# TERNIUM S.A.

# CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AS OF JUNE 30, 2007 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2007 AND 2006

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**Report of Independent Registered Public Accounting Firm**

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

We have reviewed the accompanying consolidated condensed balance sheet of Ternium S.A. and its subsidiaries as of June 30, 2007, and the related consolidated condensed statements of income and of changes in shareholders' equity for each of the six-month periods ended June 30, 2007 and 2006 and the consolidated condensed statements of cash flows for the six-month periods ended June 30, 2007 and 2006. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated condensed interim financial statements for them to be in conformity with International Financial Reporting Standards.

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2006, and the related consolidated statements of income, of changes in shareholders' equity and of cash flows for the year then ended (not presented herein), and in our report dated February 27, 2007 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2006, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived

Buenos Aires, Argentina

August 2, 2007

PRICE WATERHOUSE & CO. S.R.L.

by (Partner)
Marcelo D. Pfaff

## TERNIUM S.A.
## Consolidated condensed interim financial statements as of June 30, 2007 and for the six-month periods ended June 30, 2007 and 2006
(All amounts in USD thousands)

**CONSOLIDATED CONDENSED INTERIM INCOME STATEMENTS**

| | Notes | Three-month period ended June 30, 2007 | Three-month period ended June 30, 2006 | Six-month period ended June 30, 2007 | Six-month period ended June 30, 2006 |
|---|---|---|---|---|---|
| | | (Unaudited) | | (Unaudited) | |
| Net sales | **3** | 1,961,064 | 1,707,672 | 3,759,357 | 3,238,671 |
| Cost of sales | **3 & 4** | (1,308,740) | (1,075,701) | (2,532,630) | (2,065,358) |
| Gross profit | **3** | 652,324 | 631,971 | 1,226,727 | 1,173,313 |
| Selling, general and administrative expenses | **3 & 5** | (198,280) | (155,069) | (362,829) | (306,085) |
| Other operating (expenses) income, net | **3** | (3,418) | (222) | 2,143 | 1,977 |
| Operating income | **3** | 450,626 | 476,680 | 866,041 | 869,205 |
| Interest expense | | (12,909) | (29,705) | (29,857) | (64,019) |
| Interest income | | 14,031 | 12,991 | 24,848 | 25,144 |
| Other financial expenses, net | **6** | (88,058) | (91,498) | (164,180) | (192,867) |
| Equity in (losses) earnings of associated companies | | (388) | 907 | (1,391) | (922) |
| Income before income tax expense | | 363,302 | 369,375 | 695,461 | 636,541 |
| Income tax expense | | (48,349) | (80,194) | (128,881) | (152,847) |
| Net income for the period | | 314,953 | 289,181 | 566,580 | 483,694 |
| Attributable to: | | | | | |
| Equity holders of the Company | | 236,928 | 232,601 | 459,059 | 397,644 |
| Minority interest | | 78,025 | 56,580 | 107,521 | 86,050 |
| | | 314,953 | 289,181 | 566,580 | 483,694 |
| Weighted average number of shares outstanding | | 2,004,743,442 | 2,004,743,442 | 2,004,743,442 | 1,867,797,092 |
| Basic and diluted earnings per share for profit attributable to the equity holders of the Company (expressed in USD per share) | | 0.12 | 0.12 | 0.23 | 0.21 |

The accompanying notes are an integral part of these consolidated condensed interim financial statements. These consolidated condensed interim financial statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the fiscal year ended December 31, 2006.

**TERNIUM S.A.**
**Consolidated condensed interim financial statements as of June 30, 2007**
**and for the six-month periods ended June 30, 2007 and 2006**
(All amounts in USD thousands)

