TERNIUM S.A.

COMBINED CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

As of June 30, 2005 and for the six-month periods ended June 30, 2005 and 2004

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TERNIUM S.A.

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Combined Consolidated Condensed Interim Financial Statements

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Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying combined consolidated condensed interim balance sheet and the related combined consolidated condensed interim statements of income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Ternium S.A. and its subsidiaries at June 30, 2005, and the results of their operations and their cash flows for the six-month period ended June 30, 2005 in conformity with International Financial Reporting Standards. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

International Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 17 to the combined consolidated condensed interim financial statements.

Buenos Aires, Argentina
December 27, 2005

PRICE WATERHOUSE & CO. S.R.L.

by /s/ Carlos A. Pace (Partner)

Carlos A. Pace

TERNIUM S.A.

Combined Consolidated Condensed Interim Financial Statements
as of June 30, 2005 and for the six-month periods ended June 30, 2005 and 2004
(All amounts in USD thousands)

COMBINED CONSOLIDATED CONDENSED INTERIM INCOME STATEMENT

	Notes	Six-month periods ended June 30, 2005 (audited)	2004 (unaudited)
Net sales	**1 & 11**	1,827,845	670,503
Cost of sales	**2 & 11**	(905,920)	(381,990)
Gross profit		921,925	288,513
General and administrative expenses	**3**	(88,553)	(28,666)
Selling expenses	**4**	(96,674)	(30,299)
Other operating (expense) income, net	**6**	(7,797)	65
Operating income		728,901	229,613
Financial (expense) income, net	**7 & 11**	(102,723)	88,707
Excess of fair value of net assets acquired over cost	**15**	188,356	—
Equity in earnings of associated companies		19,123	104,522
Income before income tax and asset tax expense		833,657	422,842
Income tax and asset tax expense		(105,717)	(79,081)
Net income for the period		727,940	343,761
Attributable to:			
Equity holders of the Company		477,609	211,855
Minority interest		250,331	131,906
		727,940	343,761
Weighted average number of shares outstanding (see Note 12)		1,168,943,632	1,168,943,632
Basic and diluted earnings per share for profit attributable to the equity holders of the Company, during the period (expressed in USD per share)		0.41	0.18

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

TERNIUM S.A.

Combined Consolidated Condensed Interim Financial Statements as of June 30, 2005 and for the six-month periods ended June 30, 2005 and 2004 (All amounts in USD thousands)

COMBINED CONSOLIDATED CONDENSED INTERIM BALANCE SHEET

	Notes	June 30, 2005		December 31, 2004	
ASSETS					
Non-current assets					
Property, plant and equipment, net	**8**	3,508,133		1,244,691	
Intangible assets, net	**9**	15,607		10,049	
Investments in associated companies		7,002		309,318	
Other investments		13,095		148,569	
Receivables, net	**11**	51,837	3,595,674	15,783	1,728,410
Current assets					
Receivables	**11**	216,500		208,699	
Inventories, net		590,057		254,286	
Trade receivables, net	**11**	329,949		171,605	
Other investments	**11**	760		88,755	
Cash and cash equivalents	**11**	586,012	1,723,278	194,875	918,220
Total assets			**5,318,952**		**2,646,630**
EQUITY					
Capital and reserves attributable to the company's equity holders			1,443,473		1,026,725
Minority interest			2,114,883		745,126
Total equity			3,558,356		1,771,851
LIABILITIES					
Non-current liabilities					
Provisions		46,221		11,925	
Deferred income tax		603,972		337,473	
Other liabilities		91,615		9,104	
Borrowings	**10**	239,123	980,931	1,008	359,510
Current liabilities					
Provisions		1,044		960	
Current tax liabilities		98,712		158,124	
Other liabilities	**11**	127,883		33,288	
Trade payables	**11**	347,810		194,943	
Derivative financial instruments		—		5,956	
Borrowings	**10 & 11**	204,216	779,665	121,998	515,269
Total liabilities			1,760,596		874,779
Total equity and liabilities			**5,318,952**		**2,646,630**

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

TERNIUM S.A.

Combined Consolidated Condensed Interim Financial Statements as of June 30, 2005 and for the six-month periods ended June 30, 2005 and 2004 (All amounts in USD thousands)

COMBINED CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Attributable to the company's equity holders	Minority Interest	Total Equity
Period ended June 30, 2004 (unaudited)			
Balance at January 1, 2004	701,821	550,264	1,252,085
Currency translation differences	(44,693)	(18,908)	(63,601)
Net income for the period	211,855	131,906	343,761
Total recognized income for the period	167,162	112,998	280,160
Contributions	4,048		4,048
Dividends paid in cash	(50,261)	(32,526)	(82,787)
Balance at June 30, 2004	**822,770**	**630,736**	**1,453,506**
Period ended June 30, 2005 (audited)			
Balance at January 1, 2005	1,026,725	745,126	1,771,851
Currency translation differences	(35,871)	(29,243)	(65,114)
Net income for the period	477,609	250,331	727,940
Total recognized income for the period	441,738	221,088	662,826
Acquisition of additional equity interest in Amazonia		932,414	932,414
Contributions	54,758		54,758
Dividends paid in cash and other distributions	(171,444)	(108,661)	(280,105)
Revaluation reserve	91,696	324,916	416,612
Balance at June 30, 2005	**1,443,473**	**2,114,883**	**3,558,356**

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

TERNIUM S.A.

Combined Consolidated Condensed Interim Financial Statements as of June 30, 2005 and for the six-month periods ended June 30, 2005 and 2004 (All amounts in USD thousands)

COMBINED CONSOLIDATED CONDENSED INTERIM CASH FLOW STATEMENT

	Note	Six-month periods ended June 30,	
		2005	2004
		(audited)	(unaudited)
Cash flows from operating activities			
Net income for the period		**727,940**	**343,761**
Adjustments for:			
Depreciation and amortization	**8&9**	117,628	45,455
Income tax accruals less payments		(87,299)	21,804
Excess of fair value of net assets acquired over cost	**15**	(188,356)	—
Equity in earnings of associated companies		(19,123)	(104,522)
Interest accruals less payments		207	716
Changes in provisions		4,460	1,740
Change in working capital		(17,125)	(30,393)
Currency translation adjustment and others		62,804	6,483
Net cash provided by operating activities		**601,136**	**285,044**
Cash flows from investing activities			
Capital expenditures	**8&9**	(81,364)	(41,200)
Changes in trust funds		88,755	—
Proceeds from the sale of property, plant and equipment and intangible assets		1,402	1,351
Net cash provided by (used in) investing activities		**8,793**	**(39,849)**
Cash flows from financing activities			
Dividends paid in cash and other distributions to company's shareholders		(171,444)	(50,261)
Dividends paid in cash and other distributions to minority shareholders		(108,661)	(32,526)
Contributions		54,758	4,048
Proceeds from borrowings		102,385	85,521
Repayments of borrowings		(367,231)	(257,493)
Net cash used in financing activities		**(490,193)**	**(250,711)**
Increase (decrease) in cash and cash equivalents		**119,736**	**(5,516)**
Movement in cash and cash equivalents			
At January 1		194,875	129,020
Acquisition of Amazonia		305,342	—
Effect of exchange rate changes		(33,941)	(165)
Increase (decrease) in cash and cash equivalents		119,736	(5,516)
Cash and cash equivalents at June 30,		**586,012**	**123,339**

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

TERNIUM S.A.

Combined Consolidated Condensed Interim Financial Statements
as of June 30, 2005 and for the six-month periods ended June 30, 2005 and 2004
(All amounts in USD thousands)

ACCOUNTING POLICIES ("A.P.")

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ACCOUNTING POLICIES

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

A Business of the Company and basis of presentation

(1) Business of the Company

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.

Near the end of 2004, Ternium's ultimate parent company San Faustín N.V. ("San Faustín"), a Netherlands Antilles company, decided to restructure its investments in the flat and long steel manufacturing and distribution business. In connection with the restructuring, San Faustín acquired Ternium in December 2004. Until that date, Ternium was a dormant company.

