

**TERNIUM S.A.**

**CONSOLIDATED FINANCIAL STATEMENTS  
As of December 31, 2011 and 2010 and  
for the years ended December 31, 2011, 2010 and 2009**

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# **TERNIUM S.A.**

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(All amounts in USD thousands)

**CONSOLIDATED INCOME STATEMENT**

	Notes	Year ended December 31,		
		2011	2010	2009
<b>Continuing operations</b>				
Net sales		9,157,198	7,382,004	4,958,983
Cost of sales	6	(7,094,252)	(5,665,254)	(4,110,370)
<b>Gross profit</b>		2,062,946	1,716,750	848,613
Selling, general and administrative expenses	7	(786,161)	(665,306)	(531,530)
Other operating (expenses) income, net	9	(11,566)	2,493	(20,700)
<b>Operating income</b>		1,265,219	1,053,937	296,383
Interest expense		(100,712)	(72,969)	(105,810)
Interest income		28,689	27,347	21,141
Interest income – Sidor financial asset	27	11,390	61,012	135,952
Other financial (expenses) income, net	10	(239,997)	115,112	81,639
Equity in earnings of associated companies	14	1,293	1,688	1,110
<b>Income before income tax expense</b>		965,882	1,186,127	430,415
Income tax expense	11	(315,974)	(406,657)	(91,314)
<b>Income from continuing operations</b>		<b>649,908</b>	<b>779,470</b>	<b>339,101</b>
<b>Discontinued operations</b>				
Income from discontinued operations	27	-	-	428,023
<b>Profit for the year</b>		<b>649,908</b>	<b>779,470</b>	<b>767,124</b>
<b>Attributable to:</b>				
Equity holders of the Company	26	513,541	622,076	717,400
Non-controlling interest		136,367	157,394	49,724
		<b>649,908</b>	<b>779,470</b>	<b>767,124</b>
Weighted average number of shares outstanding	26	1,968,327,917	2,004,743,442	2,004,743,442
Basic and diluted earnings per share (expressed in USD per share) for profit:				
- From continuing operations attributable to the equity holders of the Company		0.26	0.31	0.15
- From discontinued operations attributable to the equity holders of the Company		-	-	0.21
- For the year attributable to the equity holders of the Company		0.26	0.31	0.36

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

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Profit for the year</b>	<b>649,908</b>	<b>779,470</b>	<b>767,124</b>
<b>Other comprehensive income:</b>			
Currency translation adjustment	(433,633)	35,915	(93,922)
Changes in the fair value of derivatives classified as cash flow hedges	14,134	14,729	35,881
Income tax relating to cash flow hedges	(6,701)	(4,419)	(9,112)
<b>Other comprehensive (loss) income for the year, net of tax</b>	<b>(426,200)</b>	<b>46,225</b>	<b>(67,153)</b>
<b>Total comprehensive income for the year</b>	<b>223,708</b>	<b>825,695</b>	<b>699,971</b>
<b>Attributable to:</b>			
Equity holders of the Company	172,863	684,635	698,789
Non-controlling interest	50,845	141,060	1,182
	<b>223,708</b>	<b>825,695</b>	<b>699,971</b>

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	<u>Notes</u>	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment, net	12	4,032,675		4,262,896	
Intangible assets, net	13	986,072		1,129,348	
Investments in associated companies	14	9,311		8,212	
Sidor financial asset	27	-		74,549	
Other investments	15	14,087		35,575	
Deferred tax assets	21	8,101		12,387	
Receivables, net	16	124,201		56,471	
Trade receivables, net	17	7,526	5,181,973	-	5,579,438
<b>Current assets</b>					
Receivables	16	105,591		94,573	
Derivative financial instruments	23	50		212	
Inventories, net	18	2,137,024		1,953,390	
Trade receivables, net	17	735,002		663,502	
Sidor financial asset	27	136,294		183,439	
Other investments	19	281,676		848,400	
Cash and cash equivalents	19	2,158,591	5,554,228	1,779,416	5,522,932
Non-current assets classified as held for sale			10,373		9,961
			5,564,601		5,532,893
<b>Total assets</b>			<b>10,746,574</b>		<b>11,112,331</b>
<b>EQUITY</b>					
<b>Capital and reserves attributable to the company's equity holders</b>			5,756,372		5,880,740
<b>Non-controlling interest</b>			1,084,827		1,135,361
<b>Total equity</b>			6,841,199		7,016,101
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Provisions	20	15,340		16,144	
Deferred income tax	21	748,999		877,742	
Other liabilities	22	200,845		201,312	
Trade payables		21,096		-	
Derivative financial instruments	23	-		18,822	
Borrowings	24	948,495	1,934,775	1,426,574	2,540,594
<b>Current liabilities</b>					
Current tax liabilities		106,625		294,902	
Other liabilities	22	114,776		123,610	
Trade payables		677,747		588,086	
Derivative financial instruments	23	29,902		35,955	
Borrowings	24	1,041,550	1,970,600	513,083	1,555,636
<b>Total liabilities</b>			3,905,375		4,096,230
<b>Total equity and liabilities</b>			<b>10,746,574</b>		<b>11,112,331</b>

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

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Attributable to the Company's equity holders (1)									
	Capital stock (2)	Treasury shares (3)	Initial public offering expenses	Reserves (4)	Capital stock issue discount (5)	Currency translation adjustment	Retained earnings	Total	Non- controlling interest	Total Equity
<b>Balance at January 1, 2011</b>	2,004,743	-	(23,295)	1,635,126	(2,324,866)	(517,432)	5,106,464	5,880,740	1,135,361	7,016,101
Profit for the year							513,541	513,541	136,367	649,908
Other comprehensive income (loss) for the year										
Currency translation adjustment						(346,921)		(346,921)	(86,712)	(433,633)
Cash flow hedges, net of tax				6,243				6,243	1,190	7,433
Total comprehensive income for the year	-	-	-	6,243	-	(346,921)	513,541	172,863	50,845	223,708
Repurchase of own shares to Usiminas (3)		(150,000)						(150,000)		(150,000)
Dividends paid in cash (6)				(99,329)			(47,902)	(147,231)		(147,231)
Dividends paid in cash by subsidiary companies									(140,579)	(140,579)
Contributions from non-controlling shareholders in consolidated subsidiaries									39,200	39,200
<b>Balance at December 31, 2011</b>	<b>2,004,743</b>	<b>(150,000)</b>	<b>(23,295)</b>	<b>1,542,040</b>	<b>(2,324,866)</b>	<b>(864,353)</b>	<b>5,572,103</b>	<b>5,756,372</b>	<b>1,084,827</b>	<b>6,841,199</b>

(1) Shareholders' equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 25 (iii).

(2) The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD1.00 per share. As of December 31, 2011, there were 2,004,743,442 shares issued. All issued shares are fully paid.

(3) See Note 30.

(4) Include legal reserve under Luxembourg law for USD 200.5 million, undistributable reserves under Luxembourg law for USD 1.4 billion, hedge accounting reserve, net of tax effect, for USD (14.9) million and reserves related to the acquisition of non-controlling interest in subsidiaries according to IAS 27 for USD (58.5) million.

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

(6) Represents USD 0.075 per share (USD 0.75 per ADS).

Dividends may be paid by Ternium to the extent distributable retained earnings calculated in accordance with Luxembourg law and regulations exist. Therefore, retained earnings included in these consolidated financial statements may not be wholly distributable. See Note 25 (iii). The accompanying notes are an integral part of these consolidated financial statements.