### CONSOLIDATED CONDENSED BALANCE SHEETS

| | Notes | June 30, 2007 (Unaudited) | | December 31, 2006 | |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment, net | **7** | 5,361,882 | | 5,420,683 | |
| Intangible assets, net | **8** | 559,961 | | 551,587 | |
| Investments in associated companies | | 49,758 | | 16,285 | |
| Other investments, net | | 13,576 | | 13,387 | |
| Deferred tax assets | | 34,508 | | 36,439 | |
| Receivables, net | | 66,542 | 6,086,227 | 78,903 | 6,117,284 |
| **Current assets** | | | | | |
| Receivables | | 152,199 | | 175,818 | |
| Derivative financial instruments | | 1,395 | | 7,852 | |
| Inventories, net | | 1,215,880 | | 1,241,325 | |
| Trade receivables, net | | 729,261 | | 577,866 | |
| Cash and cash equivalents | | 730,843 | 2,829,578 | 643,352 | 2,646,213 |
| Non-current assets classified as held for sale | | | 7,198 | | 7,042 |
| **Total assets** | | | **8,923,003** | | **8,770,539** |
| **EQUITY** | | | | | |
| **Capital and reserves attributable to the company's equity holders** | | | 4,123,557 | | 3,757,558 |
| **Minority interest** | | | 1,815,312 | | 1,729,583 |
| **Total equity** | | | 5,938,869 | | 5,487,141 |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Provisions | | 65,524 | | 60,543 | |
| Deferred income tax | | 952,245 | | 985,155 | |
| Other liabilities | | 308,176 | | 274,566 | |
| Trade payables | | 7,061 | | 7,229 | |
| Borrowings | | 199,523 | 1,532,529 | 548,401 | 1,875,894 |
| **Current liabilities** | | | | | |
| Current tax liabilities | | 122,702 | | 103,195 | |
| Other liabilities | | 190,321 | | 158,374 | |
| Trade payables | | 770,590 | | 621,754 | |
| Derivative financial instruments | | 161 | | 15,487 | |
| Borrowings | | 367,831 | 1,451,605 | 508,694 | 1,407,504 |
| **Total liabilities** | | | 2,984,134 | | 3,283,398 |
| **Total equity and liabilities** | | | **8,923,003** | | **8,770,539** |

Contingencies, commitments and restrictions on the distribution of profits are disclosed in Note 10.

The accompanying notes are an integral part of these consolidated condensed interim financial statements. These consolidated condensed interim financial statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the fiscal year ended December 31, 2006.

**TERNIUM S.A.**
**Consolidated condensed interim financial statements as of June 30, 2007**
**and for the six-month periods ended June 30, 2007 and 2006**
(All amounts in USD thousands)

**CONSOLIDATED CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

| | Attributable to the Company's equity holders (1) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Capital stock** | **Initial public offering expenses** | **Revaluation and other reserves** | **Capital stock issue discount (2)** | **Currency translation adjustment** | **Retained earnings** | **Total** | **Minority interest** | **Total Equity** |
| **Balance at January 1, 2007** | **2,004,744** | **(23,295)** | **2,047,199** | **(2,324,866)** | **(121,608)** | **2,175,384** | **3,757,558** | **1,729,583** | **5,487,141** |
| Currency translation adjustment | | | | | 7,177 | | 7,177 | (1,791) | 5,386 |
| Net income for the period | | | | | | 459,059 | 459,059 | 107,521 | 566,580 |
| Total recognized income for the period | | | | | 7,177 | 459,059 | 466,236 | 105,730 | 571,966 |
| Dividends paid in cash and other distributions | | | (100,237) | | | | (100,237) | | (100,237) |
| Dividends paid in cash and other distributions by subsidiary companies | | | | | | | | (19,871) | (19,871) |
| Acquisition of business | | | | | | | | (130) | (130) |
| **Balance at June 30, 2007** | **2,004,744** | **(23,295)** | **1,946,962** | **(2,324,866)** | **(114,431)** | **2,634,443** | **4,123,557** | **1,815,312** | **5,938,869** |
| | | | | | | | | | |
| **Balance at January 1, 2006** | **1,396,552** | **(5,456)** | **1,462,137** | **(2,298,048)** | **(92,691)** | **1,379,960** | **1,842,454** | **1,733,465** | **3,575,919** |
| Currency translation adjustment | | | | | (119,146) | | (119,146) | (28,547) | (147,693) |
| Net income for the period | | | | | | 397,644 | 397,644 | 86,050 | 483,694 |
| Total recognized income for the period | | | | | (119,146) | 397,644 | 278,498 | 57,503 | 336,001 |
| Dividends paid in cash and other distributions by subsidiary companies | | | | | | | | (27,175) | (27,175) |
| Acquisition of business | | | (25,076) | | | | (25,076) | (23,471) | (48,547) |
| Contributions from shareholders | 33,801 | | 43,100 | (26,818) | | | 50,083 | (46,998) | 3,085 |
| Conversion of Subordinated Convertible Loans | 302,962 | | 302,962 | | | | 605,924 | | 605,924 |
| Initial Public Offering | 271,429 | (17,839) | 271,429 | | | | 525,019 | | 525,019 |
| **Balance at June 30, 2006** | **2,004,744** | **(23,295)** | **2,054,552** | **(2,324,866)** | **(211,837)** | **1,777,604** | **3,276,902** | **1,693,324** | **4,970,226** |