On May 6, 2005 San Faustín assigned and contributed to Inversora Siderurgica Limited ("ISL"), a wholly-owned subsidiary, a 100% interest in I.I.I.-Industrial Investments Inc. ("III BVI"), a subsidiary of San Faustín organized under the laws of the British Virgin Islands through which it held its investments in the flat and long steel manufacturing and distribution business and a 100% interest in Fasnet International S.A. ("Fasnet").

The investments then held by III BVI consisted principally of a 50.75% interest in Siderar S.A.I.C. ("Siderar"), (which in turn owns an 11.11% equity interest in Ylopa—Servicos de Consultadoría Lda. ("Ylopa") and a 14.40% interest in Consorcio Siderurgia Amazonia Ltd. ("Amazonia")), a 25% interest (16.54% direct an indirect ownership at December 31, 2004) in Amazonia, a 34.27% interest in Ylopa and a 100% interest in the Techintrade Network. On May 6, 2005, ISL acquired a 96.77% interest in Ternium, which it afterwards increased to an interest of almost 100% of its issued and outstanding capital. On June 29, 2005, ISL assigned and contributed to Ternium all of its assets (consisting of a 100% interest in III BVI, a 100% interest in Fasnet and USD 17 in cash) and liabilities (consisting of a debt with San Faustín for USD 1), in exchange for 959,482,775 shares of Ternium. Also, on September 9, 2005 Tenaris agreed to exchange with ISL its 21.17% interest (14.49% direct ownership at December 31, 2004) in Amazonia, and its 24.40% interest in Ylopa.

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

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

Because III BVI and Fasnet are under the common control of ISL, their consolidated financial statements have been retroactively combined with those of the Company and presented as one reporting entity ("Ternium") in these combined consolidated condensed interim financial statements. In addition, since Tenaris and the Company are under common control of San Faustín, the equity interest held by Tenaris in Amazonia and Ylopa that has been exchanged with ISL on September 9, 2005, have also been retroactively combined in these combined consolidated condensed interim financial statements.

Detailed below are the companies whose consolidated financial statements have been included in these combined consolidated condensed interim financial statements, and the percentage of ownership and voting rights held, directly or indirectly, by San Faustín in these companies at the end of each period indicated.

Company	Country of Organization	Main activity	Percentage of ownership and voting rights at	
			June 30, 2005	December 31, 2004
Ternium S.A.	Luxembourg	Holding of investments in flat and long steel manufacturing and distributing companies	100.00%	100.00%
III Industrial Investments Inc. (B.V.I.)	British Virgin Islands	Holding company	100.00%	100.00%
Fasnet International S.A.	Panama	Holding company	100.00%	100.00%

(2) Basis of presentation of the combined consolidated condensed interim financial statements

These combined consolidated condensed interim financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), and are the first interim financial statements prepared by the Company after the adoption of IFRS as its accounting framework. The combined consolidated financial statements of Ternium at December 31, 2004 were prepared following the guidance set forth by IFRS 1 “First-time Adoption of IFRS” (“IFRS 1”), as those were the first published financial statements of the Company. The accompanying financial statements have been prepared following the provisions of International Accounting Standard No. 34 “Interim Financial Reporting” for interim condensed financial statements.

These combined consolidated condensed interim financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (December 2005). A summary of significant differences between IFRS and generally accepted accounting principles in the United States of America (“US GAAP”) is included in A.P.T and Note 17. The combined consolidated condensed interim financial statements are presented in thousands of U.S. dollars (“USD”).

The combined consolidated condensed interim financial statements combine the financial statements of the Company with those of III BVI and Fasnet, their respective subsidiaries and other companies under common control.

The percentages of ownership and voting rights considered in the preparation of these combined consolidated condensed interim financial statements correspond to those of San Faustín and Tenaris at the end of each period/year.

The assets and liabilities of III BVI and Fasnet (and their respective subsidiaries, Inversiones Siderurgicas (“IS”), Siderar, Techintrade and Ylopa) have been accounted for at the relevant predecessor’s cost, reflecting the carrying amount of such assets and liabilities contributed to the Company. Accordingly, the combined consolidated condensed interim financial statements include the financial statements of the above-mentioned combined companies at historical book values on a carryover basis as though the contribution had taken place on January 1, 2003, and no adjustment has been made to reflect fair values at the time of the contribution.

As mentioned in Note 15, on February 3, 2005, Ylopa exercised its option to convert the Amazonia convertible debt instrument into newly issued shares of Amazonia. On February 15, 2005 new shares of

Amazonia were issued in exchange for the convertible instrument. As a result, the Company has effective control and, accordingly, the accounts of Amazonia have been consolidated in these combined consolidated interim condensed financial statements.

Detailed below are the subsidiary companies whose consolidated financial statements have been consolidated in these combined consolidated condensed interim financial statements, and the percentage of ownership, directly or indirectly, by San Faustín in these companies at the end of each period/year indicated.

Company	Country of Organization	Main activity	Percentage of ownership at June 30, 2005	Percentage of ownership at December 31, 2004
Siderar S.A.I.C.(1)	Argentina	Manufacturing of flat steel products	50.75%	50.75%
Techintrade Uruguay S.A.(1)	Uruguay	Holding company and marketing of steel products	100.00%	100.00%
Inversiones Siderúrgicas S.A.(1)	Panama	Holding company	100.00%	100.00%
Comesi San Luis S.A.I.C.(2)	Argentina	Production of cold or hot rold prepainted, formed and skelped steel sheets	50.24%	50.24%
Inversiones Basilea S.A.(2)	Chile	Purchase and sale of real estate and other	99.99%	—
Prosid Investments S.C.A.(2)	Uruguay	Holding of investments in companies	50.75%	50.75%
Techintrade Italy S.R.L.(3)	Italy	Marketing of steel products	100.00%	100.00%
Socominter de Guatemala S.A.(3)	Guatemala	Marketing of steel products	100.00%	100.00%
Socominter de España S.A.U.(3)	Spain	Marketing of steel products	100.00%	100.00%
Socotrading S.A.(3)	Ecuador	Marketing of steel products	100.00%	100.00%
Techintrade Corporation(3)	USA	Marketing of steel products	100.00%	100.00%
Techint Engineering Company B.V.(3)	Netherlands	Marketing of steel products	100.00%	100.00%
Techintrade del Perú S.A.C.(3)	Peru	Marketing of steel products	100.00%	100.00%
Ylopa—Servicos de Consultadoria Lda.(4)	Madeira—Free zone	Participation in the debt restructuring process of Amazonia and SIDOR C.A.	64.31%	64.31%
Consorcio Siderurgia Amazonia Ltd.(5)	Cayman Island	Holding of investments in Venezuelan steel companies	53.47%	—

(1) Indirectly through III Industrial Investments Inc. BVI
(2) Indirectly through Siderar S.A.I.C.
(3) Indirectly through Techintrade Uruguay S.A.
(4) Indirectly through the participation of Prosid Investments S.C.A. (11.11%), IS (34.27%) and Tenaris (24.40%).
(5) Indirectly through the participation of Prosid Investments S.C.A. (14.38%), IS (25%), Tamsider (4.72%) and Tenaris (16.45%). Total voting rights held 60.54%.

Additionally, Amazonia has a 59.73% interest in Sidor C.A. (“Sidor”), a company organized under the laws of Venezuela, that manufactures and sells steel products, which in turn owns a 49.8% interest in MATESI Materiales Siderúrgicos S.A. (“Matesi”), a Venezuelan company that manufactures and sells briquettes.

Detailed below are the most relevant associated companies which are accounted for by the equity method of accounting in these combined consolidated condensed interim financial statements, and the percentage of ownership held, directly or indirectly, by San Faustín in these companies at the end of each period/year indicated.