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	Attributable to the Company's equity holders (1)						Total	Non-controlling interest	Total Equity
	Capital stock (2)	Initial public offering expenses	Reserves (3)	Capital stock issue discount (4)	Currency translation adjustment	Retained earnings			
<b>Balance at January 1, 2010</b>	<b>2,004,743</b>	<b>(23,295)</b>	<b>1,726,216</b>	<b>(2,324,866)</b>	<b>(570,844)</b>	<b>4,484,388</b>	<b>5,296,342</b>	<b>964,897</b>	<b>6,261,239</b>
Profit for the year						622,076	622,076	157,394	779,470
Other comprehensive income (loss) for the year:									
Currency translation adjustment					53,412		53,412	(17,497)	35,915
Cash flow hedges, net of tax			9,147				9,147	1,163	10,310
Total comprehensive income for the year			9,147		53,412	622,076	684,635	141,060	825,695
Dividends paid in cash (5)			(100,237)				(100,237)		(100,237)
Dividends paid in cash by subsidiary companies								(38,304)	(38,304)
Contributions from non-controlling shareholders in consolidated subsidiaries								4,900	4,900
Acquisition of business (See Note 3)								62,808	62,808
<b>Balance at December 31, 2010</b>	<b>2,004,743</b>	<b>(23,295)</b>	<b>1,635,126</b>	<b>(2,324,866)</b>	<b>(517,432)</b>	<b>5,106,464</b>	<b>5,880,740</b>	<b>1,135,361</b>	<b>7,016,101</b>

(1) Shareholders' equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 25 (iii).

(2) The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD1.00 per share. As of December 31, 2010, there were 2,004,743,442 shares issued. All issued shares are fully paid.

(3) Include legal reserve under Luxembourg law for USD 200.5 million, distributable reserves under Luxembourg law for USD 101.4 million, undistributable reserves under Luxembourg law for USD 1.4 billion, hedge accounting reserve, net of tax effect, for USD (22.4) million and reserves related to the acquisition of non-controlling interest in subsidiaries according to IAS 27 for USD (58.5) million.

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

(5) Represents USD 0.05 per share (USD 0.50 per ADS).

Dividends may be paid by Ternium to the extent distributable retained earnings calculated in accordance with Luxembourg law and regulations exist. Therefore, retained earnings included in these consolidated financial statements may not be wholly distributable. See Note 25 (iii). The accompanying notes are an integral part of these consolidated financial statements.

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Attributable to the Company's equity holders (1)						Non-controlling interest	Total Equity	
	Capital stock (2)	Initial public offering expenses	Reserves	Capital stock issue discount (3)	Currency translation adjustment	Retained earnings			Total
<b>Balance at January 1, 2009</b>	<b>2,004,743</b>	<b>(23,295)</b>	<b>1,702,285</b>	<b>(2,324,866)</b>	<b>(528,485)</b>	<b>3,766,988</b>	<b>4,597,370</b>	<b>964,094</b>	<b>5,561,464</b>
Profit for the year						717,400	717,400	49,724	767,124
Other comprehensive income (loss) for the year									
Currency translation adjustment					(42,359)		(42,359)	(51,563)	(93,922)
Cash flow hedges, net of tax			23,748				23,748	3,021	26,769
Total comprehensive income (loss) for the year			23,748		(42,359)	717,400	698,789	1,182	699,971
Acquisition of non-controlling interest (4)			183				183	(379)	(196)
<b>Balance at December 31, 2009</b>	<b>2,004,743</b>	<b>(23,295)</b>	<b>1,726,216</b>	<b>(2,324,866)</b>	<b>(570,844)</b>	<b>4,484,388</b>	<b>5,296,342</b>	<b>964,897</b>	<b>6,261,239</b>

(1) Shareholders' equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 25 (iii).

(2) The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD1.00 per share. As of December 31, 2009, there were 2,004,743,442 shares issued. All issued shares are fully paid.

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

(4) On February 5, 2009, Ternium Internacional España S.L.U. acquired from its related company Siderca S.A.I.C., 53,452 shares of Siderar S.A.I.C., representing 0.015% of that company's share capital, for an aggregate purchase price of USD 196 thousand. After this acquisition, Ternium increased its ownership in Siderar to 60.94%.

As permitted by IFRS 3, the Company accounted for this acquisition under 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.

Dividends may be paid by Ternium to the extent distributable retained earnings calculated in accordance with Luxembourg law and regulations exist. Therefore, retained earnings included in these consolidated financial statements may not be wholly distributable. See Note 25 (iii). The accompanying notes are an integral part of these consolidated financial statements



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**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Notes	Year ended December 31,		
		2011	2010	2009
<b>Cash flows from operating activities</b>				
Income from continuing operations:		<b>649,908</b>	<b>779,470</b>	<b>339,101</b>
Adjustments for:				
Depreciation and amortization	12 & 13	405,842	383,300	385,105
Income tax accruals less payments	31 (b)	(255,945)	226,820	(49,342)
Equity in earnings of associated companies	14	(1,293)	(1,688)	(1,110)
Interest accruals less payments	31 (b)	43,047	(59)	10,706
Impairment charge	25 (ii)	-	-	27,022
Changes in provisions	20	29,932	5,543	4,614
Changes in working capital	31 (b)	(397,806)	(447,973)	635,179
Interest income – Sidor financial asset	27 (i)	(11,390)	(61,012)	(135,952)
Net foreign exchange results and others		184,840	(77,576)	(53,565)
<b>Net cash provided by operating activities</b>		<b>647,135</b>	<b>806,825</b>	<b>1,161,758</b>
<b>Cash flows from investing activities</b>				
Capital expenditures	12 & 13	(601,343)	(350,124)	(208,590)
Acquisition of business:				
Purchase consideration	3	-	(75,000)	(196)
Cash acquired	3	-	6,593	-
Decrease (Increase) in other investments	15 & 19	588,212	(820,672)	43,163
Proceeds from the sale of property, plant and equipment		1,696	1,693	3,245
Proceeds from Sidor financial asset	27	133,084	767,382	953,611
Dividends received from associated companies	14	-	302	-
Contributions in associated companies	14	-	(302)	-
<b>Net cash provided by (used in) investing activities</b>		<b>121,649</b>	<b>(470,128)</b>	<b>791,233</b>
<b>Cash flows from financing activities</b>				
Dividends paid in cash to company's shareholders		(147,231)	(100,237)	-
Dividends paid in cash by subsidiary companies		(140,579)	(38,304)	-
Contributions from non-controlling shareholders in consolidated subsidiaries		39,200	4,900	-
Repurchase of treasury shares	30	(150,000)	-	-
Proceeds from borrowings		666,180	35,441	219,037
Repayments of borrowings		(632,140)	(555,918)	(1,141,625)
<b>Net cash used in financing activities</b>		<b>(364,570)</b>	<b>(654,118)</b>	<b>(922,588)</b>
<b>Increase (Decrease) in cash and cash equivalents</b>		<b>404,214</b>	<b>(317,421)</b>	<b>1,030,403</b>
<b>Movement in cash and cash equivalents</b>				
At January 1,		1,779,416	2,095,798	1,065,552
Effect of exchange rate changes		(25,039)	1,039	(157)
Increase (Decrease) in cash and cash equivalents		404,214	(317,421)	1,030,403
<b>Cash and cash equivalents at December 31, (1)</b>	<b>19</b>	<b>2,158,591</b>	<b>1,779,416</b>	<b>2,095,798</b>

(1) In addition, the Company had restricted cash for USD 248 and USD 12,343 as of December 31, 2011 and 2010, respectively. As of December 31, 2009, there were no restricted cash. Additionally, the Company had other investments with a maturity of more than three months for USD 281,676 and USD 848,400 at December 31, 2011 and 2010, respectively.