(1) Shareholders' equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 10 (ii).

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

Dividends may be paid by Ternium to the extent distributable retained earnings calculated in accordance with Luxembourg law and regulations exist. Therefore, retained earnings included in these consolidated condensed interim financial statements may not be wholly distributable. See Note 10 (ii).

The accompanying notes are an integral part of these consolidated condensed interim financial statements. These consolidated condensed interim financial statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the fiscal year ended December 31, 2006.

# TERNIUM S.A.
## Consolidated condensed interim financial statements as of June 30, 2007 and for the six-month periods ended June 30, 2007 and 2006
(All amounts in USD thousands)

### CONSOLIDATED CONDENSED INTERIM CASH FLOW STATEMENTS

| | Notes | Six-month period ended June 30, 2007 | Six-month period ended June 30, 2006 |
|---|---|---|---|
| | | (Unaudited) | (Unaudited) |
| **Cash flows from operating activities** | | | |
| Net income for the period | | **566,580** | **483,694** |
| Adjustments for: | | | |
| Depreciation and amortization | **7 & 8** | 245,469 | 211,773 |
| Income tax accruals less payments | | (33,610) | 3,512 |
| Equity in losses of associated companies | | 1,391 | 922 |
| Interest accruals less payments | | (1,830) | 1,894 |
| Changes in provisions | | (6,170) | 25,010 |
| Changes in working capital | | 106,996 | (83,999) |
| Others | | 18,317 | 10,007 |
| **Net cash provided by operating activities** | | **897,143** | **652,813** |
| **Cash flows from investing activities** | | | |
| Capital expenditures | **7 & 8** | (197,010) | (186,289) |
| Changes in trust funds | | - | 5,185 |
| Acquisition of business | | (130) | (103,055) |
| Proceeds from the sale of property, plant and equipment | | 6,409 | 584 |
| **Net cash used in investing activities** | | **(190,731)** | **(283,575)** |
| **Cash flows from financing activities** | | | |
| Dividends paid in cash and other distributions | | (100,237) | - |
| Dividends paid in cash and other distributions by subsidiary companies | | (19,871) | (27,175) |
| Net proceeds from Initial Public Offering | | - | 525,019 |
| Contributions from shareholders | | - | 3,085 |
| Proceeds from borrowings | | 192,264 | 36,541 |
| Repayments of borrowings | | (680,736) | (754,847) |
| **Net cash used in financing activities** | | **(608,580)** | **(217,377)** |
| **Increase in cash and cash equivalents** | | **97,832** | **151,861** |
| **Movement in cash and cash equivalents** | | | |
| At January 1, (1) | | 633,002 | 754,980 |
| Effect of exchange rate changes | | 9 | (1,551) |
| Increase in cash and cash equivalents | | 97,832 | 151,861 |
| **Cash and cash equivalents at June 30,** | | **730,843** | **905,290** |
| **Non-cash transactions** | | | |
| Conversion of debt instruments into shares | | - | 605,924 |

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

The accompanying notes are an integral part of these consolidated condensed interim financial statements. These consolidated condensed interim financial statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the fiscal year ended December 31, 2006.

INDEX TO THE NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

## 1 General information and basis of presentation

Ternium S.A. (the "Company" or "Ternium"), a Luxembourg Corporation (Societé Anonyme), was incorporated on December 22, 2003 under the name of Zoompart Holding S.A. to hold investments in flat and long steel manufacturing and distributing companies. The extraordinary shareholders' meeting held on August 18, 2005, changed the corporate name to Ternium S.A.