Company	Country of Organization	Main activity	Percentage of ownership at	
			June 30, 2005	December 31, 2004
Consorcio Siderurgia Amazonia Ltd.[1]	Venezuela	Hold long-term investments in Venezuelan steel companies	—	31.03%
Matesi Materiales Siderurgicos S.A.[2]	Venezuela	Manufacturing and marketing of briquettes	15.90%	—
Compañía Afianzadora de Empresas Siderúrgicas S.G.R.[3]	Argentina	Granting of guarantees to participating partners to facilitate or permit access to credits for the purchase of national raw materials	19.74%	19.74%

(1) Indirectly through the participation of Prosid Investments S.C.A. (21.14%), IS (5.81%) and Tamsider (14.49%). Total voting rights held: (41.44%)
(2) Indirectly through the participation of Sidor (49.80%)
(3) Indirectly through the participation of Siderar (38.89%). Total voting rights held: 38.89%

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

These financial statements include, in the opinion of management, all adjustments that are considered necessary for a fair presentation of the information in the financial statements. The results of the six-month periods ended June 30, 2005 and 2004 are not necessarily indicative of the results that may be expected for any future periods.

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

(3) Use of estimates

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

B Group accounting

(1) Subsidiary companies

Subsidiary companies are those entities in which San Faustín has an interest of more than 50% of the voting rights or otherwise has the power to exercise control over the operating decisions. Subsidiaries are consolidated

from the date on which control is transferred to the Company and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the acquisition cost over the Company's share of the fair value of net assets acquired is recorded as goodwill. Intercompany transactions, balances and unrealized gains on transactions among the Company and its subsidiaries are eliminated; unrealized losses are also eliminated unless cost cannot be recovered.

(2) Associated companies

Associated companies are entities in which Ternium generally has between 20% and 50% of the voting rights, or over which Ternium has significant influence, but which it does not control (see A.P. A(2)). Investments in associated companies are accounted for using the equity method of accounting. Under this method the Company's share of the post-acquisition profits or losses of an associated company is recognized in the income statement and its share of post-acquisition changes in reserves is recognized in reserves. The cumulative post-acquisition changes are adjusted against the cost of the investment. Unrealized gains on transactions among the Company and its associated companies are eliminated to the extent of the Company's interest in such associated company; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When the Company's share of losses in an associated company equals or exceeds its interest in such associate, the Company does not recognize further losses unless it has incurred obligations or made payments on behalf of such associated company.

(3) First-time application of IFRS

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

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

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

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

(a) Fair value as deemed cost exemption

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

(b) Cumulative translation differences exemption

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

3.2 Exceptions from full retrospective application followed by the Company

Ternium has applied the following mandatory exceptions from retrospective application.

(a) Derecognition of financial assets and liabilities exception

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

(b) Hedge accounting exception

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

(c) Estimates exception

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

(d) Assets held for sale and discontinued operations exception

Ternium did not have assets that met the held-for-sale criteria (as defined by IFRS 5) during the period presented.

C Foreign currency translation

(1) Functional and presentation currency

Items included in the financial statements of each of the Company's subsidiaries and associated companies are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The combined consolidated condensed interim financial statements are presented in thousands of U.S. dollars ("USD"), which is the Company's functional and presentation currency.

(2) Subsidiary companies

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

(i) assets and liabilities are translated at the closing rate of each balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates; and

(iii) all resulting translation differences are recognized as a separate component of equity.

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

(3) Transactions in currencies other than the functional currency

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

D Property, plant and equipment (PP&E)

Land and buildings comprise mainly factories and offices. All property, plant and equipment are recognized at historical acquisition or construction cost less accumulated depreciation and accumulated impairment (if applicable), except for land, which is carried at acquisition cost less impairment (if applicable).

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

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

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

Land	No Depreciation
Buildings and improvements	20-40 years
Plant and production equipment	15-25 years
Vehicles, furniture and fixtures and other equipment	5-15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

If the carrying amount of an asset were greater than its estimated recoverable amount, it would be written down to its recoverable amount. (see A.P. E "Impairment").

E Impairment

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization and investments in affiliates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and the present value of estimated future cash flows. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). For these purposes, each associate has been considered a cash generating unit.

At June 30, 2005, no impairment provisions were recorded. A portion of the impairment provision recorded at December 31, 2003 on the investment in Amazonia was reversed in the six-month period ended June 30, 2004 and included in equity in earnings of associated companies.

F Intangible assets

(1) Information systems projects

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

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

(2) Research and development

Research expenditures are recognized as expenses as incurred. Development costs are recorded as cost of sales in the income statement as incurred because they do not fulfill the criteria for capitalization. Research and development expenditures for the six-month periods ended June 30, 2005 and 2004 totaled USD 0.8 million and USD 0.3 million, respectively.

G Other investments

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

All of Ternium's other investments are currently classified as financial assets at fair value through profit or loss. Subsequent to their acquisition, these investments are carried at fair value through profit and loss. Realized and unrealized gains and losses arising from changes in the fair value of those investments are included in the income statement for the period in which they arise.

In order to mitigate any potential impact of Argentine regulations restricting payments outside of Argentina, Siderar has placed financial resources within a trust fund outside Argentina. The objective of the trust fund is exclusively to ensure that the financial needs for the normal development of Siderar's operations are met. The fund mainly comprises time deposits and commercial paper. No liabilities or debts have been offset within the trust fund. The financial resources that were placed in trust funds have been contributed to a subsidiary (Inversiones Basilea S.A.) as of January 1, 2005.

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

H Inventories

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

Provision for obsolescence or slow-moving inventory is made in connection with supplies and spare parts and based on management's analysis of their aging, the capacity of such materials to be used based on their levels of preservation and maintenance and the potential obsolescence due to technological changes. Provision for slow-moving inventory is recognized for finished goods and goods in progress based on management's analysis of the aging.

I Trade receivables

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

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

J Cash and cash equivalents

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

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

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

K Shareholders' equity

Basis of combination

The combined consolidated condensed interim statement of changes in shareholders' equity for the six-month periods ended June 30, 2005 and 2004 were prepared based on the following:

- Currency translation differences arising from the translation of financial statements expressed in currencies other than the U.S. Dollar are shown in a separate line;
- Dividends and other distributions include the dividends paid by III (BVI) to San Faustín, and dividends paid by Ylopa to Tenaris, as if they had been paid by Ternium to San Faustín or Tenaris
- Other distributions comprise loans from Ylopa that are in substance capital nature transactions. During the six-month periods ended June 30, 2005 and 2004, Ylopa granted non-interest bearing loans to its shareholders for a total amount of USD 124.4 million and USD 30.8 million, respectively, out of which USD 80 million and USD 25.5 million, respectively, have been offset against the dividend distributions approved by the partners' meetings held on May 20, 2005 and on May 7, 2004. These loans are due in one year, although debtors are allowed to make partial or full prepayments at any time. However Ylopa's intention is to offset the outstanding balance of its credits with shareholders against future dividend distributions. Accordingly, these credits have been shown as a reduction to equity.
- On February 15, 2005, the Company gained control over Amazonia as it acquired an additional equity interest in that company upon conversion of the Amazonia convertible debt instrument. Accordingly, as prescribed by IFRS 3, Ternium recorded the excess of the fair value over the carrying amount of its pre-acquisition interest in the net assets of Amazonia against a revaluation reserve included within shareholders' equity.

L Borrowings

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

Borrowing costs are expensed as incurred.

M Income taxes—current and deferred

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

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

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

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

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

N Employee liabilities

(1) Pension obligations

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

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

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

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

Siderar

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

For its main plan, Siderar is accumulating assets for the ultimate payment of those benefits in the form of investments that carry time limitations for their redemption. The investments are not part of a particular plan, nor are they segregated from Ternium's other assets, and therefore this plan is classified as "unfunded" under IFRS definitions. Benefits provided by the plan are in U.S. dollars and are calculated based on a three-year or seven-year salary average (whichever is more favorable to the beneficiary) for those executives who have retired or were terminated before December 31, 2004. After this date, the benefits of the plan are calculated based on a seven-year salary average.