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

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**Notes to the Consolidated Financial Statements**

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# TERNIUM S.A.

## Notes to the Consolidated Financial Statements (Contd.)

### 1 General information

Ternium S.A. (the “Company” or “Ternium”), was incorporated on December 22, 2003 to hold investments in flat and long steel manufacturing and distributing companies. The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD1.00 per share. As of December 31, 2011, there were 2,004,743,442 shares issued. All issued shares are fully paid.

Following a corporate reorganization carried out during fiscal year 2005, in January 2006 the Company successfully completed its registration process with the United States Securities and Exchange Commission (“SEC”). Ternium’s ADSs began trading on the New York Stock Exchange under the symbol “TX” on February 1, 2006. The Company’s initial public offering was settled on February 6, 2006. On January 31, 2011, the Company filed with the SEC a registration statement on form F-3 relating to sales of equity and debt securities.

The Company was initially established as a public limited liability company (société anonyme) under Luxembourg’s 1929 holding company regime. Until termination of such regime on December 31, 2010, holding companies incorporated under the 1929 regime (including the Company) were exempt from Luxembourg corporate and withholding tax over dividends distributed to shareholders.

On January 1, 2011, the Company became an ordinary public limited liability company (société anonyme) and, effective as from that date, the Company is subject to all applicable Luxembourg taxes (including, among others, corporate income tax on its worldwide income) and its dividend distributions will generally be subject to Luxembourg withholding tax. However, dividends received by the Company from subsidiaries in high income tax jurisdictions, as defined under Luxembourg law, will continue to be exempt from corporate income tax in Luxembourg under Luxembourg’s participation exemption.

As part of the Company’s corporate reorganization in connection with the termination of Luxembourg’s 1929 holding company regime, on December 6, 2010, the Company contributed its equity holdings in all its subsidiaries and all its financial assets to its Luxembourg wholly-owned subsidiary Ternium Investments S.à.r.l., or Ternium Investments, in exchange for newly issued corporate units of Ternium Investments. As the assets contributed were recorded at their historical carrying amount in accordance with Luxembourg GAAP, the Company’s December 2010 contribution of such assets to Ternium Investments resulted in a non-taxable revaluation of the accounting value of the Company’s assets under Luxembourg GAAP. The amount of the December 2010 revaluation was equal to the difference between the historical carrying amounts of the assets contributed and the value at which such assets were contributed and amounted to USD4.0 billion. However, for the purpose of these consolidated financial statements, the assets contributed by Ternium to its wholly-owned subsidiary Ternium Investments were recorded based on their historical carrying amounts in accordance with IFRS, with no impact on the financial statements.

Following the completion of the corporate reorganization, and upon its conversion into an ordinary Luxembourg holding company, the Company voluntarily recorded a special reserve exclusively for tax-basis purposes. As of December 31, 2011 and 2010, this special tax reserve amounted to USD 7.7 billion and USD 7.9 billion, respectively. The Company expects that, as a result of its corporate reorganization, its current overall tax burden will not increase, as all or substantially all of its dividend income will come from high income tax jurisdictions. In addition, the Company expects that dividend distributions for the foreseeable future will be imputed to the special reserve and therefore should be exempt from Luxembourg withholding tax under current Luxembourg law.

### 2 Basis of presentation

These consolidated financial statements have been prepared in accordance with IFRS (International Financial Reporting Standards) issued and effective or issued and early adopted as at the time of preparing these statements (February 2012), as issued by the International Accounting Standards Board, and adopted by the European Union. These consolidated financial statements are presented in thousands of United States dollars (“USD”), except otherwise indicated.

Elimination of all material intercompany transactions and balances between the Company and their respective subsidiaries 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.

Certain comparative amounts have been reclassified to conform to changes in presentation in the current period. These reclassifications do not have a material effect on the Company’s consolidated financial statements.

These consolidated financial statements have been approved for issue by the Board of Directors on February 22, 2012.

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**Notes to the Consolidated Financial Statements (Contd.)**

**2 Basis of presentation (continued)**

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

Company	Country of Organization	Main activity	Percentage of ownership at December 31,		
			2011	2010	2009
Ternium S.A.	Luxembourg	Holding	100.00%	100.00%	100.00%
Ternium Investments S.à.r.l. (1)	Luxembourg	Holding	100.00%	100.00%	-
Ternium Solutions A.G. (2)	Switzerland	Services	100.00%	-	-
Ternium Brasil S.A. (3)	Brazil	Holding	100.00%	100.00%	100.00%
Siderúrgica do Norte Fluminense S.A. (4)	Brazil	Manufacturing and selling of steel products	100.00%	100.00%	-
Ylopa - Servicios de Consultadoria Lda. (5)	Portugal	Holding	-	94.38%	94.38%
Consorcio Siderurgia Amazonia S.L.U. (6)	Spain	Holding	94.38%	94.38%	94.38%
Secor- Servicios Corporativos S.A. (6)	Venezuela	Holding	94.38%	94.38%	94.38%
Ternium Internacional España S.L.U. (3)	Spain	Marketing of steel products	100.00%	100.00%	100.00%
Siderar S.A.I.C. (7)	Argentina	Manufacturing and selling of flat steel products	60.94%	60.94%	60.94%
Impeco S.A. (8)	Argentina	Manufacturing of pipe products	60.97%	60.97%	60.97%
Prosid Investments S.C.A. (8)	Uruguay	Holding	60.94%	60.94%	60.94%
Inversiones Basilea S.A. (9)	Chile	Purchase and sale of real estate and other	60.94%	60.94%	60.94%
Ternium Mexico S.A. de C.V. (10)	Mexico	Holding	88.72%	88.72%	88.71%
Hylsa S.A. de C.V. (11)	Mexico	Manufacturing and selling of steel products	88.72%	88.72%	88.71%
Las Encinas S.A. de C.V. (11)	Mexico	Exploration, exploitation and pelletizing of iron ore	88.72%	88.72%	88.71%
Ferropak Comercial S.A. de C.V. (11)	Mexico	Scrap services company	88.72%	88.72%	88.71%
Ferropak Servicios S.A. de C.V. (11)	Mexico	Services	88.72%	88.72%	88.71%
Galvacer America Inc (11)	USA	Distributing company	88.72%	88.72%	88.71%
Galvamet America Corp (11)	USA	Manufacturing and selling of insulated panel products	88.72%	88.72%	88.71%
Transamerica E. & I. Trading Corp (11)	USA	Scrap services company	88.72%	88.72%	88.71%
Técnica Industrial S.A. de C.V. (11)	Mexico	Services	88.72%	88.72%	88.71%
Sefimsa S.A. de C.V. (11)	Mexico	Financial Services	88.72%	88.72%	88.71%
Ecore Holding S. de R.L. de C.V. (11)	Mexico	Holding	88.72%	88.72%	88.71%
Neotec L.L.C. (11)	USA	Holding	88.72%	88.72%	88.71%
Treasury Services S.A. de C.V. (11)	Mexico	Financial Services	88.72%	88.72%	88.71%
APM, S.A. de C.V. (11)	Mexico	Manufacturing and selling of steel products	88.72%	88.72%	88.71%
Acedor, S.A. de C.V. (11)	Mexico	Holding	88.72%	88.72%	88.71%

