Business Performance

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

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

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

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

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

North America

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

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

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

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

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

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

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

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

South and Central America

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

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

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

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

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

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

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

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

Ternium's capital expenditures for 2007-2010 are estimated to be US$1.7 billion, primarily directed at projects to expand, enhance and maintain the Company's facilities. The Company's objective is to produce crude steel in locations with favorable access to raw materials and energy, and finished steel close to the locations where we expect the strongest sales growth. We believe this strategy will allow us to meet the increasing demand for steel in our regional markets while also expanding our presence in North America. The additional production required by this approach will be generated mostly from existing spare capacity that requires a low level of investment per added ton.

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

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

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

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

Billet production expansion in Venezuela.
The Company expects to complete the first of a two-stage revamping of its HYL production facilities in Venezuela, which will expand its direct reduced iron or "DRI" production

capacity. The higher supply of metallic charge for the steel shop will permit it to increase its utilization rate by 400,000 tons of billets per year in two stages -- the first of which will be completed during 2008 and the second of which will be concluded in 2010.

Our Communities and Environment

Communities

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

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

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

Mexico

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

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

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

Argentina

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

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

Venezuela

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

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

Environment, Health & Safety

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

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

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

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

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

* Injuries frequency rate refers to total quantity of injuries per million of worked hours.

† Lost time injuries frequency rate refers to quantity of day-loss injuries per million of worked hours.

Corporate Governance

Shares

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

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

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

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

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

Board of Directors

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

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

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

Audit Committee

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

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

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

Auditors

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

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

Board of Directors and Executive Officers

Board of Directors

Chairman
Paolo Rocca
Vice Chairman
Rinaldo Campos Soares

Ubaldo Aguirre (*)
Roberto Bonatti
Carlos Condorelli
Adrián Lajous Vargas (*)
Bruno Marchettini
Daniel Novegil
Gianfelice Rocca
Gerardo Sepúlveda (*)
Bertoldo Machado Veiga

Secretary
Raúl Darderes

(*) Audit Committee Members

Executive Officers

Chief Executive Officer and Director
Daniel Novegil

Chief Financial Officer
Roberto Philipps

International Commercial Officer
Alfredo Indaco

North Region Area Manager
Regulo Salinas

South Region Area Manager
Martín Berardi

Central Region Area Manager
Julián Eguren

Planning and Operations General Director
Oscar Montero

Technical Director
Luis Andreozzi

Human Resources Director
Miguel Angel Punte

Chief Information Officer
Rubén Bocanera

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Argentina
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Urbanización Chuao - Caracas
Venezuela
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Operating and Financial Review (MD&A)

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

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

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

Results of Operations

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

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

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

Net Sales

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

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

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

Flat Product Sales

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

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

Long Product Sales

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

Sales by Region

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

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

Shipments, Revenue per Ton and Net Sales in the Year 2006

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

(1) Includes iron ore and pig iron.

Cost of Sales

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

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

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

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

Selling, General and Administrative Expenses (SG&A)

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

Other Operating Expenses, net

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

Operating Income and EBITDA*

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

Financial Expenses, net

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

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

Income Tax Expense

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

Income Attributable to Minority Interest

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

Liquidity and Financial Resources

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

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* 2006 EBITDA equals operating income of US$1.6 billion plus depreciation and amortization of US$0.4 billion and other non-cash transactions of US$13.3 million.

We are confident that our cash flow from operations and our access to external borrowings are sufficient to meet our needs for working capital and that we have ample debt coverage to service our obligations for the foreseeable future. Contributors to our strong balance sheet and cash position are our successful initial public offering (IPO) in February 2006, the subsequent conversion of subordinated convertible loans from certain shareholders of the Company and an ample cash flow from 2006 operations. This has allowed Ternium to reduce financial debt to US$1.1 billion and net debt to US$413.7 million. We believe that our liquidity and access to capital and international bank markets give us significant flexibility to execute our planned capital expenditures and to carry out strategic acquisitions if such opportunities arise.

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

Historical Cash Flows

Operating Activities

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

Investing Activities

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

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

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

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

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

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

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

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

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

Financing Activities

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

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

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

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

Cash and Equivalents

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

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

[1] Combined consolidated financial information on the basis of common control.

Principal Sources of Funding

Funding Policy

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

Financial Liabilities

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

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