

TERNIUM S.A.

**COMBINED CONSOLIDATED
FINANCIAL STATEMENTS
As of December 31, 2005 and 2004 and
for the years ended December 31, 2005, 2004 and 2003**

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TERNIUM S.A.

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Combined Consolidated 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 balance sheets and the related combined consolidated statements of income, of cash flows and of changes in shareholders' equity present fairly, in all material respects, the financial position of Ternium S.A. and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for the years ended December 31, 2005, 2004 and 2003 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

International Financial Reporting Standards vary in certain significant respects from the accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 36 to the combined consolidated financial statements.

Buenos Aires, Argentina

February 28, 2006

(except for Note 36, as to
which the date is April 4, 2006)

PRICE WATERHOUSE & CO. S.R.L.

by  (Partner)

Marcelo D. Pfaff

TERNIUM S.A.
Combined consolidated financial statements
as of December 31, 2005 and 2004 and
for the years ended December 31, 2005, 2004 and 2003
(All amounts in USD thousands)

COMBINED CONSOLIDATED INCOME STATEMENTS

	Notes	Year ended December 31,		
		2005	2004	2003
Net sales	31	4,447,680	1,598,925	1,056,566
Cost of sales	6 & 31	(2,470,844)	(965,004)	(671,720)
Gross profit		1,976,836	633,921	384,846
General and administrative expenses	7	(269,231)	(58,428)	(51,557)
Selling expenses	8	(251,962)	(60,524)	(62,786)
Other operating expenses, net	10	(63,482)	(798)	(5,721)
Operating income		1,392,161	514,171	264,782
Financial (expenses) income, net	11 & 31	(310,736)	202,289	75,606
Excess of fair value of net assets acquired over cost	3	188,356	-	-
Equity in earnings of associated companies	12	21,524	209,201	110,250
Income before income tax expense.....		1,291,305	925,661	450,638
Income tax expense	13	(218,492)	(177,486)	(94,087)
Net income for the year		1,072,813	748,175	356,551
Attributable to:				
Equity holders of the Company	30	704,406	457,339	218,215
Minority interest		368,407	290,836	138,336
		1,072,813	748,175	356,551
Weighted average number of shares outstanding	30	1,209,476,609	1,168,943,632	1,168,943,632
Basic earnings per share for profit attributable to the equity holders of the Company, during the year (expressed in USD per share)		0.58	0.39	0.19
Diluted earnings per share for profit attributable to the equity holders of the Company, during the year (expressed in USD per share)		0.54	0.39	0.19

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

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COMBINED CONSOLIDATED BALANCE SHEETS

	<u>Notes</u>	<u>December 31, 2005</u>		<u>December 31, 2004</u>	
ASSETS					
Non-current assets					
Property, plant and equipment, net	14	5,463,871		1,244,691	
Intangible assets, net	15	552,882		10,049	
Investments in associated companies, net	16	9,122		309,318	
Other investments, net	17 & 31	12,607		148,569	
Deferred tax assets	25	29,126		-	
Other Assets		952		-	
Receivables, net	18 & 31	47,863	6,116,423	15,783	1,728,410
Current assets					
Receivables	19 & 31	291,302		208,699	
Other Assets		3,160		-	
Derivative financial instruments	27	5,402		-	
Inventories, net	20	1,000,119		254,286	
Trade receivables, net	21 & 31	472,760		171,605	
Other investments	22 & 31	5,185		88,755	
Cash and cash equivalents	22 & 31	765,630	2,543,558	194,875	918,220
Total assets			<u>8,659,981</u>		<u>2,646,630</u>
EQUITY					
Capital and reserves attributable to the company's equity holders			1,842,454		1,026,725
Minority interest			1,733,465		745,126
Total equity			3,575,919		1,771,851
LIABILITIES					
Non-current liabilities					
Provisions	23	53,479		11,925	
Deferred income tax	25	1,048,188		337,473	
Other liabilities	26	187,917		9,104	
Trade payables		1,167		-	
Borrowings	28	2,399,878	3,690,629	1,008	359,510
Current liabilities					
Provisions	24	659		960	
Current tax liabilities		126,972		158,124	
Other liabilities	26 & 31	194,073		33,288	
Trade payables	31	555,330		194,943	
Derivative financial instruments	27	-		5,956	
Borrowings	28	516,399	1,393,433	121,998	515,269
Total liabilities			<u>5,084,062</u>		<u>874,779</u>
Total equity and liabilities			<u>8,659,981</u>		<u>2,646,630</u>

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COMBINED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Attributable to the company's equity holders (1)	Minority Interest	Total Equity
Year ended December 31, 2003			
Balance at January 1, 2003	407,144	367,355	774,499
Currency translation adjustment	49,892	52,113	102,005
Net income	218,215	138,336	356,551
Total recognized income for the year	268,107	190,449	458,556
Contributions	35,539	2,243	37,782
Dividends paid in cash	(8,969)	(9,783)	(18,752)
Balance at December 31, 2003	701,821	550,264	1,252,085
Year ended December 31, 2004			
Balance at January 1, 2004	701,821	550,264	1,252,085
Currency translation adjustment	(51,549)	(25,697)	(77,246)
Net income	457,339	290,836	748,175
Total recognized income for the year	405,790	265,139	670,929
Dividends paid in cash and other distributions ..	(80,886)	(70,277)	(151,163)
Balance at December 31, 2004	1,026,725	745,126	1,771,851
Year ended December 31, 2005			
Balance at January 1, 2005	1,026,725	745,126	1,771,851
Currency translation adjustment	(66,001)	(54,245)	(120,246)
Net income	704,406	368,407	1,072,813
Total recognized income for the year	638,405	314,162	952,567
Contributions	54,758	-	54,758
Dividends paid in cash and other distributions ..	(238,652)	(130,571)	(369,223)
Acquisition of business	-	864,415	864,415
Usiminas exchange (see Note 1 (b))	303,791	(303,791)	-
Initial public offering expenses (see Note 4 (j))..	(5,456)	-	(5,456)
Revaluation and other reserves	62,883	244,124	307,007
Balance at December 31, 2005	1,842,454	1,733,465	3,575,919

(1) Shareholders equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 29 (vi).

Dividends may be paid by Ternium to the extent distributable retained earnings calculated in accordance with Luxembourg GAAP exist. Therefore, retained earnings included in the consolidated combined financial statements may not be wholly distributable. See Note 29 (vi).

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COMBINED CONSOLIDATED CASH FLOW STATEMENTS

	Notes	Year ended December 31,		
		2005	2004	2003
Cash flows from operating activities				
Net income for the year		1,072,813	748,175	356,551
Adjustments for:				
Depreciation and amortization	14&15	316,405	99,192	85,479
Income tax accruals less payments	32	(44,008)	120,210	94,087
Excess of fair value of net assets acquired over cost	3	(188,356)	-	-
Equity in earnings of associated companies	12	(21,524)	(209,201)	(110,250)
Derecognition of property, plant and equipment	10 (iii)	54,348	-	-
Interest accruals less payments	32	21,352	9,083	5,428
Changes in provisions	23&24	19,046	(798)	3,594
Changes in working capital	32	54,420	(204,670)	(55,662)
Currency translation adjustment and others		(22,041)	(44,426)	(32,909)
Net cash provided by operating activities		1,262,455	517,565	346,318
Cash flows from investing activities				
Capital expenditures	14&15	(244,939)	(92,563)	(34,328)
Amazonia convertible debt instrument		-	-	(127,576)
Changes in trust funds.....		83,570	-	-
Acquisition of business-Hylsamex		(2,196,678)	-	-
Proceeds from sale of investment in associated company		-	-	304
Proceeds from the sale of property, plant and equipment		6,063	862	3,804
Net cash used in investing activities		(2,351,984)	(91,701)	(157,796)
Cash flows from financing activities				
Dividends paid in cash and other distributions to company's shareholders		(238,652)	(80,886)	(8,969)
Dividends paid in cash and other distributions to minority shareholders		(130,571)	(70,277)	(9,783)
Contributions of minority shareholders in subsidiary companies		-	-	38,553
Contributions		54,758	-	37,782
Proceeds from borrowings		2,135,430	52,309	95,448
Repayments of borrowings		(657,597)	(261,033)	(324,992)
Net cash provided by (used in) financing activities		1,163,368	(359,887)	(171,961)
Increase in cash and cash equivalents.		73,839	65,977	16,561
Movement in cash and cash equivalents				
At January 1,		194,875	129,020	111,198
Acquisition of business-Amazonia	3	305,342	-	-
Acquisition of business-Hylsamex	3	215,411	-	-
Effect of exchange rate changes		(34,487)	(122)	1,261
Increase in cash and cash equivalents		73,839	65,977	16,561
Cash and cash equivalents at December 31,		754,980	194,875	129,020

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Notes to the Combined Consolidated Financial Statements (Contd.)

1 Business of the Company and corporate reorganization

(a) Business of the Company

Ternium S.A. (the “Company” or “Ternium”), a Luxembourg Corporation (Société 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.

In January 2006, the Company successfully completed its registration process with the United States Securities and Exchange Commission (“SEC”) and announced the commencement of its offer to sale 24,844,720 American Depositary Shares (“ADS”) representing 248,447,200 shares of common stock through Citigroup Global Markets Inc., Deutsche Bank Securities Inc., JP Morgan Securities Inc., Morgan Stanley & Co. Incorporated, BNP Paribas Securities Corp., Cylon Securities (USA) Inc. and Bayerische Hypo-und Vereinsbank AG (collectively, the “Underwriters” and the offering thereunder, the “Initial Public Offering”). Also, the Company has granted to the Underwriters an option, exercisable for 30 days from January 31, 2006, to purchase up to 3,726,708 additional ADSs at the public offering price of USD20 per ADS less an underwriting discount of USD0.55 per ADS. Such option has been exercised on February 23, 2006 for 22,981,360 shares. 2,004,743,442 shares (including shares in the form of ADSs) will be outstanding upon completion of the Initial Public Offering, the conversion of the Subordinated Convertible Loans mentioned in Note 3, exercise of the option granted to the underwriters and consummation of the transactions contemplated in the Corporate Reorganization Agreement described in Note 1 (b).

The proceeds of the Initial Public Offering totaled USD 496.9 million and have been used to repay Tranche A of the Ternium Credit Facility (as defined below) after deducting related expenses. See Note 35.

(b) Corporate reorganization

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 the following:

- a 50.75% interest in Siderar S.A.I.C. (“Siderar”) (which in turn owns a 11.11% equity interest in Ylopa - Servicios de Consultadoria Lda. (“Ylopa”) and a 14.40% interest in Consorcio Siderurgia Amazonia Ltd. (“Amazonia”));
- a 25.00% interest 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 and liabilities, including, but not limited to, a 100% interest in III BVI and a 100% interest in Fasnet, in exchange for 959,482,775 shares of Ternium.

Also, on September 9, 2005 Tenaris S.A. (“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 for 209,460,856 shares of the Company.

On September 15, 2005, ISL made a second contribution of all of its assets and liabilities including 750,021,919 shares of the Company, 21.17% in Amazonia, a “Cuota” representing 24.40% of Ylopa and other items, 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.

On September 22, 2005, the Company assumed all of I.I.I. BVI’s rights and obligations under the Ternium Credit Facility, dated as of August 16, 2005, for an aggregate principal amount of USD1.0 billion entered into among I.I.I. BVI and the lenders named therein; and several Subordinated Convertible Loan Agreements, each among I.I.I. BVI, as borrower, the subordinated lender party thereto, as lender, and the Company.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

1 Business of the Company and corporate reorganization (continued)

(b) Corporate reorganization (continued)

On October 27, 2005, I.I.I. BVI transferred to the Company all of its shares of Siderar, Amazonia, Inversiones Siderúrgicas, Techintrade, Hylsa Latin and Ylopa in consideration of the assumption by Ternium of I.I.I. BVI's obligations under the Ternium Credit Facility and the Subordinated Convertible Loan Agreements.

In October 2005, Usinas Siderúrgicas de Minas Gerais S.A. ("Usiminas") exchanged its 5.32% equity interest in Siderar, its 16.58% equity interest in Amazonia and its 19.11% equity interest in Ylopa and other items (the "Usiminas Exchange") for 227,608,254 new shares of the Company. Upon the consummation of this exchange the capital was increased to USD 1,396,552, represented by 1,396,551,887 shares of 1 USD nominal value each.