Sidor

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

(2) Termination benefits

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

(3) Other compensation obligations

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

(4) Social security contributions.

Argentine laws provide for pension benefits to be paid to retired employees from government pension plans and/or private fund managed plans to which employees may elect to contribute. As stipulated by Argentine Law, Siderar makes monthly contributions calculated based on each employee's salary to fund such plans. The related amounts are expensed as incurred. No additional liabilities exist once the contributions are paid.

O Provisions and other liabilities

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

P Revenue recognition

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

Interest income is recognized on an effective yield basis.

Income from participation account is recognized when earned according to its contractual terms.

Q Cost of sales, selling expenses and general and administrative expenses

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

R Derivative financial instruments

Information about accounting for derivative financial instruments and hedging activities is included in Note 14 "Financial risk management".

S Segment information

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

The secondary reporting format is based on a geographical location. Ternium operates for four main geographical areas: South and Central America, North America, Europe and Other.

T Summary of significant differences between International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles in the United States of America (US GAAP)

The accompanying combined consolidated financial statements have been prepared in accordance with IFRS, which differs in certain important respects from US GAAP. The significant differences as of and for the six-month periods ended June 30, 2005 and 2004 are reflected in the reconciliation provided in Note 17 and principally relate to the items discussed in the following paragraphs:

(1) Valuation of fixed assets—property, plant and equipment

Under IFRS, the Company applied the provisions contained in IFRS 1, for the revaluation of property, plant and equipment. Accordingly, a technical revaluation was adopted by the Company as the deemed cost for its property, plant and equipment.

Under US GAAP, no accommodations are given to first-time adopters with regards to estimates of the original value of property, plant and equipment. Accordingly, no revaluations have been made for US GAAP purposes and historical cost has been used by the Company as its basis of accounting for this caption.

(2) Troubled debt restructuring

In June 2003, Amazonia and Sidor concluded the restructuring of their financial indebtedness. Under IFRS, those companies accounted for their debt restructuring process in accordance with the guidelines set forth by IAS No. 39 which states that a substantial modification of the terms of an existing debt instrument (whether or not due to the financial difficulty of the debtor) should be accounted for as an extinguishment of the old debt. For purposes of IAS No. 39, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, is at least 10 per cent different from the

discounted present value of the remaining cash flows of the original debt instrument. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred are an adjustment to the carrying amount of the liability and are amortized over the remaining term of the modified loan. As the terms of Sidor's new debt were deemed to be substantially different (as this term is defined by IAS No. 39), that company recorded a USD59.5 million gain on restructuring in fiscal 2003.

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

(3) Accounting for pension plans

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

Under US GAAP, the Company follows the guidance set forth by Statement of Financial Accounting Standard No. 87 "Employers' Accounting for Pensions" ("SFAS No. 87"), which contains provisions substantially consistent with those provided by IAS No. 19. Nevertheless, differences arise as a consequence of the following:

a. Under IFRS Venezuela was considered a hyperinflationary country through December 31, 2002 while under US GAAP Venezuela ceased being hyperinflationary as from January 1, 2002. The effect of such a divergence gave rise to differences in the accounting for employee benefits.

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

(4) Inventory valuation

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

In addition, the outstanding balance of inventories at year-end contains a portion of the depreciation of property, plant and equipment for the year. As mentioned in A.P. T (1) above, the value of property, plant and equipment for IFRS purposes has been determined based on a technical revaluation while historical cost has been used under US GAAP. Accordingly, the carrying amount and the annual depreciation charge under IFRS are higher than those determined under US GAAP. Therefore, this US GAAP adjustment reflects the reversal of the excess depreciation of property, plant and equipment capitalized within inventory under IFRS.

(5) Valuation of intangible assets and other assets

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

(6) Capitalization of interest cost

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

Under US GAAP, the Company applies the provisions of Statement of Financial Accounting Standards No. 34, "Capitalization of Interest Cost" ("SFAS No. 34"), which requires interest capitalization on assets which have a period of time to get them ready for their intended use. In accordance with these requirements interest was capitalized during the six-month periods ended June 30, 2005 and 2004. The net US GAAP adjustment also includes amortization of the interest capitalized.

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

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

Under US GAAP, the Company is carrying these investments at market value with material unrealized gains and losses, if any, included in other comprehensive income in accordance with Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). SFAS No. 115 also states that for such investments an enterprise shall determine whether a decline in fair value below the amortized cost basis is other than temporary. In such event, accumulated unrealized losses included in other comprehensive income shall be reclassified into the statement of income.

(8) Accounting for convertible debt

Under IFRS, the investment in the convertible debt instrument issued by Amazonia is carried at cost. Under US GAAP, this security is valued at its fair value at each balance sheet date with changes in value recorded

directly in other comprehensive income ("OCI") as the Company considers this security to be an "available-for-sale" security as defined by SFAS No. 115. Upon conversion, the amounts previously recorded in OCI have been reversed as an adjustment to the cost value of the convertible debt and the net carrying amount has been deemed purchase price paid for the common shares received.

(9) Deferred income tax

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

(10) Equity in investments in associated companies

Under IFRS, investments in companies in which the Company exercises significant influence, but not control, are accounted for by the equity method. For purposes of the US GAAP reconciliation of net income and shareholders' equity for the six-month period ended June 30, 2004, the Company included under this line item the effect of the above mentioned differences related to its investment in Amazonia and Sidor, as well as the following:

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

(11) Excess of fair value of net assets acquired over cost

As mentioned in Note 15, on February 3, 2005, Ylopa exercised its option to convert the outstanding balance of the Amazonia convertible debt instrument into newly issued shares of that company. On February 15, 2005 new shares of Amazonia were issued in exchange for the convertible instrument. As a result, Ternium's indirect participation in Amazonia increased from 31.03% to 53.47%. Under IFRS, this acquisition has been accounted for following the provisions contained in IFRS 3 "Business Combinations" ("IFRS 3") and, accordingly, assets acquired and liabilities assumed have been valued at fair value. The excess of Ternium's interest in the net fair value of Amazonia's identifiable assets, liabilities and contingent liabilities over the purchase price (amounting to USD 188.4 million) has been recognized in income for the period.

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

(12) Revaluation reserve

As mentioned in A.P. T (11), on February 15, 2005, the Company increased its equity interest in Amazonia from 31.03% to 53.47%. Under IFRS, this acquisition has been accounted for following the provisions contained in IFRS 3 and, accordingly, the Company recorded in equity (under "Revaluation reserve" line item) the excess of the fair value of its pre-acquisition interest in Amazonia's net assets over their corresponding carrying amounts.

For US GAAP purposes, the Company applied the provisions contained in SFAS No. 141. Under SFAS No. 141, when a company increases its shareholding interest in an equity investee, no fair value revaluation shall be made on the pre-acquisition equity interest held.

(13) Minority Interest

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

(14) Net income

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

(15) Valuation of minority interest in Amazonia

As mentioned in A.P.T (11), on February 15, 2005, the Company increased its equity interest in Amazonia from 31.03% to 53.47%. Under IFRS, this acquisition has been accounted for following the provisions contained in IFRS 3 and, accordingly, minority interest on that company has been valued at fair value resulting in an adjustment to minority interest of USD324,916. Under US GAAP, the interest of minority equity holders of Amazonia has been valued at pre-acquisition carrying amount of net assets. No reconciling item has been shown in Note 17 as this difference has no effect on total shareholders' equity and net income for the period.

(16) Cumulative translation differences exemption

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

(17) Consolidation of Amazonia

As mentioned in A.P.T (11), on February 15, 2005, the Company increased its equity interest in Amazonia from 31.03% to 53.47%. Accordingly, following the guidance set forth by IFRS 3, the Company began consolidated Amazonia's results of operations effective February 15, 2005, the date on which Ternium gained control over Amazonia. Under US GAAP, the Company followed the provisions contained in ARB No. 51 and, thus, Amazonia's results of operations were consolidated as from January 1, 2005, with pre-acquisition earnings being deducted in the minority interest line item, such that there is no difference between net income under IFRS and US GAAP.