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

**2 Basis of presentation (continued)**

Company	Country of Organization	Main activity	Percentage of ownership at December 31,		
			2011	2010	2009
Empresas Stabilit S.A. de C.V. (12)	Mexico	Holding	-	88.72%	88.71%
Acerus S.A. de C.V. (11)	Mexico	Manufacturing and selling of steel products	88.72%	88.72%	88.71%
Imsa Monclova S.A. de C.V. (11)	Mexico	Services	88.72%	88.72%	88.71%
Ternium Internacional Guatemala S.A. (13)	Guatemala	Selling of steel products	99.98%	88.72%	88.71%
Corporativo Grupo Imsa S.A. de C.V. (11)	Mexico	Services	88.72%	88.72%	88.71%
Ternium USA Inc. (11)	USA	Manufacturing and selling of steel products	88.72%	88.72%	88.71%
Consorcio Minero Benito Juarez Peña Colorada S.A. de C.V. (14)	Mexico	Exploration, exploitation and pelletizing of iron ore	44.36%	44.36%	44.36%
Peña Colorada Servicios S.A. de C.V. (14)	Mexico	Services	44.36%	44.36%	44.36%
Servicios Integrales Nova de Monterrey S.A. de C.V. (15)	Mexico	Medical and Social Services	66.09%	66.09%	66.09%
Ternium Guatemala S.A. (16)	Guatemala	Manufacturing and selling of steel products	-	88.72%	88.71%
Ternium Internacional Nicaragua S.A.	Nicaragua	Manufacturing and selling of steel products	99.38%	88.18%	88.18%
Ternium Internacional Honduras S.A. de C.V.	Honduras	Manufacturing and selling of steel products	99.18%	88.01%	88.00%
Ternium Internacional El Salvador, S.A. de C.V.	El Salvador	Manufacturing and selling of steel products	99.91%	88.66%	88.65%
Ternium Internacional Costa Rica S.A.	Costa Rica	Manufacturing and selling of steel products	99.98%	88.72%	88.71%
Ferrasa S.A.S. (17)	Colombia	Manufacturing and selling of steel products	54.00%	54.00%	-
Perfilamos del Cauca S.A.S. (17)	Colombia	Manufacturing and selling of steel products	54.00%	54.00%	-
Figuraciones S.A.S. (17)	Colombia	Manufacturing and selling of steel products	54.00%	54.00%	-
Siderúrgica de Caldas S.A.S. (17)	Colombia	Manufacturing and selling of steel products	54.00%	54.00%	-
Procesadora de Materiales Industriales S.A.	Colombia	Scrap services company	32.40%	32.40%	-
Recolectora Industrial de Colombia S.A. (18)	Colombia	Scrap services company	-	28.70%	-
Desechos Industriales de Colombia S.A. (18)	Colombia	Scrap services company	-	29.70%	-
Tenigal S. de R.L. de C.V. (19)	Mexico	Manufacturing and selling of steel products	51.00%	51.00%	-
Ternium Investments Switzerland AG (3)	Switzerland	Holding	100.00%	100.00%	-
Ternium Internacional S.A. (20)	Uruguay	Holding and marketing of steel products	100.00%	100.00%	100.00%
Ternium Internacional Ecuador S.A. (21)	Ecuador	Marketing of steel products	100.00%	100.00%	100.00%

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

**2 Basis of presentation (continued)**

Company	Country of Organization	Main activity	Percentage of ownership at December 31,		
			2011	2010	2009
Ternium International USA Corporation (21)	USA	Marketing of steel products	100.00%	100.00%	100.00%
Ternium Internationaal B.V. (21)	Netherlands	Marketing of steel products	100.00%	100.00%	100.00%
Ternium Internacional Perú S.A. (21)	Peru	Marketing of steel products	100.00%	100.00%	100.00%
Ternium Internacional de Colombia S.A.S. (formerly Ternium Internacional de Colombia S.A.) (21)	Colombia	Marketing of steel products	100.00%	100.00%	100.00%
Ternium Procurement S.A. (20)	Uruguay	Procurement services	100.00%	100.00%	100.00%
Ternium International Inc. (20)	Panama	Marketing of steel products	100.00%	100.00%	100.00%
Ternium Engineering & Services S.A. (22)	Uruguay	Engineering and other services	100.00%	100.00%	100.00%
Ternium Ingeniería y Servicios de Argentina S.A.	Argentina	Engineering and other services	100.00%	100.00%	100.00%
Ternium Ingeniería y Servicios de Mexico S.A. de C.V.	Mexico	Engineering and other services	100.00%	100.00%	100.00%
Ternium Treasury Services S.A. (20)	Uruguay	Financial Services	100.00%	100.00%	100.00%
Ternium Treasury Services B.V. (20)	Netherlands	Financial Services	100.00%	100.00%	100.00%
Ferrasa Panamá, S.A. (23)	Panama	Manufacturing and selling of steel products	54.00%	54.00%	-
Aceros Transformados de Panamá, S.A. (23)	Panama	Manufacturing and selling of steel products	54.00%	54.00%	-
Ternium Investments S.A. (formerly Dirken Company S.A.) (24)	Uruguay	Holding	-	-	100.00%

(1) Incorporated in the fourth quarter of 2010.

(2) Indirectly through Ternium Investments S.à.r.l. Total voting rights held: 100.00%. Incorporated in the first quarter of 2011.

(3) Indirectly through Ternium Investments S.à.r.l. Total voting rights held: 100.00%.

(4) Indirectly through Ternium Brasil S.A. Total voting rights held: 100.00%. Incorporated during 2010.

(5) This company was dissolved as of December 27, 2011.

(6) Since December 27, 2011, indirectly through Ternium Investments S.à.r.l. (85.62%) and Prosid Investments S.C.A. (8.76%). Total voting rights held: 100.00%. Before that, indirectly through Ylopa – Servicios de Consultoría Ltda.

(7) Indirectly through Ternium Internacional España S.L.U. Total voting rights held: 60.94%.

(8) Indirectly through Siderar S.A.I.C and Ternium Internacional S.A. Total voting rights held 100.00%.

(9) Indirectly through Siderar S.A.I.C. Total voting rights held 100.00%.

(10) Indirectly through Siderar S.A.I.C., Inversiones Basilea S.A. and Ternium Internacional España S.L.U. Total voting rights held 99.93%.

(11) Indirectly through Ternium Mexico S.A. de C.V. Total voting rights held: 100.00%.

(12) Merged with Ternium Mexico S.A. de C.V. during the fourth quarter of 2011.

(13) Indirectly through Ternium Internacional España S.L.U. Total voting rights held: 100%.

(14) Indirectly through Ternium Mexico S.A. de C.V. Total voting rights held: 50.00%. Consolidated under the proportionate consolidation method.

(15) Indirectly through Ternium Mexico S.A. de C.V. Total voting rights held: 74.50%.

(16) This company was merged with Ternium Internacional Guatemala, S.A. during the first quarter of 2011.

(17) Indirectly through Ternium Internacional España S.L.U.. Total voting rights held: 54.00%. Incorporated during 2010. (See note 3).

(18) These companies were sold during the second quarter of 2011.

(19) Indirectly through Ternium Internacional España S.L.U.. Total voting rights held: 51.00%. Incorporated during 2010. (See note 29).

(20) Indirectly through Ternium Investments Switzerland AG. Total voting rights held: 100.00%.

(21) Indirectly through Ternium Internacional S.A. Total voting rights held 100.00%.

(22) Indirectly through Ternium Internacional Inc.. Total voting rights held 100.00%.

(23) Indirectly through Ternium Treasury Services S.A. Total voting rights held: 54.00%. Incorporated during 2010. (See note 3).

(24) This company was dissolved as of December 6, 2010.