Furthermore, in November 2005, Siderúrgica del Turbio S.A. ("Siderur"), a subsidiary of Siderúrgica Venezolana S.A. ("Sivensa"), exchanged with ISL its 3.42% equity interest in Amazonia for shares of the Company. ISL has, under the terms of the Corporate Reorganization Agreement (as defined below), contributed such interest in Amazonia to the Company in exchange for shares of the Company after the settlement of the Initial Public Offering (the "Sivensa Exchange").

ISL and the Company entered into a reorganization agreement (the "Corporate Reorganization Agreement") pursuant to which ISL committed to deliver shares of the Company to the Underwriters and to the Subordinated Lenders (as defined below) in an amount sufficient to satisfy the Company's obligation to deliver shares of the Company to the Underwriters (excluding any shares to be delivered in connection with the Underwriters' over-allotment option) and to the Subordinated Lenders pursuant to the terms of the Initial Public Offering and the Subordinated Convertible Loan Agreements. As provided in the Corporate Reorganization Agreement, after ISL's delivery of such shares, ISL will contribute all of its assets and liabilities (including the credit against the Company arising from such delivery of shares, its interest in Amazonia resulting from the Sivensa Exchange and any remaining shares of the Company) to the Company in exchange for that number of newly issued shares of the Company equal to the number of shares of the Company held by ISL prior to the Sivensa Exchange.

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 financial statements. In addition, since Tenaris and the Company are under common control of San Faustín, the equity interests held by Tenaris in Amazonia and Ylopa that have been exchanged with ISL on September 9, 2005, have also been retroactively combined in these combined consolidated financial statements.

In addition, as mentioned in Note 3, 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 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. Accordingly, Hylsamex's results of operations have been consolidated in these financial statements as from that date.

Detailed below are the companies whose consolidated financial statements have been included in these combined consolidated financial statements.

Company	Country of incorporation	Main activity	Percentage of ownership at December 31,	
			2005	2004
Ternium S.A.	Luxembourg	Holding of investments in flat and long steel manufacturing and distributing companies	100.00%	100.00%
Alvory S.A.	Uruguay	Rendering of procurement services	100.00%	-
III Industrial Investments Inc. (B.V.I.)	British Virgin Islands	Holding company	100.00%	100.00%
Inversiones Siderúrgicas S.A.	Panama	Holding company	100.00%	100.00%
Siderar S.A.I.C.	Argentina	Manufacturing of flat steel products	56.07%	50.75%
Techintrade Uruguay S.A.	Uruguay	Holding company and marketing of steel products	100.00%	100.00%
Ylopa - Servicios de Consultadora Lda. (1)	Madeira - Free zone	Participation in the debt restructuring process of Amazonia and Sidor C.A.	95.12%	64.31%
Fasnet International S.A.	Panama	Holding company	100.00%	100.00%

(1) Directly (54.62%) and indirectly through the participation of Prosid Investments S.C.A. (11.11%), and Inversiones Siderúrgicas (34.27%).

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

2 Basis of presentation

These combined consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”). The Company’s transition date for IFRS purposes was January 1, 2003 and thus, certain limited exceptions and exemptions provided by IFRS 1, “First-time Adoption of IFRS” have been used.

These combined consolidated 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 (February 2006). The combined consolidated financial statements are presented in thousands of United States dollars (“USD”)

The assets and liabilities of III BVI and Fasnet (and their respective subsidiaries, Inversiones Siderurgicas S.A. (“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 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.

Detailed below are the subsidiary companies whose consolidated financial statements have been combined in these combined consolidated financial statements.

Company	Country of Organization	Main activity	Percentage of ownership at December 31,	
			2005	2004
Comesi San Luis S.A.I.C. (1)	Argentina	Production of cold or hot rold prepainted, formed and skelped steel sheets	56.07%	50.24%
Inversiones Basilea S.A. (1)	Chile	Purchase and sale of real estate and other	56.07%	-
Prosid Investments S.C.A.(1)	Uruguay	Holding of investments in companies	56.07%	50.75%
Techintrade Italy S.R.L. (2)	Italy	Marketing of steel products	100.00%	100.00%
Socominter de Guatemala S.A. (2)	Guatemala	Marketing of steel products	100.00%	100.00%
Socominter de España S.A.U.(2)	Spain	Marketing of steel products	100.00%	100.00%
Socotrading S.A.(2)	Ecuador	Marketing of steel products	100.00%	100.00%
Techintrade Corporation (2)	USA	Marketing of steel products	100.00%	100.00%
Ternium Internationaal B.V. (formerly Techint Engineering Company B.V.)(2)	Netherlands	Marketing of steel products	100.00%	100.00%
Techintrade del Perú S.A.C. (2)	Peru	Marketing of steel products	100.00%	100.00%
Consortio Siderurgia Amazonia Ltd.(3)	Cayman Islands	Holding of investments in Venezuelan steel companies	89.07%	-
Sidor C.A. (4)	Venezuela	Manufacturing and selling of steel products	53.20%	-
Hylsamex S.A. de C.V. (5)	Mexico	Holding Company	86.68%	-

(1) Indirectly through Siderar S.A.I.C.

(2) Indirectly through Tecnintrade Uruguay S.A.

(3) Directly (45.24%) and indirectly through the participation of Prosid Investments S.C.A. (14.38%), Inversiones Siderúrgicas S.A. (25.00%), Hylsa Latin LLC (11.38%) and Hylsamex S.A de CV (0.59%). Total voting rights held 96.59%.

(4) Indirectly through the participation of Amazonia (59.73%).

(5) Indirectly through the participation of III (B.V.I.) (70.00%), and Siderar S.A.I.C. (29.75%).

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Notes to the Combined Consolidated Financial Statements (Contd.)

2 Basis of presentation (continued)

Detailed below are the subsidiary companies whose consolidated financial statements have been consolidated in these combined consolidated financial statements, and the percentage of ownership held directly or indirectly through Hylsamex S.A. de C.V. in these companies at the end of each year indicated

Company	Country of Organization	Main activity	Percentage of ownership at December 31,	
			2005	2004
Hylsa S.A. de C.V. (1)	Mexico	Manufacturing and selling of steel products	86.68%	-
Express Anahuac S.A. de C.V. (1)	Mexico	Freight services	86.68%	-
Ferropak Comercial S.A. de C.V. (1)	Mexico	Scrap company	86.68%	-
Ferropak Servicios S.A. de C.V. (1)	Mexico	Services	86.68%	-
Galvacer America Corp (1)	USA	Distributing company	86.68%	-
Galvamet America Corp (1)	USA	Manufacturing and selling of insulates panel products	86.68%	-
Tansamerica E. & I. Corp (1)	USA	Scrap company	86.68%	-
Galvatubing Inc. (1)	USA	Manufacturing and selling of pipe products	86.68%	-
Las Encinas S.A. de C.V. (1)	Mexico	Exploration, exploitation and pelletizing of iron ore	86.68%	-
Técnica Industrial S.A. de C.V. (1)	Mexico	Services	86.68%	-
Hylsa Latin LLC (2)	USA	Holding company	86.68%	-
Acerex S.A. de C.V. (3)	Mexico	Tooling services	43.34%	-
Acerex Servicios S.A. de C.V. (3)	Mexico	Services	43.34%	-
Consortio Minero Benito Juarez Peña Colorada S.A. de C.V. (3)	Mexico	Exploration, exploitation and palletizing of iron ore	43.34%	-
Peña Colorada Servicios S.A. de C.V. (3)	Mexico	Services	43.34%	-

(1) Indirectly through the participation of Hylsamex. Total voting rights held: 100.00%.

(2) Indirectly through the participation of Hylsamex (73.4%) and Ternium S.A. (26.6%). Total voting rights held: 100%.

(3) Indirectly through the participation of Hylsamex. Total voting rights held: 50.00%.

Detailed below are the most relevant associated companies which are accounted for by the equity method of accounting in these combined consolidated financial statements.

Company	Country of Organization	Main activity	Percentage of ownership at December 31,	
			2005	2004
Consortio Siderurgia Amazonia Ltd.(1)	Cayman Islands	Holding of investments in Venezuelan steel companies	-	31.03%
Matesi Materiales Siderúrgicos S.A.(2)	Venezuela	Manufacturing and marketing of briquettes	26.49%	-
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 material	21.81%	19.74%

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

2 Basis of presentation (continued)

- (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%. The Company acquired control over Amazonia on February 15, 2005 (see Note 3).
- (2) Indirectly through the participation of Sidor (49.8%).
- (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.

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

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.

These combined consolidated financial statements have been approved for issue by the board of directors on February 28, 2006.

3 Acquisition of business

(a) Hylsamex

On May 18, 2005, III BVI, Hylsamex S.A. de C.V. and Alfa entered into 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, 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. Subsequently, Siderar purchased additional shares of Hylsamex in the open market for a total amount of USD 9.7 million, thus reaching a 29.8% equity interest in that company.

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, and is a leader in the production of coated steel.

The acquired business contributed revenues of USD 723.8 million and net income of USD 25.4 million to the Company in the year ended December 31, 2005. The book value of net assets acquired totals USD1,492 million. The fair value of assets and liabilities arising from acquisition are as follows:

	Fair value of assets and liabilities at the date of acquisition USD Thousand
Property, plant and equipment	2,129,325
Inventories	345,053
Cash and cash equivalents	215,411
Deferred tax liabilities	(449,537)
Pension benefits	(116,860)
Borrowings	(751,730)
Others assets and liabilities, net	488,297
Minority interest	(156,651)
Net	1,703,308

Goodwill, representing the excess of the purchase price paid over the fair value of identifiable assets, liabilities and contingent liabilities acquired, totaled USD 399.7 million.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

3 Acquisition of business (continued)

As part of the financing for the acquisition, the Company and its affiliates entered into the following loan agreements:

- i) an amended and restated credit agreement, dated as of August 16, 2005 among I.I.I. BVI and lenders for an aggregate principal amount of USD1,000 million (the “Ternium Credit Facility”). The Ternium Credit Facility is comprised of two equal tranches:
 - Tranche A with a maturity of three years and bearing interest at the annual rate of LIBOR plus an applicable margin that ranges from 75 to 400 basis points. This tranche has been fully repaid in February 2006 (see Note 35).
 - Tranche B with a maturity of five years and bearing interest at the annual rate of LIBOR plus an applicable margin that ranges from 137.5 to 300 basis points.
- 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 (the “Siderar Credit Facility”). The Siderar Credit Facility is payable in five equal and consecutive semi-annual installments with a grace period of 12 months and bears interest at LIBOR plus 200 basis points; 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 borrowers, and Usiminas, Tenaris, or other Techint Group companies (collectively, the “Subordinated Lenders”, the agreements, the “Subordinated Convertible Loan Agreements” and the loans thereunder, the “Subordinated Convertible Loans”). Pursuant to the terms of the Subordinated Convertible Loan Agreements, on February 6, 2006 the Company delivered the ADSs to the Underwriters upon consummation of the Initial Public Offering, the Subordinated Convertible Loans have been converted into shares of the Company at a price per share equal to the price per share paid by the investors in the offering (see Note 35).

Under the credit agreements mentioned in i) and ii) above, the Company and its affiliates are subject to certain covenants that limit their ability to, among other things: pay dividends in excess of certain amounts to their shareholders or make other restricted payments; make capital expenditures in excess of certain amounts; grant certain liens, borrow additional money or prepay principal or interest on subordinated debt over certain limits, change their business or amend certain significant agreements, effect a change of control, and merge, acquire or consolidate with another company, make additional investments or dispose of their assets.

These contracts also require Ternium and its subsidiaries to meet certain financial covenants, ratios and other tests, which could limit their operational flexibility and could prevent Ternium from taking advantage of business opportunities as they arise, growing its business or competing effectively. Moreover, a failure by Ternium and its subsidiaries to comply with applicable financial measures could result in defaults under those agreements or instruments. Ternium and its subsidiaries are in compliance with all of their financial covenants, ratios and tests.

(b) Amazonia

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%, thereby increasing its indirect participation in Sidor from 18.53% to 31.94%. 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 year. 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.

With the increase in equity ownership of Amazonia to 53.47%, the Company has effective control.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

3 Acquisition of business (continued)

The acquired business contributed revenues of USD 1,863.5 million to the Company in the year ended December 31, 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 at the date of acquisition USD Thousand
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

(c) Impeco S.A.