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1 Segment information

Primary reporting format—business segments

	Flat steel products	Long steel products	Other[i]	Unallocated	Total
Period ended June 30, 2005					
Net sales	1,584,386	169,706	73,753	—	1,827,845
Cost of sales	(769,353)	(93,019)	(43,548)	—	(905,920)
Gross profit	815,033	76,687	30,205	—	921,925
Capital expenditures—PP&E	76,842	—	—	—	76,842
Depreciation—PP&E	107,631	6,600	—	—	114,231
At June 30, 2005					
Segment assets					
Inventories, net	528,842	59,291	1,924	—	590,057
Trade receivables, net	237,228	39,883	52,838	—	329,949
PP&E	3,034,858	473,275	—	—	3,508,133
Other assets	—	—	—	890,813	890,813
Segment Liabilities	963,670	91,992	—	704,934	1,760,596

	Flat steel products	Trading	Other[ii]	Unallocated	Total
Period ended June 30, 2004					
Net sales	566,678	102,282	1,543	—	670,503
Cost of sales	(283,773)	(97,568)	(649)	—	(381,990)
Gross profit	282,905	4,714	894	—	288,513
Capital expenditures—PP&E	37,426	—	—	—	37,426
Depreciation—PP&E	43,159	47	—	—	43,206
At December 31, 2004					
Segment assets					
Inventories, net	233,624	20,100	562	—	254,286
Trade receivables, net	111,945	58,877	783	—	171,605
PP&E	1,244,294	397	—	—	1,244,691
Other assets	777,868	95,047	—	103,133	976,048
Segment Liabilities	635,461	143,629	—	95,689	874,779

(i) Includes sales of pig iron made by Siderar, pellets manufactured by Sidor, and other non-significant trading activities over products manufactured by third parties

(ii) Includes sales of pig iron made by Siderar

Secondary reporting format—geographical segments

Allocation of net sales is based on the customers' location. Allocation of assets and capital expenditure are based on the assets' location.

Ternium's subsidiaries operate for four main geographical areas. The North American segment comprises principally United States and Canada. The South and Central American segment comprises principally Argentina, Brasil, Colombia, Venezuela and Ecuador.

	South and Central America	North America	Europe	Other	Total
Period ended June 30, 2005					
Net sales	1,295,708	321,770	170,283	40,084	1,827,845
Depreciation—PP&E	114,219	4	8		114,231
Capital expenditures—PP&E	76,842	—	—	—	76,842
At June 30, 2005					
Segment assets					
Trade receivables	250,584	26,372	52,993	—	329,949
Property, plant and equipment	3,507,862	96	175	—	3,508,133
Period ended June 30, 2004					
Net sales	520,311	63,226	61,659	25,307	670,503
Depreciation—PP&E	43,197	3	6	—	43,206
Capital expenditures—PP&E	37,426	—	—	—	37,426
At December 31, 2004					
Segment assets					
Trade receivables	50,956	42,563	77,581	505	171,605
Property, plant and equipment	1,244,428	93	170	—	1,244,691

2 Cost of sales

	Six-month periods ended June 30,	
	2005	2004
Inventories at the beginning of the period	254,286	144,307
Acquisition of business—Amazonia	284,676	—
Plus: Charges for the period		
Raw materials and consumables used and other movements	590,968	273,829
Services and fees	55,524	20,826
Labor cost	97,769	43,619
Depreciation of property, plant and equipment	103,551	40,280
Amortization of intangible assets	2,485	1,753
Maintenance expenses	89,739	29,388
Office expenses	643	517
Freight and transportation	11,178	8,798
Insurance	378	369
Recovery from sales of scrap and by-products	(12,670)	(16,430)
Others	17,450	1,496
Less: Inventories at the end of the period	(590,057)	(166,762)
	905,920	**381,990**

3 General and administrative expenses

	Six-month periods ended June 30,	
	2005	2004
Administrator and Board of Directors' fees	—	542
Services and fees	13,466	5,531
Labor cost	31,488	7,482
Amortization of intangible assets	586	225
Maintenance and expenses	2,699	1,088
Taxes	14,092	7,584
Office expenses	5,785	555
Donations	1,394	324
Insurance	1,973	421
Depreciation of property plant and equipment	10,680	2,926
Others	6,390	1,988
	88,553	**28,666**

4 Selling expenses

	Six-month periods ended June 30,	
	2005	2004
Services and fees	2,751	1,639
Labor cost	6,205	4,432
Amortization of intangible assets	326	271
Office expenses	188	123
Freight and transportation	82,128	21,628
Taxes	4,238	1,884
Others	838	322
	96,674	**30,299**

5 Labor costs (included in cost of sales, selling expenses and general and administrative expenses)

	Six-month periods ended June 30,	
	2005	2004
Wages, salaries and social security costs	120,307	49,083
Termination benefits	8,525	5,764
Pension benefits—defined benefit plans	6,630	686
	135,462	**55,533**

6 Other operating (expenses) income, net

	Six-month periods ended June 30,	
	2005	2004
(i) Other operating income		
Provision for impairment of receivables	374	1,538
Others	4,613	271
Total other operating income	**4,987**	**1,809**
(ii) Other operating expenses		
Provision for legal claims	(4,251)	(1,034)
Others	(8,533)	(710)
Total other operating expenses	**(12,784)**	**(1,744)**
Total other operating (expenses) income, net	**(7,797)**	**65**

7 Financial (expenses) income, net

	Six-month periods ended June 30,	
	2005	2004
Interest expense	(15,135)	(12,218)
Interest income	12,603	4,231
Net foreign exchange transaction (losses)/gains and fair value of derivative instruments	(29,636)	6,086
Bank commissions and other bank charges	(3,554)	(583)
(Loss) income from participation account	(66,114)	91,469
Others	(887)	(278)
Financial (expenses) income, net	**(102,723)**	**88,707**

8 Property, plant and equipment, net

Period ended June 30, 2005	Land	Building and improvements	Production equipment	Vehicles, furniture and fixtures	Work in progress	Spare parts	Total
Cost							
Values at the beginning of the period	23,427	682,576	2,217,688	141,212	36,865	16,331	3,118,099
Translation differences	(4,010)	(60,137)	(142,800)	811	(4,508)	536	(210,108)
Acquisition of business—Amazonia	55,815	959,849	2,473,697	42,231	94,369		3,625,961
Additions			4,746	1,191	68,928	1,977	76,842
Disposals / Consumptions		(13)	(3,972)	(465)	(240)	(125)	(4,815)
Transfers		30,179	50,700	2,079	(82,958)		0
Values at the end of the period	75,232	1,612,454	4,600,059	187,059	112,456	18,719	6,605,979
Depreciation							
Accumulated at the beginning of the period		(392,996)	(1,368,813)	(109,797)		(1,802)	(1,873,408)
Translation differences		39,082	31,139	(2,112)		(58)	68,051
Acquisition of business—Amazonia		(480,581)	(688,188)	(12,903)			(1,181,672)
Depreciation charge		(29,843)	(79,351)	(4,934)		(103)	(114,231)
Disposals / Consumptions		7	2,939	373		95	3,414
Accumulated at the end of the period		(864,331)	(2,102,274)	(129,373)		(1,868)	(3,097,846)
At June 30, 2005	**75,232**	**748,123**	**2,497,785**	**57,686**	**112,456**	**16,851**	**3,508,133**