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

**3 Acquisition of business**

*Ferrasa S.A.S and Ferrasa Panamá S.A.*

On August 25, 2010, Ternium completed the acquisition of a 54% ownership interest in Ferrasa S.A.S., a company organized under the laws of Colombia (“Ferrasa”) through a capital contribution in the amount of USD 74.5 million. Ferrasa has a 100% ownership interest in Sidecaldas S.A.S. (“Sidecaldas”), Figuraciones S.A.S. (“Figuraciones”) and Perfilamos del Cauca S.A.S. (“Perfilamos”), all of which are also Colombian companies. Ternium has also completed the acquisition of a 54% ownership interest in Ferrasa Panamá S.A. (“Ferrasa Panamá”) and its subsidiary Aceros Transformados de Panamá S.A. (“Aceros”) for USD 0.5 million. On the mentioned date the Company obtained control over the assets and liabilities of the acquired companies.

Ferrasa is a long and flat steel products processor and distributor. Sidecaldas is a scrap-based long steel making and rolling facility, with an annual production capacity of approximately 140,000 tons. Figuraciones and Perfilamos manufacture welded steel tubes, profiles and beams. These companies have combined annual sales of approximately 300,000 tons, of which approximately 70% are long products and 30% are flat and tubular products, used mainly in the construction sector. Ferrasa Panamá is a long steel products processor and distributor based in Panama, with annual sales of approximately 8,000 tons.

The former controlling shareholders have an option to sell to Ternium, at any time, all or part of their remaining 46% interest in each of Ferrasa and Ferrasa Panamá, and Ternium has an option to purchase all or part of that remaining interest from the former controlling shareholders, at any time after the second anniversary of the closing.

Ferrasa and Ferrasa Panamá contributed revenues of USD 128.0 million and a net loss of USD 1.5 million (net of USD 1.3 million corresponding to non-controlling interests) in the period from August 25, 2010 to December 31, 2010. The fair value and book value of assets and liabilities arising from the transaction are as follows:

	<b>Fair value</b>
Property, plant and equipment	140,118
Previously recognized goodwill	-
Customer relationships	15,403
Trademarks	4,407
Other contractual rights	4,064
Other intangible assets	42
Inventories	76,771
Cash and cash equivalents	6,593
Deferred tax assets	7,832
Borrowings	(134,120)
Other assets and liabilities, net	15,141
Non-controlling interest in subsidiaries	(236)
<b>Net</b>	<b>136,015</b>
Non-controlling interest	(62,572)
Goodwill	1,557
<b>Total Purchase Consideration</b>	<b>75,000</b>

The Company accounts for the acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values.

The application of the purchase method requires certain estimates and assumptions especially concerning the determination of the fair values of the acquired intangible assets and property, plant and equipment as well as the liabilities assumed at the date of the acquisition. Moreover the useful lives of the acquired intangible assets, property, plant and equipment have to be determined. The judgments made in the context of the purchase price allocation can materially impact the Company’s future results of operations. The valuations are based on information available at the acquisition date.

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

**3 Acquisition of business (continued)**

Significant judgments and assumptions made regarding the purchase price allocation in the course of the acquisition of Ferrasa and Ferrasa Panamá, included the following:

For valuation of customer relationship the excess earnings method was used, which is based on calculating the present value of the future cash flows of the future economic benefits during the remaining useful life attributable to the customer base. Customer relationships are being amortized over an estimated useful life of 10 years.

For the valuation of brands, the relief-from-royalty method was applied, both with the value that a third party would have paid for these trademarks. The expected amortization of these assets is determined on the basis of the expected benefit the asset provides the entity (e.g. expected decline in value). For valuation of the other contractual rights, the postulated loss of income method was used. Both intangible assets are being amortized over an estimated useful life of 10 years.

The valuation of acquired intangible assets is to a great extent based on anticipated cash flows. Nevertheless it is possible that actual outcomes could vary significantly from such estimated future cash flows.

For property, plant and equipment, fair values were derived from expert appraisals.

The valuation of inventories at the date of acquisition was based on the corresponding selling price less estimated costs of completion or estimated costs to make the sale.

The excess of the purchase price for Ferrasa and Ferrasa Panamá over the estimated fair values of the net assets acquired is recorded as goodwill amounting to USD 1.6 million as of August 25, 2010. Goodwill derives mainly from the fair value of the going concern element of the acquiree.

The Company has chosen to recognize the non-controlling interest at its proportionate share in net identifiable assets acquired.

Acquisition related costs are included in the income statement.

*Pro forma data for the acquisitions*

Had the Ferrasa transaction been consummated on January 1, 2010, unaudited pro forma net sales and net loss totaling USD 336 million and USD 4 million, respectively, would have been included in Ternium's financial statements for the year ended December 31, 2010. These pro forma results were prepared based on unaudited accounting records maintained prior to such transaction and adjusted by depreciation and amortization of tangible and intangible assets and interest expense of the borrowing incurred for the transaction as described above.

**4 Accounting policies**

These Consolidated Financial Statements have been prepared following the same accounting policies used in the preparation of the audited Consolidated Financial Statements for the year ended December 31, 2010.

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

**(a) Group accounting**

*(1) Subsidiary companies and transactions with non-controlling interests*

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Company uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at the fair values at the acquisition date. Indemnification assets are recognized at the same time that the Company recognizes the indemnified item and measures them on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. The Company measures the value of a reacquired right recognized as an intangible asset on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals in determining its fair value.



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

**4 Accounting policies (continued)**

On an acquisition-by-acquisition basis, the Company recognizes any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

The measurement period is the earlier of the date that the acquirer receives the information that it is looking for or cannot obtain the information and one year after the acquisition date. Where the accounting for a business combination is not complete by the end of the reporting period in which the business combination occurred provisional amounts are reported.

The Company treats transactions with non-controlling interests as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Company ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group. However, the fact that the functional currency of some subsidiaries is their respective local currency, generates some financial gains (losses) arising from intercompany transactions, that are included in the consolidated income statement under Other financial expenses, net.

*(2) Joint ventures*

The Company reports its interests in jointly controlled entities using proportionate consolidation. The Company's share of the assets, liabilities, income, expenses and cash flows of jointly controlled entities are combined on a line-by-line basis with similar items in the Company's financial statements.

Where the Company transacts with its jointly controlled entities, unrealized profits and losses are eliminated to the extent of the Company's interest in the joint venture.

*(3) 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. 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.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

**(b) Foreign currency translation**

*(1) Functional and presentation currency*

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

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

**4 Accounting policies (continued)**

*(2) Subsidiary companies*

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

- (i) assets and liabilities are translated at the closing rate of each statement of financial position;
- (ii) income and expenses for each income statement are translated at average exchange rates; and
- (iii) all resulting translation differences are recognized within other comprehensive income.

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

*(3) Transactions in currencies other than the functional currency*

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the date of the transactions or valuation where items are re-measured.

At the end of each reporting period: (i) monetary items denominated in currencies other than the functional currency are translated using the closing rates, (ii) non-monetary items that are measured in terms of historical cost in a currency other than the functional currency are translated using the exchange rates prevailing at the date of the transactions; and (iii) non-monetary items that are measured at fair value in a currency other than the functional currency are translated using the exchange rates prevailing at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than the functional currency are recorded as gains and losses from foreign exchange and included in "Other financial income (expenses), net" in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the "fair value gain or loss," while translation differences on non-monetary financial assets such as equities classified as available for sale are included in the "available for sale reserve" in equity. Ternium had no such assets or liabilities for any of the periods presented.