On November 18 2005, Ternium's Argentine subsidiary, Siderar, agreed to acquire, for USD 55.2 million, assets and facilities of Acindar Industria Argentina de Aceros S.A. ("Acindar") related to the production of welded steel pipes in the province of San Luis in Argentina, as well as 100% of the issued and outstanding shares of Impeco S.A., which in turn owns a plant located in the province of Santa Fe in Argentina. These two plants have a production capacity of 140 thousand tons per year of tubes to be used in the construction, agricultural and manufacturing industries. The acquisition has been approved by the Argentine competition authorities and was completed on January 31, 2006.

4 Accounting policies

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

(a) Group accounting

(1) Subsidiary companies

Subsidiary companies are those entities in which the Company 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. Acquisition of minority interests in subsidiaries is accounted for following the economic entity model and, accordingly, assets acquired and liabilities assumed are valued at book value and the difference arising on purchase price allocation is recorded in equity under "Revaluation and other reserves" line item. 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.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

4 Accounting policies (continued)

(a) Group accounting (continued)

(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 Note 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 these combined consolidated 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.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

4 Accounting policies (continued)

(b) Foreign currency translation

(1) Functional and presentation currency

Items included in the financial statements of each of the Company's subsidiaries and associated companies are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is the U.S. dollar ("USD"). Although Ternium is located in Luxembourg, it operates in several countries with different currencies. The USD is the currency that best reflects the economic substance of the underlying events and circumstances relevant to Ternium as a whole. The combined consolidated financial statements are presented in thousands of U.S. dollars.

(2) Subsidiary companies

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

- (i) assets and liabilities are translated at the closing rate of each 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.

(c) Property, plant and equipment

Land and buildings comprise mainly factories and offices. All property, plant and equipment are recognized at historical acquisition or construction cost less accumulated depreciation and accumulated impairment (if applicable), except for land, which is carried at acquisition cost less impairment (if applicable). Nevertheless, as mentioned in Note 4(a), property, plant and equipment has been valued at its deemed cost at the transition date to IFRS.

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.

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

4 Accounting policies (continued)

(c) Property, plant and equipment (continued)

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' 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 Note 4 (d) "Impairment").

(d) 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 December 31, 2005 and 2004, no impairment provisions were recorded. The impairment provision recorded in previous years on the investment in Amazonia was reversed in 2004 and included in equity in earnings of associated companies, as explained in Note 12.

(e) 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 the acquisition and implementation of information systems are recognized as intangible assets if they have a probable economic benefit exceeding the cost beyond one year.

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) Mining concessions

Mining license was recognized as a separate intangible asset upon the acquisition of Hylsamex and comprises the right to exploit or explore the mines and is recognized at its fair value less accumulated amortization. Amortization charge is calculated according to the mineral extracted in each period and is included in cost of sales.

(3) Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of Ternium's participation in acquired companies' net assets at the acquisition date. Under IFRS 3, goodwill is considered to have an indefinite life and not amortized, but is subject to annual impairment testing.

(4) Research and development

Research expenditures are recognized as expenses as incurred. Development costs are recorded as cost of sales in the income statement as incurred because they do not fulfill the criteria for capitalization. Research and development expenditures for the years ended December 31, 2005, 2004 and 2003 totaled USD 2.1 million, USD 0.3 million and USD 0.5 million, respectively.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

4 Accounting policies (continued)

(f) 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.

Deposits in trusts are 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 in those investments are included in the income statement for the period in which they arise. The Amazonia Convertible Debt Instrument was carried at cost until it was capitalized in February 2005.

In order to mitigate any potential impact of Argentine regulations restricting payments outside of Argentina, Siderar has placed financial resources in a trust outside Argentina. The objective of the trust is solely 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 the trust up to December 31, 2004 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.

(g) Inventories

Inventories are stated at the lower of cost (calculated using principally the first-in-first-out “FIFO” method) or 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.

A provision for obsolescence or slow-moving inventory is recorded 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 change. The provision for slow-moving inventory is recognized for finished goods and goods in progress based on management’s analysis of their aging.

(h) 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.

(i) Cash and cash equivalents

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

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

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

(j) Shareholders’ equity

Basis of combination

The combined consolidated statement of changes in shareholders’ equity for the years 2005, 2004 and 2003 was prepared based on the following:

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

4 Accounting policies (continued)

(j) Shareholders' equity (continued)

- 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 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 granted by Ylopa and Amazonia to its shareholders that are in substance capital nature transactions. These loans are non-interest bearing facilities granted by Ylopa to its shareholders based on their respective stockholdings. These loans mature 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 such facilities against future dividend distributions. Accordingly, these credits have been shown as a reduction to equity.
- Expenses incurred in connection with the Initial Public Offering at year-end, totaling USD5.5 million approximately, have been deducted from equity, since they directly relate to a transaction which itself is to be recorded in equity, although at December 31, 2005, the equity transaction had not yet been completed.

(k) 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.

A debt restructuring is accounted for 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.

Borrowing costs are expensed as incurred.

(l) 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 not been recognized for financial reporting.

Deferred income taxes are calculated, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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 in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted by the balance sheet date. Under IFRS, deferred income tax assets (liabilities) are classified as non-current assets (liabilities).

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.

(m) 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.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

4 Accounting policies (continued)

(m) Employee liabilities (continued)

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 Siderar'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, 2003. 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.

Hylsamex

The valuation of the liabilities for employee retirement plans (pensions and seniority premiums) covers all employees and is based primarily on their years of service, their present age and their remuneration at the date of retirement.

The cost of the employee retirement plans (pension, health-care expenses and seniority premiums) is recognized as an expense in the year in which services are rendered in accordance with actuarial studies made by independent actuaries.

The formal retirement plans are congruent with and complementary to the retirement benefits established by the Mexican Institute of Social Security. Additionally, the Company has established a plan to cover health-care expenses of retired employees.

The Company has established irrevocable trust funds for the payment of pensions and seniority premiums, as well as for health-care expenses.

(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.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

4 Accounting policies (continued)

(m) Employee liabilities (continued)

(3) Other compensation obligations

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

(4) Social security contributions

Social security laws in force in Argentina, Mexico and Venezuela provide for pension benefits to be paid to retired employees from government pension plans and/or private fund managed plans to which employees may elect to contribute. As stipulated by the respective laws, Siderar, Hylsamex and Sidor make monthly contributions calculated based on each employee's salary to fund such plans. The related amounts are expensed as incurred. No additional liabilities exist once the contributions are paid.

(n) 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.

(o) 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 (see Note 29).

(p) 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.

(q) Earnings per share

Earnings per share are calculated by dividing the net income attributable to shareholders by the daily weighted average number of ordinary shares issued during the year. At December 31, 2005, there were 297,010,812 potential shares outstanding (see Note 30; actual shares are described in Note 35 (a)).

(r) Derivative financial instruments

Information about accounting for derivative financial instruments and hedging activities is included in Note 34 "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 sells its products to four main geographical areas: South and Central America, North America, Europe and Other.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

5 Segment information

Primary reporting format – business segments

	Flat steel products	Long steel products	Other	Unallocated	Total
Year ended December 31, 2005					
Net sales	3,570,414	625,368	251,898	-	4,447,680
Cost of sales	<u>(1,925,163)</u>	<u>(382,325)</u>	<u>(163,356)</u>	-	<u>(2,470,844)</u>
Gross profit	1,645,251	243,043	88,542	-	1,976,836
Capital expenditures - PP&E	208,772	14,587	-	-	223,359
Depreciation - PP&E	267,975	32,604	1,387	-	301,966
Segment assets					
Inventories, net	859,270	126,536	14,313	-	1,000,119
Trade receivables, net	363,573	74,925	34,262	-	472,760
PP&E, net	4,653,192	749,305	61,374	-	5,463,871
Other assets	-	-	-	1,723,231	1,723,231
Segment liabilities	1,566,451	193,247	31,117	3,293,247	5,084,062
Year ended December 31, 2004					
	Flat steel products	Trading	Other	Unallocated	Total
Net sales	1,266,197	325,227	7,501	-	1,598,925
Cost of sales	<u>(647,815)</u>	<u>(312,447)</u>	<u>(4,742)</u>	-	<u>(965,004)</u>
Gross profit	618,382	12,780	2,759	-	633,921
Capital expenditures - PP&E	83,763	-	-	-	83,763
Depreciation - PP&E	92,596	86	-	-	92,682
Segment assets					
Inventories, net	233,624	20,100	562	-	254,286
Trade receivables, net	111,945	58,877	783	-	171,605
PP&E, net	1,244,294	397	-	-	1,244,691
Investment in Amazonia	309,195	-	-	-	309,195
Other assets	468,673	95,047	-	103,133	666,853
Segment liabilities	635,461	143,629	-	95,689	874,779

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

5 Segment information (continued)

Year ended December 31, 2003	Flat steel products	Trading	Other (ii)	Unallocated	Total
Net sales	955,591	98,261	2,714	-	1,056,566
Cost of sales	(576,368)	(93,276)	(2,076)	-	(671,720)
Gross profit	379,223	4,985	638	-	384,846
Capital expenditures - PP&E	26,014	-	-	-	26,014
Depreciation - PP&E	81,720	29	-	-	81,749
Segment assets					
Inventories, net	140,754	3,167	386	-	144,307
Trade receivables, net	81,504	26,922	30	-	108,456
PP&E, net	1,275,477	222	-	-	1,275,699
Investment in Amazonia	151,543	-	-	-	151,543
Other assets	360,492	37,888	-	108,503	506,883
Segment liabilities	795,102	52,982	-	86,719	934,803

(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 expenditures is based on the assets' location.

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

Year ended December 31, 2005	South and Central America	North America	Europe	Other	Total
Net sales	2,805,214	1,290,353	270,496	81,617	4,447,680
Segment assets.					
Trade receivables	64,837	335,795	68,050	4,078	472,760
Property, plant and equipment	3,409,045	2,054,687	139	-	5,463,871
Depreciation - PP&E.	249,808	52,132	26	-	301,966
Capital expenditures – PP&E	180,867	42,473	19	-	223,359
Year ended December 31, 2004					
Net sales	1,123,692	230,829	212,373	32,031	1,598,925
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
Depreciation - PP&E.	92,626	25	31	-	92,682
Capital expenditures – PP&E	83,763	-	-	-	83,763
Year ended December 31, 2003					
Net sales	713,265	86,618	184,033	72,650	1,056,566
Segment assets					
Trade receivables	35,529	7,744	63,930	1,253	108,456
Property, plant and equipment	1,275,542	29	128	-	1,275,699
Depreciation - PP&E	81,720	7	22	-	81,749
Capital expenditures – PP&E	26,014	-	-	-	26,014

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

6 Cost of sales

	Year ended December 31,		
	2005	2004	2003
Inventories at the beginning of the year	254,286	144,307	109,966
Acquisition of business – Amazonia	284,676	-	-
Acquisition of business - Hylsamex	345,053	-	-
Plus: Charges for the year			
Raw materials and consumables used and other movements	1,607,002	781,337	453,590
Services and fees	114,115	42,277	37,782
Labor cost	283,775	89,362	68,053
Depreciation of property, plant and equipment	279,480	89,836	78,996
Amortization of intangible assets	10,488	5,400	2,871
Maintenance expenses	207,242	62,488	57,888
Office expenses	5,174	1,145	1,214
Freight and transportation	41,457	18,746	14,574
Insurance	814	815	607
Provision for obsolescence	7,927	-	-
Recovery from sales of scrap and by-products	(35,266)	(23,315)	(13,714)
Others	64,740	6,892	4,200
Less: Inventories at the end of the year	(1,000,119)	(254,286)	(144,307)
	2,470,844	965,004	671,720

7 General and administrative expenses

	Year ended December 31,		
	2005	2004	2003
Services and fees	40,471	12,479	9,117
Labor cost	119,822	15,105	17,159
Depreciation of property plant and equipment	22,486	2,846	2,753
Amortization of intangible assets	3,308	440	438
Maintenance and expenses	7,564	2,162	1,452
Taxes	35,787	17,977	13,665
Office expenses	21,147	1,346	1,155
Donations	3,242	1,061	1,767
Insurance	4,410	529	685
Others	10,994	4,483	3,366
	269,231	58,428	51,557

8 Selling expenses

	Year ended December 31,		
	2005	2004	2003
Services and fees	13,237	3,249	3,582
Labor cost	22,578	9,144	9,271
Amortization of intangible assets	643	670	421
Office expenses	6,229	194	240
Freight and transportation	198,657	42,354	46,257
Taxes	9,321	3,934	2,251
Others	1,297	979	764
	251,962	60,524	62,786

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

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

	Year ended December 31,		
	2005	2004	2003
Wages, salaries and social security costs	361,250	104,268	83,087
Termination benefits	40,364	7,969	10,419
Pension benefits – defined benefit plans (Note 26 (i))	24,561	1,374	977
	426,175	113,611	94,483

10 Other operating expenses, net

	Year ended December 31,		
	2005	2004	2003
(i) Other operating income			
Others	6,543	502	75
Total other operating income	6,543	502	75
(ii) Other operating expenses			
Provision for impairment- trade receivables	(1,853)	(1,093)	(6,025)
Recovery of provision for impairment- trade receivables	4,320	3,419	4,701
Provision for legal claims and other matters	(13,586)	(2,714)	(3,975)
Others	(4,558)	(912)	(497)
Total other operating expenses	(15,677)	(1,300)	(5,796)
(iii) Derecognition of property, plant & equipment (a)	(54,348)	-	-
Total other operating expenses, net	(63,482)	(798)	(5,721)

(a) After the acquisition of Hylsamex described in Note 3, the Company's management decided to abandon one of Hylsamex's mills and, accordingly, the net carrying amount of such mill has been charged to income for the year.