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"). As from February 1, 2006, the Company's shares are listed in the New York Stock Exchange.

The name and percentage of ownership of subsidiaries that have been included in consolidation in these Consolidated Condensed Interim Financial Statement is disclosed in Note 2 to the audited Consolidated Financial Statements for the year ended December 31, 2006.

These Consolidated Condensed Interim Financial Statements have been prepared in accordance with IAS 34, "Interim Financial Reporting". These Consolidated Condensed Interim Financial Statements should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2006, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Certain comparative amounts have been reclassified to conform to changes in presentation in the current period.

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

Material intercompany transactions and balances have been eliminated in consolidation. However, the fact that the functional currency of the Company's subsidiaries differ, results in the generation of foreign exchange gains (losses) that are included in the consolidated condensed interim income statement under "Other financial expenses, net".

These Consolidated Condensed Interim Financial Statements were approved by the Board of Directors of Ternium on August 2, 2007.

## 2 Accounting policies

The accounting policies used in the preparation of these Consolidated Condensed Interim Financial Statements are consistent with those used in the audited Consolidated Financial Statements for the year ended December 31, 2006.

Recently issued accounting pronouncements were applied by the Company as from their respective dates.

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 minority 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 beginning January 1, 2007 and will be redeemed by the Company ten years after grant date. As of June 30, 2007, the outstanding liability corresponding to the Program amounts to USD 2.2 million.

## 3 Segment information

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

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

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

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

| | Flat steel products | Long steel products | Other | Total |
|---|---|---|---|---|
| | (Unaudited) | | | |
| **Six-month period ended June 30, 2007** | | | | |
| Net sales | 2,914,777 | 739,026 | 105,554 | 3,759,357 |
| Cost of sales | (1,957,006) | (501,882) | (73,742) | (2,532,630) |
| Gross profit | 957,771 | 237,144 | 31,812 | 1,226,727 |
| Selling, general and administrative expenses | (283,895) | (71,920) | (7,014) | (362,829) |
| Other operating income, net | 31 | 1,146 | 966 | 2,143 |
| Operating income | 673,907 | 166,370 | 25,764 | 866,041 |
| Depreciation - PP&E | 190,887 | 34,592 | 6,228 | 231,707 |

| | Flat steel products | Long steel products | Other | Total |
|---|---|---|---|---|
| | (Unaudited) | | | |
| **Six-month period ended June 30, 2006** | | | | |
| Net sales | 2,501,790 | 625,560 | 111,321 | 3,238,671 |
| Cost of sales | (1,587,004) | (416,534) | (61,820) | (2,065,358) |
| Gross profit | 914,786 | 209,026 | 49,501 | 1,173,313 |
| Selling, general and administrative expenses | (241,733) | (58,308) | (6,044) | (306,085) |
| Other operating (expenses) income, net | (1,916) | 1,017 | 2,876 | 1,977 |
| Operating income | 671,137 | 151,735 | 46,333 | 869,205 |
| Depreciation - PP&E | 167,809 | 29,011 | 5,516 | 202,336 |

## 3 Segment information (continued)

### Secondary reporting format - geographical segments

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

| | South and Central America | North America | Europe and others | Total |
|---|---|---|---|---|
| | | (Unaudited) | | |
| **Six-month period ended June 30, 2007** | | | | |
| Net sales | 2,203,239 | 1,421,842 | 134,276 | 3,759,357 |
| Depreciation – PP&E | 160,943 | 70,744 | 20 | 231,707 |
| **Six-month period ended June 30, 2006** | | | | |
| Net sales | 1,768,207 | 1,431,129 | 39,335 | 3,238,671 |
| Depreciation – PP&E | 195,820 | 6,509 | 7 | 202,336 |