**(c) Financial instruments**

*Non derivative financial instruments*

Non derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Ternium non derivative financial instruments are classified into the following categories:

- Financial instruments at fair value through profit or loss: comprises mainly cash and cash equivalents and investments in debt securities held for trading;
- Held-to-maturity instruments: measured at amortized cost using the effective interest method less impairment losses. As of December 31, 2011 and 2010, there are no instruments classified under this category;
- Loans and receivables: measured at amortized cost using the effective interest method less impairment losses;
- Available-for-sale ("AFS") financial assets: gains and losses arising from changes in fair value are recognized within other comprehensive income ("OCI") with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in OCI is included in the income statement for the period. As of December 31, 2011 and 2010, there are no instruments classified under this category;
- Other financial liabilities: measured at amortized cost using the effective interest method.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets and liabilities are recognized and derecognized on the settlement date.

Financial assets are initially measured at fair value, net of transaction costs, except for those financial assets classified as financial assets at fair value through profit or loss.

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

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

**4 Accounting policies (continued)**

*Impairment of financial assets*

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Company first assesses whether objective evidence of impairment exists.

For loans and receivables category and for held-to-maturity investments, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

*Derivative financial instruments*

Information about accounting for derivative financial instruments and hedging activities is included in Note 33 “Financial Risk management”.

**(d) Property, plant and equipment**

Land and buildings comprise mainly factories and offices. All property, plant and equipment are recognized at historical acquisition or construction cost less accumulated depreciation and accumulated impairment (if applicable), except for land, which is carried at acquisition cost less accumulated impairment (if applicable). There are no material residual values for property, plant and equipment items.

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

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

Where a tangible fixed asset comprises major components having different useful lives, these components are accounted for as separate items.

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

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

Land	No Depreciation
Buildings and improvements	10-45 years
Production equipment	5-20 years
Vehicles, furniture and fixtures and other equipment	5-10 years

Property, plant and equipment used in mining activities are depreciated over its useful life or over the remaining life of the mine if shorter and there is no alternative use possible.

The assets’ useful lives are reviewed, and adjusted if appropriate, at each year end.

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

If the carrying amount of an asset were greater than its estimated recoverable amount, it would be written down to its recoverable amount. (see Note 4 (f) “Impairment”).

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

**4 Accounting policies (continued)**

**(e) Intangible assets**

*(1) Information system projects*

Generally, costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. However, costs directly related to the acquisition and implementation of information systems are recognized as intangible assets if they have a probable economic benefit exceeding the cost beyond one year and comply with the recognition criteria of IAS 38.

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

*(2) Mining concessions*

Mining license was recognized as a separate intangible asset upon the acquisition of the investment in Mexico and comprises the right to exploit the mines and is recognized at its fair value at acquisition date less accumulated amortization.

These mining concessions were granted for a 50-year period; following the expiration of the initial concession term, the concessions are renewable for an additional 50- year term in accordance with, and subject to the procedures set forth in, applicable Mexican mining law.

Amortization charge is calculated by using the unit-of-production method, on the basis of actual mineral extracted in each period compared to the estimated mineral reserves, and is included in cost of sales. Any change in the estimation of reserves is accounted for prospectively. The resulting amortization rate for the years ended December 31, 2011 and 2010, is approximately 9% per year.

*(3) Exploration costs*

Exploration and evaluation costs are measured at cost. Costs directly associated with exploration activities and leasehold acquisition costs are capitalized until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are charged to expense. If it is determined that commercial discovery has been achieved, costs incurred are reclassified into Property, Plant and Equipment or Intangible Assets according to the nature of the expenditure and amortization starts. Exploration costs are tested for impairment annually. No impairment losses have been recorded for any of the years presented.

*(4) Goodwill*

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

Goodwill is allocated to Cash-generating units ("CGU") for the purpose of impairment testing. The allocation is made to those cash-generating units expected to benefit from the business combination which generated the goodwill being tested.

As of December 31, 2011, the carrying amount of goodwill allocated to the Mexico CGU was USD 662.3 million, while the carrying amount of goodwill allocated to other CGUs totaled USD 1.5 million.

*(5) Research and development*

Research expenditures are recognized as expenses as incurred. Development costs are recorded as cost of sales in the income statement as incurred because they do not fulfill the criteria for capitalization. Research and development expenditures for the years ended December 31, 2011, 2010 and 2009 totaled USD 8.8 million, USD 5.7 million and USD 6.0 million, respectively.

*(6) Customer relationships acquired in a business combination*

In accordance with IFRS 3 (revised) and IAS 38, Ternium has recognized the value of customer relationships separately from goodwill in connection with the acquisitions of Grupo Imsa and Ferrasa S.A.S..

Customer relationships are amortized using the straight-line method over a useful life of approximately 10 years.

*(7) Trademarks acquired in a business combination*

In accordance with IFRS 3 and IAS 38, Ternium has recognized the value of trademarks separately from goodwill in connection with the acquisitions of Grupo Imsa and Ferrasa S.A.S..

Trademarks are amortized using the straight-line method over a useful life of between 5 to 10 years.

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

**4 Accounting policies (continued)**

**(f) Impairment**

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

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

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

Ternium uses cash flow projections for the next five years based on past performance and expectations of market development; thereafter, it uses a perpetuity rate with no growth increase. Application of the discounted cash flow (DCF) method to determine the value in use of a CGU begins with a forecast of all expected future net cash flows. Variables considered in forecasts include the gross domestic product (GDP) growth rates of the country under study and their correlation with steel demand, level of steel prices and estimated raw material costs as observed in industry reports.

Cash flows are discounted at post-tax rates that reflect specific country and currency risks associated with the cash flow projections. The discount rates used are based on Ternium's weighted average cost of capital (WACC), which is considered to be a good indicator of cost of capital. As of December 31, 2011, the discount rate used to test goodwill allocated to Mexico CGU for impairment was 11.4%.

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

At December 31, 2009, an impairment provision over the agreement with Corus recognized as intangible assets, was recorded for the amount of USD 27.0 million. See note 25 (ii). At December 31, 2011 and 2010, no impairment provisions were recorded.

**(g) Other investments**

Other investments consist primarily of investments in financial debt instruments and equity investments where the Company holds less than 20% of the outstanding equity and does not exert significant influence.

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

Income from financial instruments is recognized in Other financial income (expenses), net in the income statement. The fair value of quoted investments are based on current bid prices. If the market for a financial investment is not active or the securities are not listed, the Company estimates the fair value by using standard valuation techniques. Dividends from investments in equity instruments are recognized in the income statement when the Company's right to receive payments is established.

**(h) Inventories**

Inventories are stated at the lower of cost (calculated using the first-in-first-out "FIFO" method) or net realizable value. The cost of finished goods and goods in process comprises raw materials, direct labor, depreciation, other direct costs and related production overhead costs. It excludes borrowing costs. Goods acquired in transit at year end are valued at supplier's invoice cost.

The cost of iron ore produced in our mines comprises all direct costs necessary to extract and convert stockpiled inventories into raw materials, including stripping costs, depreciation of fixed assets related to the mining activity and amortization of mine exploration costs for those under-production mines.

The Company assesses the recoverability of its inventories considering their selling prices, if the inventories are damaged, or if they have become wholly or partially obsolete (see note 4 (x) (4)).

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

**4 Accounting policies (continued)**

**(i) Trade receivables and other receivables**

Trade and other receivables are carried at face value less an allowance for doubtful accounts, if applicable. This amount does not differ significantly from fair value.

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

**(j) Cash and cash equivalents**

Cash and cash equivalents and highly liquid short-term securities are carried at fair market value or at a historical cost which approximates fair market value.