11 Financial (expenses) income, net

	Year ended December 31		
	2005	2004	2003
Interest expense	(81,608)	(18,257)	(39,980)
Interest income	32,324	8,911	6,036
Net foreign exchange transaction gains and change in fair value of derivative instruments	(28,828)	9,845	37,787
Bank commissions and other bank charges	(10,015)	(1,506)	(1,719)
Income from Participation Account (i)	44,050	203,429	73,913
Loss from Participation Account (i)	(265,207)	-	-
Others	(1,452)	(133)	(431)
Financial (expenses) income, net	(310,736)	202,289	75,606

(i) Until February 15, 2005, the Company accounted for its investment in Amazonia under the equity method of accounting. Thus, income arising from the Participation Account Agreement described in Note 29 has been recorded under Income from Participation Account within Financial income, net. Upon conversion of the Amazonia Convertible Debt Instrument on February 15, 2005, the Company acquired control over Amazonia and began accounting for such investment on a consolidated basis. Accordingly, income resulting from Ternium's share of the Participation Account has been offset against Amazonia's loss for the same concept and shown net under Loss from Participation Account line item.

12 Equity in earnings of associated companies

	Year ended December 31,		
	2005	2004	2003
Equity in earnings of associated companies (Note 16)	21,524	60,908	148,162
Impairments (i) (Note 16)	-	148,293	(37,912)
Equity in earnings of associated companies	21,524	209,201	110,250

(i) The accumulated impairment loss over the Company's investment in Amazonia at December 31, 2003 (totaling USD 148,293) was fully reversed in fiscal year 2004.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

13 Tax charge

Income tax

Income tax expense for each of the years presented is as follows

	Year ended December 31,		
	2005	2004	2003
Current tax	(243,482)	(209,147)	(60,625)
Deferred tax (Note 25)	24,990	31,661	(33,462)
	(218,492)	(177,486)	(94,087)

Income tax expense for the years ended December 31, 2004 and 2003 differed from the amount computed by applying the statutory income tax rate in force in each country in which the company operates to pre-tax income as a result of the following:

	Year ended December 31,		
	2005	2004	2003
Income before income tax	1,291,305	925,661	450,638
Income tax expense at statutory tax rate	271,953	179,827	94,727
Non taxable income	(70,115)	(2,341)	(1,289)
Non deductible expenses	19,196	-	649
Utilization of previously unrecognized tax losses	(2,542)	-	-
Income tax expense	218,492	177,486	94,087

14 Property, plant and equipment, net

Year ended December 31, 2005	Land	Building and improvements	Production equipment	Vehicles, furniture and fixtures	Work in progress	Spare parts	Total
Cost							
Values at the beginning of the year	23,427	682,576	2,217,688	141,212	36,865	16,331	3,118,099
Translation differences	(6,243)	(98,975)	(266,065)	(6,484)	(10,094)	(382)	(388,243)
Acquisition of business – Amazonia	55,815	959,849	2,473,696	42,231	94,370	-	3,625,961
Acquisition of business – Hylsamex	235,479	547,183	2,881,273	68,959	49,872	-	3,782,766
Additions	266	7,539	42,747	2,633	165,966	4,208	223,359
Disposals / Consumptions	-	(29,029)	(83,352)	(3,396)	-	(1,538)	(117,315)
Transfers	6,252	59,808	115,457	5,379	(186,896)	-	-
Values at the end of the year	314,996	2,128,951	7,381,444	250,534	150,083	18,619	10,244,627
Depreciation							
Accumulated at the beginning of the year	-	(392,996)	(1,368,813)	(109,797)	-	(1,802)	(1,873,408)
Translation differences	-	61,210	107,768	3,773	-	(2)	172,749
Acquisition of business – Amazonia	-	(480,581)	(688,188)	(12,903)	-	-	(1,181,672)
Acquisition of business – Hylsamex	-	(274,824)	(1,330,310)	(48,307)	-	-	(1,653,441)
Depreciation Charge	-	(68,442)	(221,566)	(11,801)	-	(157)	(301,966)
Disposals / Consumptions	-	14,207	39,929	1,806	-	1,040	56,982
Accumulated at the end of the year	-	(1,141,426)	(3,461,180)	(177,229)	-	(921)	(4,780,756)
At December 31, 2005	314,996	987,525	3,920,264	73,305	150,083	17,698	5,463,871

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

14 Property, plant and equipment, net (continued)

Year ended December 31, 2004	Land	Building and improvements	Production equipment	Vehicles, furniture and fixtures	Work in progress	Spare parts	Total
Cost							
Values at the beginning of the year	23,856	644,233	2,233,218	141,874	29,797	14,187	3,087,165
Translation differences	(392)	(11,212)	(36,999)	(2,346)	(585)	(263)	(51,797)
Additions	-	-	-	970	80,386	2,407	83,763
Disposals / Consumptions	(37)	-	-	(187)	(808)	-	(1,032)
Transfers	-	49,555	21,469	901	(71,925)	-	-
Values at the end of the year	<u>23,427</u>	<u>682,576</u>	<u>2,217,688</u>	<u>141,212</u>	<u>36,865</u>	<u>16,331</u>	<u>3,118,099</u>
Depreciation							
Accumulated at the beginning of the year	-	(374,761)	(1,329,670)	(105,504)	-	(1,531)	(1,811,466)
Translation differences	-	6,439	22,525	1,576	-	30	30,570
Depreciation charge	-	(24,674)	(61,668)	(6,039)	-	(301)	(92,682)
Disposals / Consumptions	-	-	-	170	-	-	170
Accumulated at the end of the year	<u>-</u>	<u>(392,996)</u>	<u>(1,368,813)</u>	<u>(109,797)</u>	<u>-</u>	<u>(1,802)</u>	<u>(1,873,408)</u>
At December 31, 2004	<u>23,427</u>	<u>289,580</u>	<u>848,875</u>	<u>31,415</u>	<u>36,865</u>	<u>14,529</u>	<u>1,244,691</u>

15 Intangible assets, net

Year ended December 31, 2005	Information System Projects	Mining Concessions	Goodwill	Total
Cost				
Values at the beginning of the year	20,547	-	-	20,547
Translation differences	(1,767)	(603)	(5,694)	(8,064)
Acquisition of business – Amazonia	7,465	-	-	7,465
Acquisition of business – Hylsamex	11,172	127,101	-	138,273
Additions	21,144	436	405,388	426,968
Disposals	(77)	-	-	(77)
Values at the end of the year	<u>58,484</u>	<u>126,934</u>	<u>399,694</u>	<u>585,112</u>
Amortization				
Accumulated at the beginning of the year	(10,498)	-	-	(10,498)
Translation differences	806	-	-	806
Acquisition of business – Amazonia	(2,906)	-	-	(2,906)
Acquisition of business – Hylsamex	(5,193)	-	-	(5,193)
Amortization charge	(10,115)	(4,324)	-	(14,439)
Accumulated at the end of the year	<u>(27,906)</u>	<u>(4,324)</u>	<u>-</u>	<u>(32,230)</u>
At December 31, 2005	<u>30,578</u>	<u>122,610</u>	<u>399,694</u>	<u>552,882</u>

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

15 Intangible assets, net (continued)

Year ended December 31, 2004	Information System Projects
Cost	
Values at the beginning of the year	12,055
Translation differences	(308)
Additions	8,800
Values at the end of the year	<u>20,547</u>
Amortization	
Accumulated at the beginning of the year	(4,074)
Translation differences	86
Amortization charge	(6,510)
Accumulated at the end of the year	<u>(10,498)</u>
At December 31, 2004	<u>10,049</u>

16 Investments in associated companies, net

	Year ended December 31,	
	2005	2004
At the beginning of the year	309,318	151,672
Translation adjustment	(3,554)	(51,555)
Equity in earnings of associated companies	21,524	60,908
Consolidation of Amazonia (see Note 3)	(318,166)	-
Impairments (Note 12)	-	148,293
At the end of the year	<u>9,122</u>	<u>309,318</u>

The principal associated companies, all of which are unlisted, are:

Company	Country of incorporation	Percentage of ownership at December 31,		Value at December 31,	
		2005	2004	2005	2004
Matesi Materiales Siderúrgicos S.A. (1)	Venezuela	26.49%	-	9,002	-
Consorcio Siderurgia Amazonia Ltd. (2)	Cayman Islands	-	31.03%	-	309,195
Compañía Afianzadora de Empresas Siderúrgicas S.G.R (3)	Argentina	21.81%	19.74%	120	123
				<u>9,122</u>	<u>309,318</u>

- (1) Indirectly through the participation of Sidor (49.8%).
- (2) 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%.
- (3) Indirectly through the participation of Siderar (38.89%). Total voting rights held: 38.89%.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

16 Investments in associated companies, net (continued)

The equity investment in Amazonia at December 31, 2004 has been valued using the financial statements of that company at that date. The accompanying table shows summarized financial information of Amazonia at December 31, 2004.

	As of December 31, 2004
Non-current assets	1,775,801
Current assets	881,875
Total assets	2,657,676
Shareholders' equity	746,157
Minority interest	595,912
Total shareholders' equity	1,342,069
Non-current liabilities	693,640
Current liabilities	621,967
Total liabilities	1,315,607
	Year ended December 31, 2004
Net sales	1,914,308
Income tax and asset tax expense	(8,342)
Net income for the year attributable to equity holders	146,324
Net income for the year attributable to minority interest	116,999

17 Other investments, net – non-current

	As of December 31,	
	2005	2004
Amazonia convertible debt instrument (Note 29)	-	127,576
Time deposits with related parties (i)	10,450	11,171
Guarantee fund Compañía Afianzadora de Empresas Siderúrgicas S.G.R. (ii)	3,402	3,949
Other	243	7,874
Provision for impairment of other investments (Note 23 (i))	(1,488)	(2,001)
Total	12,607	148,569

(i) *Time deposits with related parties*

The Company holds a savings fund denominated in U.S. dollars. Withdrawal of investments before certain dates is subject to penalties on amounts invested.