Period ended June 30, 2004	Land	Building and improvements	Production equipment	Vehicles, furniture and fixtures	Work in Progress	Spare Parts	Total
Cost							
Values at the beginning of the period	23,856	644,233	2,233,218	141,874	29,797	14,187	3,087,165
Translation differences	(225)	(6,407)	(20,794)	(1,348)	(526)	(156)	(29,456)
Additions			24	439	35,220	1,743	37,426
Disposals / consumptions				(456)	(1,058)	(474)	(1,988)
Transfers		17,520	2,389	348	(20,257)		
Values at the end of the period	23,631	655,346	2,214,837	140,857	43,176	15,300	3,093,147
Depreciation							
Accumulated at the beginning of the period		(374,761)	(1,329,670)	(105,504)		(1,531)	(1,811,466)
Translation differences		3,711	13,004	1,046		14	17,775
Depreciation charge		(9,295)	(30,843)	(2,898)		(170)	(43,206)
Disposals / consumptions				150		184	334
Accumulated at the end of the period		(380,345)	(1,347,509)	(107,206)		(1,503)	(1,836,563)
At June 30, 2004	**23,631**	**275,001**	**867,328**	**33,651**	**43,176**	**13,797**	**1,256,584**

9 Intangible assets, net

Period ended June 30, 2005	Information system projects
Cost	
Value at the beginning of the period	20,547
Translation differences	(89)
Acquisition of business—Amazonia	7,465
Additions	4,522
Value at the end of the period	32,445
Amortization	
Accumulated at the beginning of the period	(10,498)
Translation differences	481
Acquisition of business—Amazonia	(3,424)
Amortization charge	(3,397)
Accumulated at the end of the period	(16,838)
At June 30, 2005	**15,607**

Period ended June 30, 2004	Information system projects
Cost	
Value at the beginning of the period	12,055
Translation differences	(179)
Additions	3,774
Value at the end of the period	15,650
Amortization	
Accumulated at the beginning of the period	(4,074)
Translation differences	78
Amortization charge	(2,249)
Accumulated at the end of the period	(6,245)
At June 30, 2004	**9,405**

10 Borrowings

	As of June 30, 2005	As of December 31, 2004
(i) Non-current		
Bank borrowings	239,123	1,008
	239,123	**1,008**
(ii) Current		
Bank borrowings	201,641	45,628
Others	—	443
Borrowings with related parties	2,575	75,927
	204,216	**121,998**
Total Borrowings	**443,339**	**123,006**

The maturity of borrowings is as follows:

	Expected maturity date						
At June 30, 2005	**2005**	**2006**	**2007**	**2008**	**2009**	**Thereafter**	**Total[1]**
Non-Current Debt							
Fixed Rate	—	—	—	—	—	16,308	16,308
Floating Rate	—	62,400	77,144	16,569	32,464	34,238	222,815
Current Debt							
Fixed Rate	36,407	—	—	—	—	—	36,407
Floating Rate	167,809	—	—	—	—	—	167,809
Total	**204,216**	**62,400**	**77,144**	**16,569**	**32,464**	**50,546**	**443,339**

	Expected maturity date						
At December 31, 2004	**2005**	**2006**	**2007**	**2008**	**2009**	**Thereafter**	**Total[1]**
Non-Current Debt							
Floating Rate	—	783	225	—	—	—	1,008
Current Debt							
Fixed Rate	102,583	—	—	—	—	—	102,583
Floating Rate	19,415	—	—	—	—	—	19,415
Total	**121,998**	**783**	**225**	**—**	**—**	**—**	**123,006**

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

During March 2003, Siderar signed an agreement with its creditors which allowed Siderar to modify certain conditions of its financial debt (principally the extension of the original loans terms) for a total of USD 473.6 million. As a result of this agreement, Siderar made an initial payment of USD 85.0 million corresponding to 17.95% of the restructured debt. The remaining debt balance (New Bank Debt) at March 18, 2003 consisted of a "New Trade Facility" for a total of USD 309.3 million and a "New FRN Facility" for a total of USD 79.0 million. As of June 30, 2004 the outstanding balance of the New Trade Facility and the New FRN Facility amounted to USD 76.6 million and USD 19.8 million, respectively.

During 2004, the Company settled all the outstanding balances of the New Trade Facility and the New FRN Facility, and at the same time the guarantees and restrictions imposed by the financing contracts were released.

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

	June 30, 2005	**December 31, 2004**
Bank borrowings	7.64%	2.25%

The nominal average interest rates shown below were calculated using the rates set for each instrument in its corresponding currency and weighted using the dollar-equivalent outstanding principal amount of said instruments at June 30, 2005 and December 31, 2004, respectively.

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

Bank borrowings

Currency	Interest rates	June 30, 2005	December 31, 2004
USD	Variable	341,810	18,091
USD	Fixed	52,715	102,583
EUR	Variable	76	2,332
VEB	Variable	48,738	—
Total bank borrowings		**443,339**	**123,006**

11 Related party transactions

The Company is controlled by San Faustín, which at June 30, 2005 indirectly owned 100% of Ternium's shares and voting rights. The ultimate controlling entity of the Company is Rocca & Partners S.A., a British Virgin Island corporation.

The following transactions were carried out with related parties:

	Six-month periods ended June 30	
	2005	2004
(i) Transactions		
(a) Sales of goods and services		
Sales of goods to other related parties	140,196	12,681
Sales of services to associated parties	1,850	5,206
Sales of services to other related parties	739	—
Sales of goods to associated parties	27	—
	142,812	17,887
(b) Purchases of goods and services		
Purchases of goods from associated parties	26,350	81,060
Purchases of goods from other related parties	11,772	23,037
Purchases of services from other related parties	40,563	23,547
	78,685	127,644
(c) Financial results		
Income with associated parties	55,522	2,559
Income with other related parties	368	864
Expenses with other related parties	(106)	(3,882)
	55,784	(459)

	At June 30, 2005	At December 31, 2004
(ii) Period-end balances		
(a) Arising from sales/purchases of goods/services		
Receivables with associated parties	53,988	94,402
Receivables with other related parties	78,213	91,301
Payables to associated parties	(9,741)	(78,326)
Payables to other related parties	(122,948)	(40,359)
	(488)	67,018
(b) Other balances		
Trust fund with other related parties	—	88,755
Amazonia Convertible debt instrument	—	135,450
	—	224,205
(c) Financial debt		
Borrowings with other related parties	(2,575)	(75,927)
(d) Cash and cash equivalents		
(i) Time deposit	11,087	11,171

(iii) Officers and Directors' compensation

The aggregate compensation of the Officers and Directors earned during during six-month period ended June 30, 2005 amounts to U$S 1,924 thousand.

12 Earnings per share

On December 30, 2004, the Company converted the currency in which its share capital is expressed from EUR to USD. The share capital of EUR 31,000, represented by 31 shares of EUR 1,000 nominal value each, was converted into USD 41,471.80, represented by 31 shares of no nominal value. On June 17, 2005, the share capital of the Company was restructured by setting the nominal value per share at USD 1 and dividing the 31 issued shares into 41,471 shares of USD 1 nominal value each, and further transferring USD 0.80 to the share premium account of the Company. On June 29, 2005, ISL contributed all of its assets (including 41,470 shares of the Company) and liabilities to the Company, in exchange for 959,482,775 new shares of the Company.

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

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

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

The Company's combined earnings per share for each of the periods presented have been calculated based on the assumption that 1,168,943,632 shares were issued and outstanding in each of the periods presented.

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the daily weighted average number of ordinary shares issued during the period. The weighted average number of ordinary shares assumes that 1,168,943,632 shares were issued and outstanding as of January 1, 2003.

	2005	2004
Profit attributable to equity holders of the Company	477,609	211,855
Weighted average number of ordinary shares in issue	1,168,943,632	1,168,943,632
Basic earnings per share (USD per share)	0.41	0.18

13 Recently issued accounting pronouncements

1. IAS 19, Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures (Amendment)

On December 16, 2004, the International Accounting Standards Board ("IASB") issued International Accounting Standard No. 19, "Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures (Amendment)" ("IAS 19"). IAS 19 gives entities the option of recognizing actuarial gains and losses in full during the period in which they occur, outside of profit and loss, in the statement of recognized income and expense. Previously, entities were only permitted to recognize actuarial gains and losses in profit and loss either (1) in the period in which they occur or (2) spread over the service life of employees. The amendment is effective for annual periods beginning on or after January 1, 2006. The Company's management has not assessed the impact of this standard in its financial statements.