## 4 Cost of sales

| | Six-month period ended June 30, | |
|---|---|---|
| | 2007 | 2006 |
| | (Unaudited) | |
| **Inventories at the beginning of the year** | 1,241,325 | 1,000,119 |
| Acquisition of business | - | 8,180 |
| **Plus: Charges for the period** | | |
| Raw materials and consumables used and other movements | 1,699,255 | 1,455,555 |
| Services and fees | 92,593 | 72,943 |
| Labor cost | 272,031 | 236,125 |
| Depreciation of property, plant and equipment | 225,350 | 194,862 |
| Amortization of intangible assets | 8,085 | 6,943 |
| Maintenance expenses | 181,731 | 150,731 |
| Office expenses | 4,129 | 3,767 |
| Freight and transportation | 13,790 | 11,650 |
| Insurance | 4,467 | 5,208 |
| Provision for obsolescence | (7,116) | 20,779 |
| Recovery from sales of scrap and by-products | (42,848) | (24,436) |
| Others | 55,718 | 36,374 |
| **Less: Inventories at the end of the period** | (1,215,880) | (1,113,442) |
| **Cost of sales** | **2,532,630** | **2,065,358** |

## 5 Selling, general and administrative expenses

| | Six-month period ended June 30, | |
|---|---|---|
| | 2007 | 2006 |
| | (Unaudited) | |
| Services and fees | 26,211 | 27,179 |
| Labor cost | 87,870 | 69,111 |
| Depreciation of property plant and equipment | 6,357 | 7,474 |
| Amortization of intangible assets | 5,677 | 2,494 |
| Maintenance expenses | 8,986 | 7,970 |
| Taxes | 34,426 | 26,731 |
| Office expenses | 12,492 | 15,535 |
| Freight and transportation | 170,402 | 138,254 |
| Insurance | 671 | 727 |
| Provision for impairment of trade receivables | (3,414) | (898) |
| Others | 13,151 | 11,508 |
| **Selling, general and administrative expenses** | **362,829** | **306,085** |

## 6 Other financial expenses, net

| | Six-month period ended June 30, | |
|---|---|---|
| | 2007 | 2006 |
| | (Unaudited) | |
| Net foreign exchange transaction gains and change in fair value of derivative instruments | 14,631 | (15,309) |
| Debt issue costs | (5,493) | (9,505) |
| Loss from Participation Account | (160,353) | (157,546) |
| Others | (12,965) | (10,507) |
| **Other financial expenses, net** | **(164,180)** | **(192,867)** |

## 7 Property, plant and equipment, net

| | Six-month period ended June 30, | |
|---|---|---|
| | 2007 | 2006 |
| | (Unaudited) | |
| At the beginning of the year | 5,420,683 | 5,463,871 |
| Currency translation differences | 1,423 | (143,412) |
| Transfers | (2,444) | (9,632) |
| Additions | 178,732 | 178,116 |
| Disposals | (4,805) | (2,400) |
| Increase due to business acquisition | - | 47,825 |
| Depreciation charge | (231,707) | (202,336) |
| **At the end of the period** | **5,361,882** | **5,332,032** |

## 8 Intangible assets, net

| | Six-month period ended June 30, | | |
|---|---|---|---|
| | 2007 | 2006 | |
| | (Unaudited) | | |
| At the beginning of the year | 551,587 | 552,882 | |
| Currency translation differences | 3,858 | (27,661) | |
| Additions | 18,278 | 8,848 | (1) |
| Amortization charge | (13,762) | (9,437) | |
| **At the end of the period** | **559,961** | **524,632** | |

(1) Includes USD 675 thousand corresponding to goodwill derived from the acquisition of additional shares of Hylsamex.

## 9 Distribution of dividends

During the annual general shareholders meeting held on June 6, 2007, the shareholders approved the consolidated financial statements and unconsolidated annual accounts for the year ended December 31, 2006 and a distribution of dividends of USD 0.05 per share (USD 0.50 per ADS), or USD 100.2 million. The dividends were paid on June 12, 2007.

## 10 Contingencies, commitments and restrictions on the distribution of profits

This note should be read in conjunction with Note 28 to the Company's audited Consolidated Financial Statements for the year ended December 31, 2006. Significant changes or events since the date of the annual report are as follows:

*(i) Consorcio Siderurgia Amazonia Ltd .- PDVSA-Gas C.A. claim*
In June 2004, the arbitration proceedings brought by Sidor against PDVSA Gas, C.A. (on the basis that PDVSA Gas had charged Sidor higher than agreed-upon prices in its supplies of gas against the application of the most favored client clause) were resolved in Sidor's favor. Accordingly, in its financial statements at December 31, 2004, Sidor reversed the USD41.4 million provision it had recorded at December 31, 2003. In July 2004, PDVSA Gas, C.A. filed an appeal with the Venezuelan courts seeking to void the arbitral award. Sidor believes that applicable Venezuelan law does not allow the courts to void an arbitral award under the circumstances and that the likelihood of loss thereunder is remote. Accordingly, Sidor did not record any liabilities in connection with the appeal. At June 30, 2007, Sidor's potential exposure under this litigation amounted to USD 143.4 million.