(ii) *Guarantee fund Compañía de Empresas Siderúrgicas S.G.R.*

Corresponds to the Company's portion of the risk funds sponsored by Compañía Afianzadora de Empresas Siderúrgicas SGR, which acts as guarantor of third parties' debts.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

18 Receivables, net – non-current

	As of December 31,	
	2005	2004
Related parties	39,285	12,293
Employee advances and loans	6,323	1,516
Trade receivables	3,474	3,404
Employee receivables from sale of fixed assets	1,729	1,861
Others	76	113
Provision for impairment – receivables (Note 23 (i))	(3,024)	(3,404)
	47,863	15,783

19 Receivables - current

	As of December 31,	
	2005	2004
Value added tax	55,326	-
Asset tax	60,312	-
Prepaid taxes	2,894	2,534
Employee advances and loans	5,943	1,919
Advances to suppliers	58,839	11,815
Expenses paid in advance	15,172	688
Government tax refunds on exports	36,425	6,534
Receivables with related parties	35,548	160,230
Other	20,843	24,979
	291,302	208,699

20 Inventories, net

	As of December 31,	
	2005	2004
Raw materials, materials and spare parts	578,088	125,711
Goods in process	282,358	71,228
Finished goods	192,492	69,871
Provision for obsolescence (Note 24 (i))	(52,819)	(12,524)
	1,000,119	254,286

21 Trade receivables, net

	As of December 31,	
	2005	2004
Current accounts	487,952	169,180
Trade receivables with related parties	14,659	13,179
Provision for impairment – trade receivables (Note 24 (i))	(29,851)	(10,754)
	472,760	171,605

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

22 Cash, cash equivalents and other investments

	As of December 31,	
	2005	2004
(i) Other investments		
Trust funds with specific objective	5,185	88,755
	5,185	88,755
(ii) Cash and cash equivalents		
Cash at banks and in hand	117,737	32,825
Deposits and foreign private sector bonds	637,243	162,050
Restricted cash	10,650	-
	765,630	194,875

23 Provisions – non current

(i) *Deducted from assets*

	Provision for Impairment- Receivables	Provision for impairment Other investments - non current
Year ended December 31, 2005		
Values at the beginning of the year	3,404	2,001
Translation differences	(47)	(17)
Reversals	(333)	-
Uses	-	(496)
At December 31, 2005	3,024	1,488
Year ended December 31, 2004		
Values at the beginning of the year	6,894	2,035
Translation differences	(71)	(34)
Reversals	(3,419)	-
At December 31, 2004	3,404	2,001

(ii) *Liabilities*

	Legal claims and other matters
Year ended December 31, 2005	
Values at the beginning of the year	11,925
Translation differences	(4,349)
Acquisition of business - Amazonia	37,163
Additional provisions	9,240
Used	(500)
At December 31, 2005	53,479
Year ended December 31, 2004	
Values at the beginning of the year	9,859
Translation differences	(173)
Additional provisions	2,239
At December 31, 2004	11,925

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

24 Provisions - current

(i) *Deducted from assets*

	Provision for impairment – trade receivables	Provision for obsolescence
Year ended December 31, 2005		
Values at the beginning of the year	10,754	12,524
Translation differences	(418)	(1,802)
Reversals	(3,987)	-
Acquisition of business – Amazonia	6,108	13,184
Acquisition of business – Hylsamex	24,509	24,713
Additional provisions	1,853	7,927
Uses	(8,968)	(3,727)
At December 31, 2005	29,851	52,819
Year ended December 31, 2004		
Values at the beginning of the year	9,877	13,925
Translation differences	(216)	(215)
Reversals	-	(3,234)
Additional provisions	1,093	2,048
At December 31, 2004	10,754	12,524

(ii) *Liabilities*

	Legal claims and other matters
Year ended December 31, 2005	
Values at the beginning of the year	960
Translation differences	(6)
Additional provisions	4,346
Uses	(4,641)
At December 31, 2005	659
Year ended December 31, 2004	
Values at the beginning of the year	1,584
Translation differences	(19)
Additional provisions	475
Uses	(1,080)
At December 31, 2004	960

25 Deferred income tax

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rate of the applicable country.

The movement on the deferred income tax account is as follows:

	Year ended December 31,	
	2005	2004
At beginning of year	(337,473)	(374,907)
Acquisition of business – Amazonia	(284,242)	-
Acquisition of business - Hylsamex	(426,786)	-
Translation differences	4,449	5,773
Income statement credit	24,990	31,661
At end of year	(1,019,062)	(337,473)

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

25 Deferred income taxes (continued)

The tax effects of temporary differences that give rise to significant portions of the group's deferred tax assets and liabilities are presented below:

	As of December 31,	
	2005	2004
Deferred tax assets:		
Receivables	23,217	-
Inventories	12,708	-
Other assets	7,941	1,638
Tax loss carryforwards	18,188	12,879
Tax assets	79,983	-
Provisions	9,918	4,504
Other liabilities	124,298	9,480
Total gross deferred tax assets	276,253	28,501
Deferred tax liabilities:		
Property, plant and equipment & Intangible Assets	(1,115,262)	(363,605)
Inventories	(39,353)	(75)
Provision	(67,915)	-
Other	(72,785)	(2,294)
Total gross deferred tax liabilities	(1,295,315)	(365,974)
Net deferred tax liability	(1,019,062)	(337,473)

Deferred tax assets and liabilities are offset when the entity a) has a legally enforceable right to set off the recognized amounts; and b) intends to settle the tax on a net basis or to realize the asset and settle the liability simultaneously.

As of December 31, 2005 and 2004, USD 29,126 and USD nil, respectively, have been classified as non-current assets and USD 1,048,188 and 337,473, respectively, have been classified as non-current liabilities.

26 Other liabilities

	As of December 31,	
	2005	2004
(i) Other liabilities - non-current		
Termination benefits	3,118	2,987
Pension benefits	177,899	6,117
Other	6,900	-
	187,917	9,104

Pension benefits

The amounts recognized in the combined consolidated balance sheet are determined as follows:

	Year ended December 31,	
	2005	2004
Present value of unfunded obligations	172,394	8,558
Unrecognized actuarial losses	8,594	1,086
Unrecognized prior service costs	(3,089)	(3,527)
Liability in the balance sheet	177,899	6,117

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

26 Other liabilities (continued)

The amounts recognized in the combined consolidated income statement are as follows:

	Year ended December 31,	
	2005	2004
Current service cost	7,227	317
Interest cost	17,785	636
Amortization of prior service costs	443	420
Net actuarial losses (gains) recognized in the year	(894)	1
Total included in labor costs	24,561	1,374

Movement in the liability recognized in the combined consolidated balance sheet is as follows:

	Year ended December 31,	
	2005	2004
At the beginning of the year	6,117	5,479
Acquisition of business – Amazonia	78,425	-
Acquisition of business - Hylsamex	116,860	-
Transfers and new participants of the plan	(25,153)	122
Total expense	24,560	1,374
Translation differences	(9,549)	-
Contributions paid	(13,361)	(858)
At the end of year	177,899	6,117

The principal actuarial assumptions used were as follows:

Siderar	Year ended December 31,	
	2005	2004
Discount rate	7.00 %	7.00 %
Rate of compensation increase	2.00 %	2.00 %

Sidor	Year ended December 31,	
	2005	2004
Discount rate	23.32 %	-
Rate of compensation increase	16.34 %	-

Hylsamex	Year ended December 31,	
	2005	2004
Discount rate	8.67 %	-
Rate of compensation increase	4.54 %	-

	As of December 31,	
	2005	2004
(ii) Other liabilities – current		
Payroll and social security payable	67,639	23,135
Termination benefits	18,966	2,163
Participation account	90,186	-
Related Parties	17	-
Others	17,265	7,990
	194,073	33,288

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

27 Derivative financial instruments

Net fair values of derivative financial instruments

The net fair values of derivative financial instruments at December 31, 2005 and 2004 were as follows:

	Year ended December 31,	
	2005	2004
Contracts with positive fair values:		
Forward foreign exchange contracts	86	-
Interest rate Swap contracts	5,316	-
	5,402	-
	Year ended December 31,	
	2005	2004
Contracts with negative fair values:		
Forward foreign exchange contracts	-	(5,956)
	-	(5,956)

Derivative financial instruments breakdown are as follows:

Exchange rate derivatives

		Fair value at December 31,		
Currencies	Contract	Notional amount at December 31, 2005 (in USD thousands)	2005	2004
USD/EUR	Euro forward sales	1,400	86	(5,622)
USD/GBP	Pound Sterling forward sales	-	-	(334)
			86	(5,956)

Interest rate swaps

On September 1, 2005, III BVI entered into a USD 250 million interest rate swap agreement with Citibank N.A., New York to manage the impact of the floating interest rate changes on the Ternium Credit Facility by setting the interest rate to 4.235% per annum. This interest rate swap is due on August 22, 2010 and provides for semi-annual payments on February 22 and August 22 of each year, commencing on August 22, 2006 through and including the termination date. The notional amount and schedule of payments provided by this agreement are as follows:

Calculation period		Notional amount (USD thousands)
From and including	To but excluding	
February 22, 2006	August 22, 2006	250,000
August 22, 2006	February 22, 2007	226,250
February 22, 2007	August 22, 2007	201,250
August 22, 2007	February 22, 2008	176,250
February 22, 2008	August 22, 2008	148,750
August 22, 2008	February 22, 2009	121,250
February 22, 2009	August 22, 2009	93,750
August 22, 2009	February 22, 2010	66,250
February 22, 2010	August 22, 2010	33,750

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

27 Derivative financial instruments (continued)

In addition, on September 1, 2005, Siderar entered into two interest rate swap agreements with JP Morgan Chase Bank N.A. and Deutsche Bank AG with a notional amount of USD 100 million each to manage its exposure to changes in market rates associated with the Siderar Credit Facility by setting the interest rate to 4.18% and 4.20% per annum, respectively. These interest rate swaps are due on August 22, 2008 and provide for semi-annual payments on February 22 and August 22 of each year, commencing on August 22, 2006 through and including the termination date. The notional amount and schedule of payments provided by these agreements are as follows:

Calculation period		Notional amount (USD thousands)
From and including	To but excluding	
February 22, 2006	August 22, 2006	100,000
August 22, 2006	February 22, 2007	80,000
February 22, 2007	August 22, 2007	60,000
August 22, 2007	February 22, 2008	40,000
February 22, 2008	August 22, 2008	20,000

28 Borrowings

	Year ended December 31,	
	2005	2004
(i) Non-current		
Bank borrowings	1,810,910	1,008
Borrowings with related parties	603,683	-
	2,414,593	1,008
Less: debt issue costs	(14,715)	-
	2,399,878	1,008
(ii) Current		
Bank borrowings	518,629	45,628
Others	-	443
Borrowings with related parties	3,789	75,927
	522,418	121,998
Less: debt issue costs	(6,019)	-
	516,399	121,998
Total Borrowings	2,916,277	123,006

The maturity of borrowings is as follows:

At December 31, 2005	Expected maturity date						Total ⁽¹⁾
	2006	2007	2008	2009	2010	Thereafter	
Non-Current Debt							
Fixed Rate	-	83,594	21,947	1,811	1,811	35,495	144,658
Floating Rate	-	463,349	713,693	265,844	208,651	603,683	2,255,220
Current Debt							
Fixed Rate	121,829	-	-	-	-	-	121,829
Floating Rate	394,570	-	-	-	-	-	394,570
Total	516,399	546,943	735,640	267,655	210,462	639,178	2,916,277

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

28 Borrowings (continued)

	Expected maturity date						Total ⁽¹⁾
	2005	2006	2007	2008	2009	Thereafter	
At December 31, 2004							
Non-Current Debt							
Fixed Rate	-	-	-	-	-	-	-
Floating Rate	-	783	225	-	-	-	1,008
Current Debt							
Fixed Rate	102,583	-	-	-	-	-	102,583
Floating Rate	19,415	-	-	-	-	-	19,415
Total	<u>121,998</u>	<u>783</u>	<u>225</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>123,006</u>

(1) As most borrowings incorporate floating rates that approximate market rates and the contractual repricing occurs every 3 to 6 months, the fair value of the borrowings approximates 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 "New Trade Facility" for a total of USD 309.3 million and a "New FRN Facility" for a total of USD 79.0 million.

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:

	December 31,	
	2005	2004
Bank borrowings	6.08%	2.25%

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

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

Bank borrowings

Currency	Interest rates	December 31,	
		2005	2004
USD	Variable	2,200,543	18,091
USD	Fixed	609,293	102,583
EUR	Variable	-	2,332
EUR	Fixed	404	-
ARS	Fixed	55	-
MXN	Variable	64,822	-
VEB	Fixed	41,160	-
Total bank borrowings		<u>2,916,277</u>	<u>123,006</u>

EUR: Euro; ARS: Argentine pesos; MXN: Mexican pesos; VEB: Venezuelan Bolivar

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

29 Contingencies, commitments and restrictions on the distribution of profits

Ternium is involved in litigation arising from time to time in the ordinary course of business. Based on management's assessment and the advice of legal counsel, it is not anticipated that the ultimate resolution of existing litigation will result in amounts in excess of recorded provisions that would be material to Ternium's combined consolidated financial position or results of operations.

(i) Consorcio Siderurgia Amazonia, Ltd. - Debt restructuring process

The financial restructuring of Sidor and Amazonia, which concluded during 2003 (the "2003 Restructuring"), entailed the termination of certain guarantees and commitments to further finance Amazonia and Sidor that Ternium had entered into as a result of the privatization of Sidor and previous restructuring agreements. The restructuring agreements contemplate, however, certain continuing obligations and restrictions to protect the claims held by the financial creditors of Sidor. These obligations and restrictions include pledges over all of Amazonia's existing shares and shares of Sidor held in its possession, which were released in July 2005.