2. IFRS No. 6, Exploration for and Evaluation of Mineral Resources

On December 9, 2004, the IASB issued International Financial Reporting Standard No. 6 "Exploration for and Evaluation of Mineral Resources". This standard provides guidance on accounting for exploration and evaluation expenditures, including the recognition of exploration and evaluation assets. The new standard will be effective for annual periods beginning on or after January 1, 2006. The Company's management has not assessed the impact of this standard in its financial statements.

3. IAS 39, Financial Instruments: Recognition and Measurement (Amendment)

During 2004, the IASB released multiple amendments to International Accounting Standard No. 39 "Financial Instruments" ("IAS 39"):

- Transition and Initial Recognition of Financial Assets and Financial Liabilities—Released on December 17, 2004, which provides a transitional relief from retrospective application of the 'day 1' gain and loss recognition requirements.
- Recognition and Measurement on Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk—Released on March 31, 2004, which allows the use of fair-value hedge accounting for a portfolio hedge of interest rate risk (macro hedging).

4. IFRS No. 5, Non-Current Assets Held for Sale and Discontinued Operations

On March 31, 2004, the IASB released International Financial Reporting Standard No. 5, "Non-Current Assets Held for Sale and Discontinued Operations" ("IFRS No. 5"). This standard is the result of the IASB's (1) convergence project with the FASB and (2) a review of FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. IFRS No. 5 requires assets that are intended for disposal to be

recorded at the lower of the assets' carrying amounts or fair value less selling costs. The standard also addresses when certain operating segments of a business should be classified as discontinued operations. IFRS No. 5 is effective for annual periods beginning on or after January 1, 2005, with earlier application encouraged. Management has not assessed the impact of this financial statements.

5. IFRS No. 4, Insurance Contracts

On March 31, 2004, the IASB released International Financial Reporting Standard No. 4 "Insurance Contracts" ("IFRS No. 4"). This standard provides companies with guidance on the accounting for insurance contracts, a matter that the IASB had not addressed previously. In IFRS No. 4, the IASB attempts to converge current worldwide industry practices. IFRS No. 4 enhances and improves disclosures regarding insurance contracts. An entity shall apply IFRS No. 4 for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

6. IFRS No. 2, Share-Based Payment

On February 19, 2004, the International Accounting Standards Board released International Financial Reporting Standard No. 2, "Share-based Payment" ("IFRS No. 2"). Under IFRS No. 2, companies would record in the income statement an expense for the cost of share-based payment transactions, including the granting of stock options to employees. Management does not anticipate that the adoption of IFRS No. 2 will have a material impact on the Company's financial statements.

In addition, during 2004, the International Financial Reporting Interpretation Committee issued Interpretations 1 to 5 and an amendment to SIC-12, none of which is expected to have a significant impact on the Company's financial statements.

14 Financial risk management

(1) Financial risk factors

Ternium's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates. Ternium's subsidiaries use derivative financial instruments to minimize potential adverse effects on Ternium's financial performance, by hedging certain risk exposures.

(i) Foreign exchange rate risk

Ternium operates in export markets and is exposed to foreign exchange rate risk arising from some currency exposures. Ternium's relevant subsidiaries use forward contracts in order to hedge their exposure to exchange rate risk primarily in U.S. dollars.

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

(ii) Interest rate risk

Ternium's income and operating cash flows are substantially independent from changes in market interest rates. The group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the group to fair value interest-rate risk.

(iii) Concentration of credit risk

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

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

Derivative counterparties and cash transactions are limited to high quality financial institutions.

(iv) Liquidity risk

Management maintains sufficient cash and marketable securities, availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

(v) Gas and electricity supply

Sidor relies heavily upon two Venezuelan state-owned companies for the provision of gas and electricity, which are critical for the operation of its plant and equipment. A major disruption in the gas and electricity supply process, such as strikes, lockouts and other problems, would impact Sidor significantly. However, the risk of such a disruption at the current time appears to be low.

(vi) Iron ore supply

Expenditures for iron ore constitute one of the company's largest individual raw material costs. While Sidor purchases all of its iron ore from a Venezuelan state-owned company, a number of other sources are available. Although management believes that Sidor will be able to continue to purchase iron ore on favorable terms, there can be no assurance that Sidor could timely purchase sufficient quantities of that raw material from alternative suppliers at prices comparable to those offered by its current supplier.

(2) Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized in the balance sheet at cost and subsequently remeasured at fair value. Ternium does not hedge its net investments in foreign entities.

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

(3) Fair value estimation

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

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

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

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

15 Acquisition of business

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

The acquired business contributed revenues of USD 851 million and net income of USD204 million to the Company in the six-month period ended June 30, 2005. The book value of net assets acquired totals USD 928 million. The fair value of assets and liabilities arising from acquisition are as follows:

	Fair value of assets and liabilities
Property, plant and equipment	2,444,289
Inventories	284,676
Cash and cash equivalents	305,342
Deferred Tax Liabilities	(284,242)
Pension Benefits	(78,425)
Provisions	(37,163)
Borrowings	(656,658)
Others assets and liabilities, net	(13,459)
Minority Interest	(795,178)
Net	**1,169,182**

(b) On May 18, 2005, III BVI, Hylsamex S.A. de C.V. ("Hylsamex") and Alfa S.A. de C.V. ("Alfa") entered into an acquisition agreement (the "Hylsamex Acquisition Agreement"). Pursuant to the terms of the Hylsamex Acquisition Agreement, on July 26, 2005, III BVI launched a cash tender offer in Mexico for the acquisition of all the outstanding shares of Hylsamex. On August 22, 2005, the acquisition by III BVI of a

controlling interest in Hylsamex and of Alfa's minority interests in Amazonia, Ylopa and Hylsa Latin was consummated. The Company acquired an indirect controlling interest in Hylsamex and its subsidiaries, including Hylsa S.A. de C.V. ("Hylsa") and Galvak S.A. de C.V. (Galvak") and the indirect equity stakes owned by Hylsamex's former controlling shareholder, Alfa, in Amazonia and Ylopa. III BVI and Siderar acquired 70.0% and 29.3% of the shares of Hylsamex, respectively by a total amount of USD 2,095 million. III BVI also acquired an additional 10.5% direct and indirect interest in Amazonia and an additional 11.1% interest in Ylopa by USD 91.9 million. Hylsamex's main business is the production of flat and long steel products, with manufacturing plants located in the cities of Monterrey and Puebla, Mexico. Hylsa and Galvak are wholly owned subsidiaries of Hylsamex. Hylsa operates Hylsamex's principal divisions of steel production, and Galvak is a leader in the production coated steel. As part of the financing for the acquisition, we or our affiliates entered into the following loan agreements: i) an amended and restated credit agreement, dated as of August 16, 2005, for an aggregate principal amount of USD1,000 million, among I.I.I. BVI and lenders ; ii) an amended and restated credit agreement, dated as of August 16, 2005, for an aggregate principal amount of USD380 million among Siderar, as borrower, and the lenders; and iii) several convertible and subordinated loan agreements, dated as of various dates, for an aggregate principal amount of USD594 million, each among the Company, I.I.I. BVI, as borrower, and Usiminas, Tenaris, or other Techint Group companies.

(c) On November 18, 2005, Siderar agreed to acquire, for an estimated USD55.2 million, assets and facilities of Acindar Industria Argentina de Aceros S.A. related to the production of welded steel pipes in the provinces of Santa Fe and San Luis in Argentina. These two plants have an annual production capacity of 140,000 tons per year of structural pipes to be used in the construction, agricultural and manufacturing industries. The acquisition has been approved by the Argentine competition authorities and is expected to be completed in the first quarter of 2006, subject to Acindar being released from its general restriction on asset dispositions under its ongoing out-of-court debt restructuring and the satisfaction of applicable publicity requirements relating to bulk transfers of assets.