*(ii) Restrictions on the distribution of profits*
Under the credit agreements entered into to finance the acquisition of Hylsamex, the Company and its affiliates had some restrictions to the payment of dividends in excess of certain amounts, among other limitations (see Note 3e) to the audited Consolidated Financial Statements for the year ended December 31, 2006). As of June 30, 2007, Ternium S.A. has fully repaid this loan, and at the same time the guarantees and restrictions imposed by the financing contracts were released. However, Siderar S.A.I.C. is still subject to those restrictions as it has not prepaid the mentioned loan.

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 equals 10% of the share capital. At June 30, 2007, this reserve reached the above-mentioned threshold.

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

### 10 Contingencies, commitments and restrictions on the distribution of profits (continued)

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

| | At June 30, 2007 (Unaudited) |
|---|---|
| Share capital | 2,004,744 |
| Legal reserve | 200,474 |
| Distributable reserves | 301,912 |
| Non distributable reserves | 1,414,122 |
| Accumulated profit at January 1, 2007 | 499,842 |
| Profit for the period | 524,876 |
| **Total shareholders' equity under Luxembourg GAAP** | **4,945,970** |

### 11 Related party transactions

The Company is controlled by San Faustin N.V., a Netherlands Antilles corporation, which has 70.52% of the Company's voting rights, either directly or indirectly. The ultimate controlling entity of the Company is Rocca & Partners, a British Virgin Islands corporation.

The following transactions were carried out with related parties:

| | Six-month period ended June, 30 | |
|---|---|---|
| | **2007** | **2006** |
| | (Unaudited) | |
| **(i) Transactions** | | |
| **(a) Sales of goods and services** | | |
| Sales of goods to associated parties | 45 | 712 |
| Sales of goods to other related parties | 48,164 | 42,868 |
| Sales of services and others to associated parties | 1,403 | 1,570 |
| Sales of services and others to other related parties | 3,000 | 143 |
| | **52,612** | **45,293** |
| **(b) Purchases of goods and services** | | |
| Purchases of goods from associated parties | 35,306 | 31,533 |
| Purchases of goods from other related parties | 22,680 | 21,572 |
| Purchases of services and others from associated parties | 10,200 | - |
| Purchases of services and others from other related parties | 97,624 | 73,414 |
| | **165,810** | **126,519** |
| **(c) Financial results** | | |
| Income with associated parties | 2,156 | 1,824 |
| Income with other related parties | 5 | 27 |
| Expenses with other related parties | - | (1,815) |
| | **2,161** | **36** |

**11 Related party transactions (continued)**

| | At June 30, 2007 (Unaudited) | At December 31, 2006 |
|---|---|---|
| **(ii) Period-end balances** | | |
| **(a) Arising from sales/purchases of goods/services** | | |
| Receivables from associated parties | 34,568 | 67,558 |
| Receivables from other related parties | 32,847 | 48,533 |
| Payables to associated parties | (5,779) | (5,588) |
| Payables to other related parties | (39,459) | (48,032) |
| | **22,177** | **62,471** |
| **b) Other investments** | | |
| Time deposit | **11,459** | **11,249** |
| **(c) Financial debt** | | |
| Borrowings with other related parties | **-** | **(2,161)** |

**12 Subsequent event: Grupo Imsa S.A.B. de C.V. ("Grupo Imsa")**

On April 29, 2007, Ternium entered into an agreement with Grupo IMSA S.A.B. de C.V. ("Grupo Imsa") and Grupo Imsa's controlling shareholders under which Ternium would obtain control of Grupo Imsa for a total consideration (equity value) of approximately USD 1.7 billion.