During 2003, as part of the 2003 Restructuring, Ternium acquired a 64.31% equity stake in Ylopa, a special purpose vehicle incorporated in Madeira, created to support Sidor and Amazonia in their financial restructuring. The acquisition was made by means of an aggregate cash contribution of USD 135 million (USD 94 million contributed by the majority shareholders of the Company and USD 41 million contributed by the minority shareholders), primarily in the form of debt. As a result of the consummation of the 2003 Restructuring, Ylopa: (a) became Sidor's creditor (in a "Participation Account Agreement") of a loan bearing interest at an annual rate of 8%, payable if and when Sidor reaches certain financial goals, and (b) received debt instruments of Amazonia, convertible into 67.4% of the common stock of Amazonia at Ylopa's option ("the Amazonia convertible debt instrument"). Such convertible debt instrument was accounted for at cost.

The Amazonia convertible debt instrument was convertible into Amazonia's common stock as from February 2005, but the option had to be exercised in a specific 15-day period during that month. Otherwise, the holders of the Amazonia convertible debt instrument would not be able to exercise the conversion option until February 2006. This conversion scheme was applicable every year until maturity. On February 3, 2005 Ylopa exercised its option to convert its convertible debt instrument into Amazonia's common stock. As a result of this conversion, Ternium's indirect participation in Amazonia increased from 31.03% to 53.47%, thereby increasing its indirect participation in Sidor from 18.53% to 31.94%. With the increase in equity ownership of Amazonia to 53.47%, the Company has effective control.

As a result of the Participation Account Agreement described above, Ternium recognized a gain of USD 203.4 million and USD 73.9 million during the years ended December 31, 2004 and 2003, respectively, representing the amounts of the rights to receive the compensation payable for its participation in Sidor's 2003 restructuring according to the terms of the agreement. Such compensation in the form of cash payments has been distributed on a semi-annual basis since October 2003. As from January 2005, Sidor began making those cash payments on a quarterly basis. This agreement has a term of 14 years, or until the fiscal year prior to the date of the settlement in full of certain bank borrowings (BANDES) due by Sidor. Also, it was agreed that any such compensation collected by Ylopa in excess of the accumulated amount of USD 324 million, must be transferred to Amazonia., while Corporación Venezolana de Guayana ("CVG") is not subject to any limitation to its entitlement. During the three-month period ended March 31, 2005, the accumulated compensation payable for the participation in Sidor's 2003 restructuring reached the cap.

As of December 31, 2005, the Participation Agreement provides that 40.27% of the compensation payable by Sidor goes to the Venezuelan Government and the remaining goes to Amazonia. These percentages are equal to the equity participation of the Venezuelan Government and Amazonia in Sidor.

(ii) Consorcio Siderurgia Amazonia Ltd. - PDVSA-Gas C.A. claim

In June 2004, the arbitration proceedings brought by Sidor against PDVSA Gas, C.A. (on the basis that PDVSA Gas had charged Sidor higher than agreed-upon prices in its supplies of gas against the application of the most favored client clause) were resolved in Sidor's favor. Accordingly, in its financial statements at December 31, 2004, Sidor reversed the USD41.4 million provision it had recorded at December 31, 2003. In July 2004, PDVSA Gas, C.A. filed an appeal with the Venezuelan courts seeking to void the arbitral award. Sidor believes that applicable Venezuelan law does not allow the courts to void an arbitral award under the circumstances and that the likelihood of loss thereunder is remote. Accordingly, Sidor did not record any liabilities in connection with the appeal. At December 31, 2005, Sidor's potential exposure under this litigation amounted to USD94.3 million.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

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

(iii) Consorcio Siderurgia Amazonia Ltd .- Pension plan

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 probable that Sidor be subject to additional obligations in this respect. In the 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 USD 56 million.

(iv) Tax claims

(a) Siderar. AFIP – Income tax claim for fiscal years 1995 to 1999

The *Administración Federal de Ingresos Públicos* ("AFIP" – the Argentine tax authority) has challenged the charge to income of certain disbursements that Siderar has treated as expenses necessary to maintain industrial installations, which as such should be deducted in the year in which they take place. The AFIP asserts that these are investments or improvements that must be capitalized and, therefore, it made a jeopardy assessment of income tax due on a nominal tax basis plus fines and interest in fiscal years 1995 to 1999 amounting to approximately USD 20.4 million.

The Company appealed these assessments before the National Tax Court, as in the view of its legal and tax advisors, based on existing evidence and the work performed by the Tax Authorities, the Company would likely obtain a favorable ruling.

On April 13, 2005 the Company was notified of a ruling issued by the National Tax Court reducing the assessments made by the AFIP for fiscal years 1995 and 1996 from USD 16.6 million to USD 3.1 million and instructing the recalculation of taxes in accordance with this ruling. Based on the above, the Company recognized a provision amounting to USD 4.6 million as of December 31, 2005 as management considers there is a probable outflow of benefits.

(b) Amazonia

At December 31, 2004, Sidor recorded a provision for a total amount of USD 23.2 million in connection with tax matters. Among these claims, the most significant is the tax assessment brought by SENIAT, the Venezuelan tax and customs authority, in the third quarter of 2001, questioning the application of VAT credits arising from exports totaling USD5.2 million to offset tax liabilities. While the validity of such tax credits was not under discussion, the SENIAT questioned the application of such tax credits as payment on account of Sidor's asset tax and other tax obligations. The Group recorded a provision in an amount of USD17.5 million in connection with this claim, representing the aggregate amount that SENIAT could claim as accrued interest under the Venezuelan tax code.

(v) Commitments

The following are the Company's main off-balance sheet commitments:

(a) In March 2003, Siderar entered into an agreement with Tecpetrol under which Siderar paid USD17.3 million for the advance purchase of a total of 725 million cubic meters (up to 400 thousand daily cubic meters) of natural gas to be delivered over a period of 5 years on pricing terms that will enable it to share through discounts the impact of any increase in natural gas prices over that period with Tecpetrol. Under the terms of the agreement, Siderar will have a minimum guaranteed return on this advance payment equal to LIBOR plus 3.5%.

(b) Siderar entered into a contract with Tenaris, for the supply of steam generated at the power generation facility that Tenaris owns in the compound of the Ramallo facility of Siderar. Under this contract, Tenaris has to provide 250 tn/hour of steam, and Siderar has the obligation to take or pay this volume. Tenaris detected technical problems at this facility that impeded the delivery of certain steam volume. This outsourcing contract is due to terminate in 2018.

(c) On August 20, 2004, Sidor entered into a contract with MATESI Materiales Siderúrgicos S.A., for the supply of hot briquetted iron (HBI). Sidor commits to purchase 29.9% of MATESI's HBI production volume for the term of ten years. In addition, Sidor has the right to increase its proportion on MATESI's production by an extra 19.9 % until reaching a 49.8 % of MATESI's HBI production. Under the contract, the sale price is determined on a cost-plus basis. The contract is renewable for additional three year periods unless Sidor or MATESI object to its renewal more than a year prior to its termination.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

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

(d) Siderar entered into a contract with Transportadora de Gas del Norte (TGN) for gas transportation service. TGN charges Siderar a price that is equivalent a comparable basis to prices paid by other industrial users, and the Argentine government regulates the general framework under which TGN operates. Siderar pays a monthly fee for reserved cubic meter (1,070 thousands m³/day), either it uses it or not.

(e) Sidor's production process requires a large amount of electricity. On August 21, 1997, that company entered into a twenty-year contract with EDELCA, a Venezuelan state-owned company, for the supply of all of Sidor's electricity needs. This contract will terminate in 2018.

(f) Sidor's production process is heavily reliant upon supplies of natural gas. Sidor buys 100% of its natural gas from PDVSA-Gas, a Venezuelan state-owned natural gas supply company. In 1997, Sidor signed a twenty-year contract with PDVSA-Gas for the supply of natural gas.

(g) In 1998, Sidor signed a contract with TAVSA Tubos de Acero de Venezuela S.A. (a Venezuelan seamless steel pipe producer subsidiary of Tenaris), under which it committed to sell up to 90,000 tons of blooms or 130,000 tons of liquid steel per year, until 2013. Purchase price varies in relation to changes in the costs of production.

(h) In 1997 Sidor entered into a twenty-year sales contract with Ferrominera del Orinoco ("FMO") under which it committed to sell, at buyer's requirements, up to 2 million tons per year of pellets to FMO. The price is based on the sale price of FMO's iron ore to Sidor plus and applicable margin. Sidor and FMO entered into an amendment of the 1997 contract on November 11, 2005. The revised contract sets the iron ore price at the lower of the price charged by FMO to its customers (other than certain newly-created state-owned steel producers) in the Venezuelan domestic market, and 80% of a market reference price (which percentage may drop to 70%).

In connection with the iron ore contract, in 1997 Sidor and FMO entered into another agreement under which Sidor committed to sell, upon the request of FMO, up to 2.0 million tons per year of pellets to FMO, at a price based on the sale price at which FMO sells iron ore to Sidor plus an applicable margin paid to Sidor for the production of pellets, which is determined using market references.

(i) Hylsa's production process requires a large amount of electricity. On December 20, 2000, Hylsa entered into a 25-year contract with Iberdrola Energia Monterrey, S.A. de C.V. ("Iberdrola"), a Mexican subsidiary of the Spanish Company Iberdrola Energía, S.A., for the supply of a contracted electrical demand of 143.2 MW. This contract currently supplies approximately 42% of Hylsa's electricity needs with the remainder supplied by CFE, the Mexican State-owned utility. The contract with Iberdrola will terminate in 2027.

(j) Hylsamex S.A. de C.V. and subsidiaries enter into 21 long term operational leasing agreements for the rental of machinery, materials handling equipment, earth moving equipment, computers and assorted vehicles. Total amounts due, from 2006 to 2010, include USD39.1 million in leasing payments. Total loss for lease payments recorded in the year ended December 31, 2005 accounts for USD 10.2 million.

Future minimum lease payments under non-cancellable operating leases are as follows:

<u>Year</u>	<u>USD Thousands</u>
2006	14,506
2007-2010	24,552
Total	39,058

(k) On October 24, 2003, Ternium's subsidiary Siderar, together with Tenaris, entered into a joint gas purchase agreement with Repsol-YPF. Under the agreement, which incorporate certain take-or-pay conditions, Siderar committed to purchase up to 400 million cubic meters of gas during the life of the four year contract, expiring at the end of 2006 at a price to be negotiated by the parties on an annual basis. At December 31, 2004, the parties to the joint agreement fulfilled the purchase commitments originated therein, as a result of which all outstanding obligations resulting from the take-or-pay provisions have ceased to exist.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

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

(vi) Restrictions on the distribution of profits

Under Luxembourg law, at least 5% of net income per year calculated in accordance with Luxembourg law and regulations must be allocated to a reserve until such reserve has reached an amount equal to 10% of the share capital.

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

Shareholders' equity under Luxembourg law and regulations comprises the following captions (amounts in USD thousands):

	At December 31,2005
Share capital	1,396,552
Legal reserve	139,655
Distributable reserves	279,581
Non distributable reserves	980,018
Accumulated deficit at January 1, 2005	(12)
Profit for the year	107,624
Total shareholders equity under Luxembourg GAAP	2,903,418

30 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 1 USD 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 1 USD nominal value each.

As mentioned in Note 1, in October 2005, Usiminas exchanged its 5.32% equity interest in Siderar, its 16.58% equity interest in Amazonia and its 19.11% equity interest in Ylopa and other items for 227,608,254 new shares of the Company. Upon the consummation of this exchange the capital was increased to USD 1,396,552, represented by 1,396,551,887 shares of 1 USD nominal value each.

The Company's combined earnings per share for the years ended December 31, 2004 and 2003 have been calculated based on the assumption that 1,168,943,632 shares were issued and outstanding in each period. For fiscal year 2005, the weighted average of shares outstanding totaled 1,209,476,609 shares.