For purposes of the cash flow statement, cash and cash equivalents comprise cash, bank current accounts and short-term highly liquid investments (original maturity of three months or less at date of acquisition) and overdrafts.

In the consolidated statement of financial position, bank overdrafts are included in borrowings within current liabilities.

**(k) Non current assets (disposal groups) classified as held for sale**

Non-current assets (disposal groups) are classified as assets held for sale, complying with the recognition criteria of IFRS 5, and stated at the lower of carrying amount and fair value less cost to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

The carrying value of non-current assets classified as held for sale, at December 31, 2011 and 2010 totals USD 10.4 million and USD 10.0 million, respectively, which corresponds principally to land and other real estate items. Sale is expected to be completed within a one-year period.

**(l) Borrowings**

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

Capitalized costs for issue of debt are amortized over the life of their respective debt.

**(m) Income taxes – current and deferred**

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

Deferred income taxes are calculated using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. The principal temporary differences arise on fixed assets, intangible assets, inventories valuation and provisions for pensions. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted at year end. Under IFRS, deferred income tax assets (liabilities) are classified as non-current assets (liabilities).

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

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

Under Mexican law, Ternium's subsidiaries are required to pay their employees an annual benefit which is determined as a percentage of taxable profit for the year.

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

**4 Accounting policies (continued)**

**(n) Employee liabilities**

*(1) Pension obligations*

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

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

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

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

Mexico

Ternium Mexico has defined benefit and defined contribution plans.

The valuation of the liabilities for the defined benefit employee retirement plans (pensions and seniority premiums) covers all employees and is based primarily on their years of service, their present age and their remuneration at the date of retirement. The cost of the employee retirement plans (pension, health-care expenses and seniority premiums) is recognized as an expense in the year in which services are rendered in accordance with actuarial studies made by independent actuaries. The formal retirement plans are congruent with and complementary to the retirement benefits established by the Mexican Institute of Social Security. Additionally, the Company has established a plan to cover health-care expenses of retired employees. The Company has established irrevocable trust funds for the payment of pensions and seniority premiums, as well as for health-care expenses.

The defined contribution plans provides a benefit equivalent to the capital accumulated with the company's contributions, which are provided as a match of employees' contributions to the plan. The plan provides vested rights according to the years of service and the cause of retirement.

Argentina

Siderar implemented an unfunded defined benefit employee retirement plan for certain senior officers. The plan is designed to provide certain benefits to those officers (additional to those contemplated under applicable Argentine labor laws) in case of terminations of the employment relationship due to certain specified events, including retirement. Benefits provided by the plan are denominated in U.S. Dollars and are calculated based on a seven-year salary average.

*(2) Termination benefits*

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

*(3) Other compensation obligations*

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

During 2007, Ternium launched an incentive retention program (the "Program") applicable to certain senior officers and employees of the Company, who will be granted a number of Units throughout the duration of the Program. The value of each of these Units is based on Ternium's shareholders' equity (excluding non-controlling interest). Also, the beneficiaries of the Program are entitled to receive cash amounts based on (i) the amount of dividend payments made by Ternium to its shareholders, and (ii) the number of Units held by each beneficiary to the Program. Units vest ratably over a period of four years and will be redeemed by the Company ten years after grant date, with the option of an early redemption at seven years after grant date. As the cash payment of the benefit is tied to the book value of the shares, and not to their market value, Ternium valued this long-term incentive program as a long term benefit plan as classified in IAS 19.

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

**4 Accounting policies (continued)**

As of December 31, 2011 and 2010, the outstanding liability corresponding to the Program amounts to USD 12.5 million and USD 10.8 million, respectively. The total value of the units granted to date under the program, considering the number of units and the book value per share as of December 31, 2011 and 2010, is USD 15.1 million and USD 12.6 million, respectively.

*(4) Social security contributions*

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

**(o) Provisions and other liabilities**

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

**(p) Trade payables**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

**(q) Revenue recognition**

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

Interest income is recognized on an effective yield basis.

**(r) Borrowing Costs**

Beginning on January 1, 2009, and as required by IAS 23 revised, Ternium capitalizes the borrowing costs incurred to finance construction, acquisition or production of qualifying assets. In the case of specific borrowings, Ternium determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. For general borrowings, Ternium determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that Ternium capitalizes during a period will not exceed the amount of borrowing costs incurred during that period. At December 31, 2011, the capitalized borrowing costs are not material.

**(s) Cost of sales, selling, general and administrative expenses**

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

Commissions, freight and other selling expenses, including shipping and handling costs, are recorded in Selling, general and administrative expenses in the Consolidated Income Statement.

**(t) Removal of waste materials to access mineral deposits**

Stripping costs (the costs associated with the removal of overburden and other waste materials) that are incurred during the development of a mine (pre-production stripping costs) are expensed when incurred, while post-production stripping costs are included in the cost of the inventory produced (that is extracted) at each mine individually during the period they are incurred.

**(u) Earnings per share**

Earnings per share are calculated by dividing the net income attributable to shareholders by the daily weighted average number of ordinary shares issued during the year (see Note 26).



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

**4 Accounting policies (continued)**

**(v) Derivative financial instruments and hedging activities**

Ternium designates certain derivatives as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction. These transactions are classified as cash flow hedges (mainly interest rate swaps, collars, currency forward contracts on highly probable forecast transactions and commodities contracts). The effective portion of the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI. Amounts accumulated in OCI are recognized in the income statement in the same period as any offsetting losses and gains on the hedged item. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. The fair value of Ternium derivative financial instruments (asset or liability) continues to be reflected in the statement of financial position.

For transactions designated and qualifying for hedge accounting, Ternium documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. At December 31, 2011, the effective portion of designated cash flow hedges amounts to USD 14.9 million (net of taxes for USD 2.9 million) and is included under “changes in the fair value of derivatives classified as cash flow hedges” line item in the statement of comprehensive income (see Note 32 (a)).

More information about accounting for derivative financial instruments and hedging activities is included in Note 34 “Financial risk management”.

**(w) Segment information**

Reportable operating 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 Company is not aggregating any operating segments in order to arrive at its reportable segments.

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

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

The other products segment includes products other than flat and long steel, mainly pig iron, pellets and pre-engineered metal buildings.

**(x) Critical Accounting Estimates**

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

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

*(1) Goodwill impairment test*

Assessment of the recoverability of the carrying value of goodwill requires significant judgment. Management evaluates goodwill allocated to the operating units for impairment on an annual basis or whenever there is an impairment indicator.

Goodwill is tested at the level of the CGU. Impairment testing of the CGU is carried out and the value in use determined in accordance with the accounting policy stated in Note 4(f). The discount rates used for these tests are based on Ternium’s weighted average cost of capital adjusted for specific country and currency risks associated with the cash flow projections. The discount rate used at December 31, 2011 was 11.4% and no impairment charge resulted from the impairment test performed.

*(2) Income taxes*

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

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

**4 Accounting policies (continued)**

Also, when assessing the recoverability of tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies.

*(3) Loss contingencies*

Ternium is subject to various claims, lawsuits and other legal proceedings that arise in the ordinary course of business, including customer claims in which a third party is seeking reimbursement or indemnity. The Company's liability with respect to such claims, lawsuits and other legal proceedings cannot be estimated with certainty. Periodically, management reviews the status of each significant matter and assesses potential financial exposure. If the potential loss from the claim or proceeding is considered probable and the amount can be reasonably estimated, a liability is recorded. Management estimates the amount of such liability based on the information available and the assumptions and methods it has concluded are appropriate, in accordance with the provisions of IFRS. Accruals for such contingencies reflect a reasonable estimate of the losses to be incurred based on information available, including the relevant litigation or settlement strategy, as of the date of preparation of these financial statements. As additional information becomes available, management will reassess its evaluation of the pending claims, lawsuits and other proceedings and revise its estimates. The loss contingencies provision amounts to USD 15.3 million and USD 16.1 million as of December 31, 2011 and 2010, respectively.