Under the agreement, Ternium, through its wholly owned subsidiary Ternium Internacional España S.L.U., made a cash tender offer under applicable Mexican law for all of the issued and outstanding share capital of Grupo Imsa at a price of US$ 6.40 per share. Pursuant to the tender offer, Ternium acquired 25,133,856 shares representing 9.3% of the issued and outstanding capital of the company.

Concurrently with the consummation of the tender offer, on July 26, 2007, all of 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.

Accordingly, Ternium now owns all of Grupo Imsa's issued and outstanding share capital.

The foregoing transactions were financed primarily through the incurrence of debt as follows:

- Ternium made several borrowings in an aggregate principal amount of USD 125 million under a loan facility (the "Ternium Facility") with a syndicate of banks led by Calyon New York Branch as administrative agent, the proceeds of which were primarily used to finance the above described tender offer. Ternium's loans under the Ternium Facility will be repaid in nine consecutive and equal semi-annual installments commencing on July 26, 2008.

- Ternium's subsidiary Hylsa S.A. de C.V. ("Hylsa") made several borrowings in an aggregate principal amount of 3,167 million under a loan facility (the "Hylsa Facility") with a syndicate of banks led by Calyon New York Branch as administrative agent, the proceeds of which were primarily used to finance the above described capital reduction by Grupo Imsa, to refinance existing indebtedness of Grupo Imsa and Hylsa and to pay taxes, fees and expenses related to the transactions.

**12 Subsequent event: Grupo Imsa S.A.B. de C.V. ("Grupo Imsa") (continued)**

Grupo Imsa is expected to assume on or about August 3, 2007 certain of Hylsa's loans under the Hylsa Facility, as well as a portion of Hylsa's remaining unused commitments. Following the assumption date:

- Hylsa's debt under the Hylsa Facility will amount to USD 1,752 million in principal amount, and Grupo Imsa's debt under that facility will amount to USD 1,415 million in principal amount; and

- Hylsa's unused commitment under the Hylsa Facility will amount to USD 318 million and Grupo Imsa's unused commitment under the facility will amount to USD 140 million.

The loans of each of Hylsa and Grupo Imsa are divided in two tranches of equal principal amount. Tranche A loans will be repaid in seven equal semi-annual installments beginning on January 26, 2009, while tranche B loans will be repaid in one installment due on July 26, 2012.

Each of the Ternium Facility and the Hylsa Facility contains covenants customary for transactions of this type, including limitations on liens and encumbrances, restrictions on investments and capital expenditures, limitations on the sale of certain assets and compliance with financial ratios (e.g., leverage ratio and interest coverage ratio). There are no limitations to the payment of dividends under either facility.

**13 Recent accounting pronouncements**

**(i) IFRIC Interpretation 13, Customer Loyalty Programmes**

In June 2007, International Financial Reporting Interpretations Committee ("IFRIC") issued IFRIC Interpretation 13 "Customer Loyalty Programmes" ("IFRIC 13"). IFRIC 13 applies to customer loyalty award credits that:

(a) an entity grants to its customers as part of a sales transaction (i.e. a sale of goods, rendering of services or use by a customer of entity assets); and
(b) subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services.

IFRIC 13 addresses accounting by the entity that grants award credits to its customers.

An entity shall apply IFRIC 13 for annual periods beginning on or after July 1, 2008, although earlier application is permitted. If an entity applies IFRIC 13 for a period beginning before July 1, 2008, it shall disclose that fact.

The Company's management estimates that the application of IFRIC 13 will not have a material effect on the Company's financial condition or results of operations.

**(ii) IFRIC Interpretation 14, IAS 19 -The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**

In July 2007, IFRIC issued IFRIC Interpretation 14 "IAS 19 -The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" ("IFRIC 14"). IFRIC 14 applies to all post-employment defined benefits and other long-term employee defined benefits and addresses the following issues:

(a) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19;
(b) how a minimum funding requirement might affect the availability of reductions in future contributions; and
(c) when a minimum funding requirement might give rise to a liability.

**13 Recent accounting pronouncements (continued)**

An entity shall apply this Interpretation for annual periods beginning on or after January 1, 2008. Earlier application is permitted.

The Company's management has not assessed the potential impact that the application of IFRIC 14 may have on the Company's financial condition or results of operations.

Roberto Philipps
Chief Financial Officer