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the daily weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares assumes that 1,168,943,632 shares were issued and outstanding as of January 1, 2003. Diluted earnings per share have been calculated giving effect to the conversion of the Subordinated Convertible Loans on the date each one was entered into.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

30 Earnings per share (continued)

	2005	2004	2003
Profit attributable to equity holders of the Company	704,406	457,339	218,215
Weighted average number of ordinary shares in issue	1,209,476,609	1,168,943,632	1,168,943,632
Basic earnings per share (USD per share)	0.58	0.39	0.19
Diluted earnings per share (USD per share)	0.54	0.39	0.19

31 Related party transactions

The Company is controlled by San Faustín, which at December 31, 2004 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. For commitments with Related Parties see Note 29.

The following transactions were carried out with related parties:

	Year ended December 31,	
	2005	2004
(i) Transactions		
(a) Sales of goods and services		
Sales of goods to other related parties	36,978	23,665
Sales of services to associated parties	2,905	12,751
Sales of services to other related parties	5,636	1,399
	45,519	37,815
(b) Purchases of goods and services		
Purchases of goods from associated parties	85,636	293,353
Purchases of goods from other related parties	71,205	68,826
Purchases of services from other related parties	21,792	28,662
	178,633	390,841
(c) Financial results		
Income with associated parties	44,697	208,575
Income with other related parties	89	1,745
Expenses with other related parties	(10,043)	(7,843)
	34,743	202,477
(ii) Year-end balances		
(a) Arising from sales/purchases of goods/services		
Receivables from associated parties	71,317	94,401
Receivables from other related parties	18,175	91,301
Payables to associated parties	(13,644)	(78,325)
Payables to other related parties	(17,914)	(40,359)
	(57,934)	67,018
(b) Other investments		
Time deposit	10,450	11,171
(c) Other balances		
Trust fund with other related parties (Note 22)	5,185	88,755
Amazonia convertible debt instrument (Note 17)	-	127,576
Other	-	7,874
	5,185	224,205
(d) Financial debt		
Borrowings with other related parties (Note 28)	(607,472)	(75,927)

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

(iii) Officers and Directors' compensation

The aggregate compensation of Officers and Directors earned during the years ended December 31, 2005 and 2004 amounts to USD 4,485 thousand and 3,050 thousand, respectively. No compensation has been determined or paid to any of its directors during 2003.

32 Cash flow disclosures

	Year ended December 31,		
	2005	2004	2003
(i) Changes in working capital (i)			
Inventories	(133,995)	(114,686)	(19,416)
Receivables and prepayments	3,103	(138,248)	(73,631)
Trade receivables	97,814	(55,273)	22,341
Other liabilities	46,117	10,233	12,163
Trade payables	41,381	93,304	2,881
	<u>54,420</u>	<u>(204,670)</u>	<u>(55,662)</u>
(ii) Income tax accruals less payments			
Tax accrued	218,492	177,486	94,087
Taxes paid	(262,500)	(57,276)	-
	<u>(44,008)</u>	<u>120,210</u>	<u>94,087</u>
(iii) Interest accruals less payments, net			
Interest accrued	81,608	18,257	39,980
Interest paid	(60,256)	(9,174)	(34,552)
	<u>21,352</u>	<u>9,083</u>	<u>5,428</u>

(i) Changes in working capital are shown net of the effect of exchange rate changes.

33 Recently issued accounting pronouncements

1. IFRIC Interpretation No. 8, Scope of IFRS 2

In January 2005, IFRIC issued IFRIC Interpretation No. 8, Scope of IFRS 2 ("IFRIC 8"). The issue addressed in IFRIC 8 is whether IFRS 2 applies to transactions in which the entity cannot identify specifically some or all of the goods or services received. An entity shall apply this Interpretation for annual periods beginning on or after 1 May 2006. Earlier application is encouraged. If an entity applies this Interpretation to a period beginning before 1 May 2006, it shall disclose that fact. The Company's management estimates that the application of this Interpretation will not have a material effect on the Company's financial condition or results of operations.

2. Amendment to IAS 21, The Effects of Changes in Foreign Exchange Rates Net Investment in a Foreign Operation

In December 2005, the International Accounting Standards Board ("IASB") issued an amendment to International Accounting Standard No. 21, "The Effects of Changes in Foreign Exchange Rates Net Investment in a Foreign Operation" ("IAS 21"). The amendment finalizes proposals that were contained in Draft Technical Correction 1 Proposed Amendments to IAS 21 Net Investment in a Foreign Operation published in September 2005 and is applicable for annual periods beginning on or after January 1, 2006. Earlier application is encouraged. The Company's management estimates that the application of this Amendment will not have a material effect on the Company's financial condition or results of operations.

3. IFRIC Interpretation No. 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

In November 2005, IFRIC issued IFRIC Interpretation No. 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies ("IFRC 7"), which provides guidance on how to apply the requirements of International Accounting Standard No. 29 ("IAS 29") in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with IAS 29. An entity shall apply this Interpretation for annual periods beginning on or after 1 March 2006. Earlier application is encouraged. If an entity applies this Interpretation to financial statements for a period beginning before 1 March 2006, it shall disclose that fact. The Company's management estimates that the application of this Interpretation will not have a material effect on the Company's financial condition or results of operations.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

33 Recently issued accounting pronouncements (continued)

4. Amendment to IAS 1, Presentation of Financial Statements

In August 2005, the IASB issued an amendment to International Accounting Standard No. 1 “Presentation of Financial Statements”. This amendment requires companies to disclose certain information about (a) the entity’s objectives, policies and processes for managing capital; (b) quantitative data about what the entity regards as capital; (c) whether the entity has complied with any capital requirements; and (d) if it has not complied, the consequences of such non-compliance. This document finalizes some of the proposals that were contained in Exposure Draft 7 Financial Instruments: Disclosures (ED 7) published in July 2004. The remaining proposals in ED 7 were finalized in IFRS 7 Financial Instruments: Disclosures. Entities shall apply the amendments in this document for annual periods beginning on or after 1 January 2007. Earlier application is encouraged. The Company’s management estimates that the application of this Amendment will not have a material effect on the Company’s financial condition or results of operations.

5. International Financial Reporting Standard No. 7, Financial Instruments: Disclosures

In August, 2005, the IASB issued International Financial Reporting Standard No. 7, Financial Instruments: Disclosures (“IFRS 7”). The objective of IFRS 7 is to require entities to provide disclosures in their financial statements that enable users to evaluate: (a) the significance of financial instruments for the entity’s financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks. The principles in IFRS 7 complement the principles for recognizing measuring and presenting financial assets and financial liabilities in International Accounting Standard No. 32 “Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement”. An entity shall apply this IFRS for annual periods beginning on or after 1 January 2007. Earlier application is encouraged. If an entity applies this IFRS for an earlier period, it shall disclose that fact. The Company’s management estimates that the application of IFRS 7 will not have a material effect on the Company’s financial condition or results of operations.

34 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 derived from their exports.

Ternium aims to neutralize the negative impact of fluctuations in the value of these exports 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.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

34 Financial risk management (continued)

(1) Financial risk factors

(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. Changes in fair value are disclosed under Financial income, net line item in the income statement. 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. The fair value of derivative instruments is disclosed in Note 27.

(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.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

35 Post balance sheet events

The following are the main post balance sheet events:

- (a) As mentioned in Note 3, the Company entered into the Subordinated Convertible Loan Agreements for a total aggregate amount of USD594 million to fund the acquisition of Hylsamex. As per the provisions contained in the Subordinated Convertible Loan Agreements, the Subordinated Convertible Loans would be converted into shares of the Company upon delivery of Ternium's ADSs to the Underwriters. On February 6, 2006 the Company delivered the above mentioned ADSs and, accordingly, the Subordinated Convertible Loans (including interest accrued through January 31, 2006) were converted into shares at a conversion price of USD2 per share, resulting in the issuance of 302,962,261 new shares.
- (b) As mentioned in Note 1, the Company's management used the proceeds from the Initial Public Offering to repay Tranche A of the Ternium Credit Facility. On February 6, 2006, the Company delivered the ADSs to the Underwriters and collected the amount that were used to fully repay Tranche A of the Ternium Credit Facility and to provide for Initial Public Offering related expenses.
- (c) On February 23, 2006 the underwriter exercised the option to purchase 2,298,136 ADSs at the public offering price of USD20 per ADS less an underwriting discount of USD0.55 per ADS.

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

I. Differences in measurement methods

The principal differences between IFRS and US GAAP as they relate to the Company are described below, together with an explanation, where appropriate, of the method used in the determination of the necessary adjustments.

	For the year ended December 31,		
	2005	2004	2003
Net income attributable to equity holders of the Company in accordance with IFRS	704,406	457,339	218,215
US GAAP adjustments – income (expense)			
Valuation of fixed assets- PP&E (Note 36.a)	123,824	79,493	72,890
Troubled debt restructuring (Note 36.b)	14,820	-	-
Accounting for pension plans (Note 36.c)	(991)	(164)	(468)
Inventory valuation (Note 36.d)	(5,882)	(1,628)	(813)
Capitalization of interest cost- PP&E (Note 36.e)	(910)	152	(278)
Capitalization of interest cost- Intangible assets (Note 36.e)	(302)	313	80
Changes in fair value of financial assets through profit and loss (Note 36.f)	50,819	(1,361)	12,147
Equity in investments in associated companies- Amazonia (Note 36.h)	-	(76,926)	24,237
Excess of fair value of assets acquired over cost (Note 36.i)	(170,510)	-	-
Revaluation reserve over pre-acquisition interest in Amazonia (Note 36.j)	5,734	-	-
Acquisition of minority interest in controlled subsidiaries (Note 36.k)	(4,101)	-	-
Valuation of intangible assets and other assets (Note 36.m)	(674)	-	-
Deferred income tax (Note 36.n).....	(51,315)	(27,101)	(29,251)
Minority interest (Note 36.o)	(105,613)	(5,462)	(32,586)
Net income in accordance with US GAAP	<u>559,305</u>	<u>424,655</u>	<u>264,173</u>
Weighted average number of shares outstanding (thousands)	1,209,477	1,168,944	1,168,944
Consolidated basic earnings per share in accordance with US GAAP	0.46	0.36	0.23
Consolidated diluted earnings per share in accordance with US GAAP	0.43	0.36	0.23

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

36 Reconciliation of net income and shareholders' equity to US GAAP (continued)

	As of December 31,	
	2005	2004
Shareholders' equity in accordance with IFRS	1,842,454	1,026,725
Valuation of fixed assets- PP&E (Note 36.a).....	(1,410,264)	(962,453)
Troubled debt restructuring (Note 36.b).....	(12,051)	-
Accounting for pension plans (Note 36.c).....	5,227	1,463
Inventory valuation (Note 36.d)	(14,854)	(7,476)
Capitalization of interest cost- PP&E (Note 36.e)	7,083	5,697
Capitalization of interest cost- Intangible assets (Note 36.e)	344	647
Accounting for convertible debt (Note 36.g).....	-	572,413
Equity in investments in associated companies- Amazonia (Note 36.h)	-	(163,529)
Excess of fair value of assets acquired over cost (Note 36.i)	(267,542)	-
Revaluation reserve over pre-acquisition interest in Amazonia (Note 36.j)	(85,962)	-
Acquisition of minority interest in controlled subsidiaries (Note 36.k)	470,850	-
Equity securities issuance cost (Note 36.l)	5,456	-
Valuation of intangible assets and other assets (Note 36.m)	(1,300)	-
Deferred income tax (Note 36.n)	507,253	336,743
Minority interest (Note 36.o).....	389,944	144,025
Shareholders' equity in accordance with US GAAP	<u>1,436,638</u>	<u>954,255</u>

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

	Year ended December 31,	
	2005	2004
Shareholders' equity (deficit) 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	559,305	424,655
Usiminas exchange	531,088	-
Capital increase	54,758	-
Other comprehensive (loss) income	(424,116)	227,783
Dividends paid in cash and other distributions	(238,652)	(80,886)
Shareholders' equity at the end of the year in accordance with US GAAP	<u>1,436,638</u>	<u>954,255</u>

(a) 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. Thus, 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. The US GAAP adjustment to net income represents the difference in depreciation charge for the year.

(b) 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 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 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 39), that company recorded a USD59.5 million gain on restructuring in fiscal 2003.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

36 Reconciliation of net income and shareholders' equity to US GAAP (continued)

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. The US GAAP adjustment to net income represents the difference in interest expense for the year arising from the application of a different effective interest rate under US GAAP as compared to IFRS.

(c) 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 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 as expenses, 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.

(d) 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 Note 36.a 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.