16 Post balance sheet events

(a) In September 2005, Usiminas and Industrial Investments Inc., Cayman Islands (I.I.I. C.I.) entered into a shareholders agreement pursuant to which they agreed to make cash contributions to I.I.I. BVI in the form of convertible loans and, in the case of Usiminas, to transfer to ISL its holdings in Siderar, Amazonia and Ylopa, in exchange for shares of the Company at a ratio to be subsequently determined. On October 27, 2005, Usiminas exchanged its shares in Siderar, Amazonia and Ylopa for shares of the Company.

(b) As mentioned in A.P. A (1), on September 15, 2005 ISL made a contribution to Ternium consisting of all of its assets and liabilities. Upon consummation of this contribution, the Company's share capital was increased to 1,168,943,632 shares.

(c) The Venezuelan Supreme Court of Justice has recently ruled in favor of increasing the benefits payable to retired employees of a Venezuelan company. This ruling is only binding on the parties to the litigation and Sidor has not received any claims in this regard. The Company analyzed the ruling's legal grounds and the case's facts and circumstances, and concluded that it is not likely that Sidor be subject to additional obligations in this respect. In the unlikely event that a potential claim by the participants of Sidor's pension plan be successful, the Company estimates that the maximum loss would be approximately US$ 55 million net of tax effect.

17 Reconciliation of net income and shareholders' equity to US GAAP

I. Differences in measurement methods

(a) The following is a summary of the significant adjustments to net income for the periods ended June 30, 2005 and 2004 and to shareholders' equity at June 30, 2005 and 2004, which would be required had the combined consolidated financial statements been prepared in accordance with US GAAP instead of IFRS.

	Six-month periods ended June 30,	
	2005	2004
Net income attributable to equity holders of the Company in accordance with IFRS	477,609	211,855
US GAAP adjustments—income (expense)		
Capitalization of interest cost—PP&E (A.P. T (6))	(22)	136
Change in fair value of financial assets through profit and loss (A.P. T (7))	50,819	(1,326)
Troubled debt restructuring (A.P. T (2))	5,212	—
Capitalization of interest cost—intangible assets (A.P. T (6))	(155)	98
Inventory valuation (A.P. T (4))	(2,265)	628
Accounting for pension plans (A.P. T (3))	(846)	(80)
Valuation of fixed assets—PP&E (A.P. T (1))	64,149	35,909
Equity in investments in associated companies (A.P. T (10))	—	(41,770)
Excess of fair value of net assets acquired over cost (A.P. T (11))	(188,356)	—
Excess of fair value of net assets acquired over cost—depreciation expense (A.P. T (11))	10,105	—
Intangible assets and other assets (A.P. T (5))	(415)	—
Deferred income tax (A.P. T (9))	(25,028)	(12,377)
Minority interest (A.P. T (13))	(84,956)	(829)
Net income in accordance with US GAAP	305,851	192,244
Weighted average number of shares outstanding (thousands)	1,168,944	1,168,944
Consolidated combined earnings per share in accordance with US GAAP	0.26	0.16

	Six-month periods ended June 30,	
	2005	2004
Shareholders' equity in accordance with IFRS	1,443,473	822,770
Capitalization of interest cost—PP&E (A.P. T (6))	8,200	5,721
Inventory valuation (A.P. T (4))	(11,696)	(5,262)
Capitalization of interest cost—intangible assets (A.P. T (6))	513	434
Accounting for pension plans (A.P. T (3))	5,436	1,559
Valuation of fixed assets—PP&E (A.P. T (1))	(1,514,897)	(1,014,066)
Equity in investments in associated companies (A.P. T (10))	—	(128,214)
Troubled debt restructuring (A.P. T (2))	(21,659)	—
Revaluation reserve (A.P. T (12))	(91,696)	—
Excess of fair value of net assets acquired over cost (A.P. T (11))	(285,388)	—
Excess of fair value of net assets acquired over cost—accumulated depreciation (A.P. T (11))	10,105	—
Intangible assets and other assets (A.P. T (5))	(1,042)	—
Accounting for convertible debt (A.P. T (8))	—	285,938
Deferred income tax (A.P. T (9))	629,981	354,065
Minority interest (A.P. T (13))	562,442	253,243
Shareholders' equity in accordance with US GAAP	733,772	576,188

(b) Changes in shareholders' equity under US GAAP are as follows:

	Six-month periods ended June 30,	
	2005	2004
Shareholders' equity at the beginning of the year in accordance with US GAAP	954,255	382,703
Net income for the year in accordance with US GAAP	305,851	192,244
Other comprehensive (loss) income	(409,648)	47,454
Contributions and other reserves	54,758	4,048
Dividends paid in cash and other distributions	(171,444)	(50,261)
Shareholders' equity at the end of the period in accordance with US GAAP	733,772	576,188

II. Other significant US GAAP disclosures

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

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

	Six-month periods ended June 30,	
	2005	2004
Net income for the period	305,851	192,244
Foreign currency translation adjustment	(24,779)	(6,865)
Change in fair value of financial assets	(384,869)	54,319
Total other comprehensive loss	(409,648)	47,454
Comprehensive (loss) income	(103,797)	239,698

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

	Foreign currency translation adjustment for the six-month periods ended June 30,	
	2005	2004
Balance at the beginning of the year	(144,587)	(133,811)
Decrease for the period	(24,779)	(6,865)
Balance at the end of the period	(169,366)	(140,676)

	Change in fair value of financial assets for the six-month periods ended June 30,	
	2005	2004
Balance at the beginning of the year	384,869	146,310
(Decrease) increase for the period	(384,869)	54,319
Balance at the end of the period	—	200,629

(b) Recently issued accounting pronouncements

1. Share-based payments

On December 15, 2004, the Financial Accounting Standards Board (FASB or the "Board") released its final revised standard entitled FASB Statement No. 123R, "Share-Based Payment" ("FAS 123R"), which will significantly change accounting practice with respect to employee stock options for both public and non-public companies. FAS 123R is effective:

- For public entities that do not file as small business issuers—as of the beginning of the first interim or annual reporting period that begins after June 15, 2005;
- For public entities that do file as small business issuers—as of the beginning of the first interim or annual reporting period that begins after December 15, 2005;
- For nonpublic entities—as of the beginning of the first annual reporting period that begins after December 15, 2005.

The Company's management has not assessed the potential impact of this standard on its financial statements.

2. Revenue recognition

On December 17, 2003, the SEC issued Staff Accounting Bulletin No. 104 ("SAB No. 104"), which revises or rescinds portions of the interpretative guidance included in Staff Accounting Bulletin No. 101, Revenue Recognition ("SAB No. 101"). The main modifications introduced by SAB No. 104 are aimed at making this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The principal revisions relate to the rescission of material no longer necessary because of private sector developments in the US GAAP. The Company's management has not assessed the potential impact of this standard on its financial statements.

3. Accounting for Inventory Costs

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. SFAS No. 151 clarifies the types of costs that should be expensed rather than capitalized as inventory. SFAS No. 151 also clarifies the circumstances under which fixed overhead costs associated with operating facilities involved in inventory processing should be capitalized. The provisions of SFAS No. 151 are effective for fiscal years beginning after June 15, 2005.

4. Accounting for Real Estate Time Sharing Transactions

In December 2004, the FASB issued SFAS No. 152, which amends FASB Statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position ("SOP") 04-2, Accounting for Real Estate Time-Sharing Transactions. SFAS No. 152 also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. SFAS No. 152 is effective for financial statements for fiscal years beginning after June 15, 2005.

5. Exchanges of Non-monetary Assets

In December 2004, the FASB issued SFAS No. 153, which amends Opinion No. 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS No. 153 are effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005.