(e) Capitalization of interest cost

Under IFRS, the Company follows the guidance set forth by International Accounting Standard No. 23 "Borrowing Costs" ("IAS 23"), which states that interest cost should be recognized as an expense in the period in which it is incurred. IAS 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 23. However, for IFRS purposes, the Company elected to follow the general guidance contained in IAS 23 and interest cost has been expensed as incurred.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

36 Reconciliation of net income and shareholders' equity to US GAAP (continued)

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 years ended December 31, 2005, 2004 and 2003. The net US GAAP adjustment also includes amortization of the interest capitalized.

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

The Company had certain investments in trust funds. Under IFRS, the Company carried 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 carried 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"). At December 31, 2005, the Company settled its available-for-sale investments and the unrealized gains recorded within other comprehensive income were reclassified into the statement of income.

(g) Accounting for convertible debt

Under IFRS, the investment in the convertible debt instrument issued by Amazonia was carried at cost. Under US GAAP, this security was valued at its fair value at each balance sheet date with changes in value recorded directly in Other comprehensive income as the Company considered this security to be an "available-for-sale" security as defined by SFAS No. 115. Upon conversion of the Amazonia convertible debt instrument into shares of that company, the amounts previously recorded in Other comprehensive income 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.

(h) Equity in investments in associated companies

Under both IFRS and US GAAP, 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 year ended December 31, 2004, the Company included under this line item the effect of the differences mentioned in items a. to e. above 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. No impairment provision has been recorded under US GAAP.

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

As mentioned in Note 29, 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. 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 year.

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. This adjustment also reflects the effect of the above-mentioned difference on the depreciation of fixed assets, totaling USD 17.8 million.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

36 Reconciliation of net income and shareholders' equity to US GAAP (continued)

(j) Revaluation reserve over pre-acquisition interest in Amazonia

As mentioned in Note 29, on February 3, 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 and other reserves" 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. This adjustment also reflects the effect of the above-mentioned difference on the depreciation of fixed assets.

(k) Acquisition of minority interest in controlled subsidiaries

In August 2005, the Company acquired an additional equity interest in Amazonia through the acquisition of Hylsamex. Under IFRS, this acquisition has been accounted for following the economic entity model, which requires that the acquisition of an additional equity interest in a controlled subsidiary be accounted for at its carrying amount, with the difference arising on purchase price allocation being recorded directly in equity.

In October 2005, the Company acquired an additional equity interest in Ylopa, Amazonia and Siderar through the Usiminas Exchange. Under IFRS, this acquisition has also been accounted for following the economic entity model and thus, it was recorded at carrying amount at acquisition date.

Under US GAAP when a company acquires an additional equity interest in a controlled subsidiary, this acquisition is recorded at fair value. Accordingly, under US GAAP, the Company (i) reversed the amounts charged to equity under IFRS in connection with the acquisition of an additional equity interest in Amazonia through the acquisition of Hylsamex, and (ii) allocated the difference between fair value and carrying amount arising from the above mentioned acquisitions to net tangible and identifiable intangible assets and goodwill.

As mentioned in Note 29, on February 3, 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 the interest corresponding to minority equity holders of Amazonia at fair value. Under IFRS, the remaining minority interest in Amazonia at year-end (representing 10.9% of this company's share capital) has been valued at fair value, resulting in an adjustment to minority interest of USD 257.4 million. 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 the reconciliation of shareholders' equity and net income for the year as this difference has no effect on those amounts.

The chart below shows the net carrying amount of Property, plant and equipment and goodwill under IFRS and US GAAP after the application of all the above mentioned adjustments:

	Net carrying amount at December 31, 2005	
	IFRS	US GAAP
Property, plant and equipment	5,463,871	3,967,401
Goodwill	399,694	610,330

(l) Equity securities issuance cost

Under IFRS, expenses incurred at year-end in connection with the issuance of equity securities effected in 2006 (totaling USD 5.5 million) has been deducted from shareholders' equity. Under US GAAP, this amount has been shown within total assets.

(m) 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 Note 36.c 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.

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

36 Reconciliation of net income and shareholders' equity to US GAAP (continued)

(n) Deferred income tax

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

(o) Minority Interest

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

(p) 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.

(q) Cumulative translation differences exemption

As mentioned in Note 4.(a), 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.

II. Other significant US GAAP disclosure requirements

The following is a summary of additional financial statement disclosures required under US GAAP:

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

Ternium uses SFAS No. 130, "Reporting Comprehensive Income", 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.

	As of December 31,	
	2005	2004
Net income for the year	559,305	424,655
Foreign currency translation adjustment.....	(39,247)	(10,776)
Change in fair value of available for sale securities.....	(384,869)	238,559
Total other comprehensive income.....	(424,116)	227,783
Comprehensive income	<u>135,189</u>	<u>652,438</u>

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

	Foreign currency translation adjustment for the year ended December 31,	
	2005	2004
Balance at the beginning of the year	(144,587)	(133,811)
Decrease for the year	(39,247)	(10,776)
Balance at the end of the year.....	<u>(183,834)</u>	<u>(144,587)</u>

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

36 Reconciliation of net income and shareholders' equity to US GAAP (continued)

	Change in fair value of financial assets for the year ended December 31,	
	2005	2004
	Balance at the beginning of the year	384,869
(Decrease) increase for the year	(384,869)	238,559
Balance at the end of the year.....	-	384,869

(b) *Supplemental cash flow information*

	Year ended December 31, 2005		
	Hylsamex	Amazonia	Siderar
Details of Acquisition of Subsidiary Companies:			
Non-cash assets acquired:			
Investments	337,039	9,875	-
Trade accounts receivable	305,831	188,978	-
Other receivables	72,069	162,199	-
Inventories	345,053	284,676	-
Intangible assets	133,079	3,893	-
Property, plant and equipment.....	2,129,325	2,444,289	-
Other assets	7,032	36,800	-
Total non-cash assets acquired	3,329,428	3,130,710	-
Liabilities assumed:			
Trade accounts payable.....	(234,325)	(371,908)	-
Current tax liabilities	(19,000)	(7,630)	-
Borrowings.....	(751,730)	(656,658)	-
Pension benefits.....	(116,860)	(78,425)	-
Deferred income tax	(449,537)	(284,242)	-
Other liabilities	(21,521)	(35,666)	-
Provisions	-	(37,163)	-
Total liabilities assumed	(1,592,973)	(1,471,692)	-
Net non-cash assets acquired	1,736,455	1,659,018	-
Cash acquired.....	215,411	305,342	-
Net assets acquired	1,951,866	1,964,360	-
Minority interest.....	(160,576)	(1,338,320)	-
Pre-acquisition interest in Amazonia	-	(323,229)	-
Goodwill (excess of fair value of net assets acquired over cost).....	405,388	(220,767)	-
Non-cash assets surrendered.....	-	(82,044)	-
Purchase price paid for acquired companies	2,196,678	-	-
Cash acquired.....	(215,411)	(305,342)	-
Net cash paid (received) for acquired companies.....	1,981,267	(305,342)	-
Increase in shareholding interest in subsidiary companies:			
Minority interest	-	109,171	54,432
Increase in fair value of net assets acquired.....	-	116,424	38,404
Goodwill	-	149,391	61,244
Purchase price paid.....	-	374,986	154,080

(c) *Recently issued accounting pronouncements*

1. *Statement of Financial Accounting Standard No. 156, "Accounting for Servicing of Financial Assets" ("SFAS No. 156")*

In March 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 156, "Accounting for Servicing of Financial Assets" ("SFAS No. 156"). SFAS No. 156 amends FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement:

TERNIUM S.A.
Notes to the Combined Consolidated Financial Statements (Contd.)

36 Reconciliation of net income and shareholders' equity to US GAAP (continued)

- a. Requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain specific situations.
- b. Requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable.
- c. Permits an entity to choose between two different subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities.
- d. At its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under FASB Statement No. 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value.
- e. Requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities.

An entity should adopt this Statement as of the beginning of its fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The effective date of this Statement is the date an entity adopts the requirements of this Statement.

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

2. Statement of Financial Accounting Standard No. 155 "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140" ("SFAS No. 155")

In February 2006, the FASB issued SFAS No. 155, which amends Statements No. 133 and 140. This Statement:

- a. Permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation.
- b. Clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133
- c. Establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation
- d. Clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives
- e. Amends Statement No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The fair value election provided for in paragraph 4(c) of this Statement may also be applied upon adoption of this Statement for hybrid financial instruments that had been bifurcated under paragraph 12 of Statement 133 prior to the adoption of this Statement. Earlier adoption is permitted. Provisions of this Statement may be applied to instruments that an entity holds at the date of adoption on an instrument-by-instrument basis.

At adoption, any difference between the total carrying amount of the individual components of the existing bifurcated hybrid financial instrument and the fair value of the combined hybrid financial instrument should be recognized as a cumulative-effect adjustment to beginning retained earnings. An entity should separately disclose the gross gains and losses that make up the cumulative-effect adjustment, determined on an instrument-by-instrument basis. Prior periods should not be restated.

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

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Notes to the Combined Consolidated Financial Statements (Contd.)

36 Reconciliation of net income and shareholders' equity to US GAAP (continued)

3. Statement of Financial Accounting Standard No. 154 "Accounting Changes and Error Corrections -- a replacement of APB No. 20 and FAS No. 3" ("SFAS No. 154")

In May 2005, the FASB issued SFAS No. 154, which replaces APB Opinion No. 20, "Accounting Changes", and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements", and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed.

This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this Statement is issued. This Statement does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of this Statement.

The Company's management believes that the application of SFAS No. 154 will not have a material impact on the Company's financial condition or results of operations.

4. Emerging Issues Task Force Issue 05-08 ("Issue 05-08")

In September 2005, the Emerging Issues Task Force ("EITF") discussed Issue 05-08, which establishes additional guidance with respect to accounting for income tax consequences of issuing convertible debt with a beneficial conversion feature. Issue 05-08 should be applied to financial statements beginning in the first interim or annual reporting period beginning after December 15, 2005. This Issue should be applied by retrospective application pursuant to FASB Statement No. 154 to all instruments with a beneficial conversion feature accounted for under Issue 00-27. Therefore, this Issue would also be applicable to debt instruments that were converted (or extinguished) in prior periods but are still presented in the financial statements. Early application is permitted in periods for which financial statements have not been issued.

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

5. Emerging Issues Task Force Issue 05-07 ("Issue 05-07")

In September 2005, the EITF discussed Issue 05-07, which addresses how to account for modifications to conversion options embedded in debt instruments and other related issues. This Issue applies to convertible debt instruments that are accounted for under APB Opinion No. 14 and related interpretations and to modifications that are not accounted for as extinguishments under Issue 96-19. This Issue should be applied to future modifications of debt instruments beginning in the first interim or annual reporting period beginning after December 15, 2005. Early application of this guidance is permitted in periods for which financial statements have not yet been issued.

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

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Notes to the Combined Consolidated Financial Statements (Contd.)

36 Reconciliation of net income and shareholders' equity to US GAAP (continued)

6. Emerging Issues Task Force Issue 05-06 ("Issue 05-06")

In June and September 2005, the EITF discussed Issue 05-06, which addresses the amortization period for leasehold improvements in operating leases that are either (a) placed in service significantly after and not contemplated at or near the beginning of the initial lease term or (b) acquired in a business combination. This Issue does not address the amortization of intangible assets that may be recognized in a business combination for the favorable or unfavorable terms of a lease relative to market prices. The Task Force reached a consensus that leasehold improvements acquired in a business combination should be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured (as defined in paragraph 5 of FASB Statement No. 13) at the date of acquisition. Also, the Task Force reached a consensus that leasehold improvements that are placed in service significantly after and not contemplated at or near the beginning of the lease term should be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured (as defined in paragraph 5 of FASB Statement No. 13) at the date the leasehold improvements are purchased. Furthermore, at the September 15, 2005 meeting, the Task Force agreed to clarify that the consensus in this Issue does not apply to preexisting leasehold improvements. Therefore, the consensus in this Issue should not be used to justify the reevaluation of the amortization period for preexisting leasehold improvements for additional renewal periods that are reasonably assured when new leasehold improvements are placed into service significantly after and are not contemplated at or near the beginning of the lease term. This Issue should be applied to leasehold improvements (within the scope of this Issue) that are purchased or acquired in reporting periods beginning after Board ratification of the consensus (June 29, 2005). Early application of the consensus is permitted in periods for which financial statements have not been issued.

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



Roberto Philipps

Chief Financial Officer