*(4) Allowance for obsolescence of supplies and spare parts and slow-moving inventory*

Management assesses the recoverability of its inventories considering their selling prices or whether they are damaged or have become wholly or partly obsolete.

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

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

As of December 31, 2011 and 2010, the Company recorded no allowance for net realizable value and USD 60.5 million and USD 68.2 million, respectively, as allowance for obsolescence.

During 2011 and 2010, no charges were recorded in connection with net realizable value allowance. Charges to mark the inventory to net realizable value in 2009 were USD 127.6 million. Of this amount, USD 82.8 million in 2009 corresponded to inventories for shipments to the North America region, while USD 44.8 million in 2009 corresponded to inventories for exports within the South and Central America region.

The additions to the allowance for net realizable value recorded during 2009 responded to the steep fall of steel prices as a result of the global financial crisis that began in 2008. Beginning in the second half of 2008 up to the first half of 2009 average prices of flat steel products decreased 41%. Accordingly, inventory values were compared to their estimated net selling prices and written down when the selling prices were lower than historical costs. This was the case of inventories produced from third-party slabs in Mexico and certain raw materials in Argentina that had been acquired at market prices in force prior to the beginning of the global financial crisis.

*(5) Valuation of the Sidor financial asset*

The Sidor financial asset recorded as a result of the nationalization of Sidor was treated as a receivable and valued at its amortized cost using the applicable effective interest rate. The discount rate used to measure this receivable at amortized cost was estimated on the basis of management's best estimate of market rates adjusted to reflect specific risks.

The initial measurement of the receivable and its subsequent measurements until November 8, 2010, were performed on the basis of its discounted amount using an annual discount rate of 14.36%. This discount rate was estimated on the basis of the yield (13.3%) of Venezuelan sovereign debt with maturities similar to that of the receivable held by Ternium against CVG; however, as the Venezuelan sovereign debt with similar maturities was governed by New York law, while the receivable with CVG was governed by Venezuelan law, the discount rate was further adjusted to adequately reflect the specific risk of Ternium's receivable. After the rescheduling of the last unpaid installment agreed on December 18, 2010, the annual discount rate used to measure the receivable was estimated at 6.28%, on the basis of the specific risks associated to the third-party promissory notes received as guarantee for full payment of CVG obligations.

For further information on the Sidor nationalization and the rescheduling of the related receivable, refer to Note 27.

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

**4 Accounting policies (continued)**

*(6) Useful Lives and Impairment of Property, Plant and Equipment and Other Long-lived Assets*

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

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

- whether significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;
- whether market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- whether the carrying amount of the net assets of the entity is more than its market capitalization;
- whether evidence is available of obsolescence or physical damage of an asset.
- whether significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite; and
- whether evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

None of the Company's CGUs were tested for impairment, other than for goodwill test (see note 4 (x) (1)), in 2011 and 2010, as no impairment indicators were identified. Furthermore, based on information currently available, management believes that the recognition of a future impairment charge is not reasonably possible.

*(7) Allowances for doubtful accounts*

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

Allowances for doubtful accounts are adjusted periodically in accordance with the aging of overdue accounts. For this purpose, trade accounts receivable overdue by more than 90 days, and which are not covered by a credit collateral, guarantee or similar surety, are fully provisioned. As of December 31, 2011 and 2010, allowance for doubtful accounts totals USD 16.1 million and USD 17.2 million, respectively.

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

**5 Segment information**

**Reportable operating segments**

	<b>Year ended December 31, 2011</b>				
	<b>Flat steel products</b>	<b>Long steel products</b>	<b>Other</b>	<b>Unallocated</b>	<b>Total</b>
Net sales	7,792,045	1,217,877	147,276	-	9,157,198
Cost of sales	(6,138,685)	(864,522)	(91,045)	-	(7,094,252)
Gross profit	1,653,360	353,355	56,231	-	2,062,946
Selling, general and administrative expenses	(673,363)	(96,832)	(15,966)	-	(786,161)
Other operating income (expenses), net	(14,912)	3,247	99	-	(11,566)
Operating income	965,085	259,770	40,364	-	1,265,219
Capital expenditures - PP&E	470,641	70,181	12,528	-	553,350
Depreciation - PP&E	300,795	31,468	6,284	-	338,547
<b>Segment assets</b>					
Inventories, net	1,870,523	239,060	27,441	-	2,137,024
Trade receivables, net	588,371	143,255	10,902	-	742,528
Property, plant and equipment, net	3,591,733	389,820	51,122	-	4,032,675
Intangible assets, net	868,978	72,629	44,465	-	986,072
Assets - discontinued operations				136,294	136,294
Other assets				2,711,981	2,711,981
	<b>Year ended December 31, 2010</b>				
	<b>Flat steel products</b>	<b>Long steel products</b>	<b>Other</b>	<b>Unallocated</b>	<b>Total</b>
Net sales	6,376,380	833,137	172,487	-	7,382,004
Cost of sales	(4,932,551)	(633,958)	(98,745)	-	(5,665,254)
Gross profit	1,443,829	199,179	73,742	-	1,716,750
Selling, general and administrative expenses	(585,746)	(62,419)	(17,141)	-	(665,306)
Other operating income (expenses), net	2,887	(506)	112	-	2,493
Operating income	860,970	136,254	56,713	-	1,053,937
Capital expenditures - PP&E	272,623	38,123	6,172	-	316,918
Depreciation - PP&E	285,755	20,851	6,214	-	312,820
<b>Segment assets</b>					
Inventories, net	1,804,896	117,721	30,773	-	1,953,390
Trade receivables, net	514,521	121,872	27,109	-	663,502
Property, plant and equipment, net	3,831,181	378,212	53,503	-	4,262,896
Intangible assets, net	1,004,680	75,504	49,164	-	1,129,348
Assets - discontinued operations				257,988	257,988
Other assets				2,845,207	2,845,207

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

**5 Segment information (continued)**

	Year ended December 31, 2009				
	Flat steel products	Long steel products	Other	Unallocated	Total
Net sales	4,249,979	572,900	136,104	-	4,958,983
Cost of sales	(3,634,854)	(392,983)	(82,533)	-	(4,110,370)
Gross profit	615,125	179,917	53,571	-	848,613
Selling, general and administrative expenses	(477,067)	(40,739)	(13,724)	-	(531,530)
Other operating income (expenses), net	(21,303)	414	189	-	(20,700)
Operating income	116,755	139,592	40,036	-	296,383
Capital expenditures - PP&E	178,425	10,270	1,983	-	190,678
Depreciation - PP&E	287,177	19,017	6,786	-	312,980
<b>Segment assets</b>					
Inventories, net	1,219,347	102,423	28,798	-	1,350,568
Trade receivables, net	349,230	60,825	27,780	-	437,835
Property, plant and equipment, net	3,724,825	263,461	52,129	-	4,040,415
Intangible assets, net	977,552	60,795	47,065	-	1,085,412
Assets - discontinued operations				964,359	964,359
Other assets				2,414,084	2,414,084

**Geographical information**

There are no revenues from external customers attributable to the Company's country of incorporation (Luxembourg). Ternium sells its products to three main geographical areas: South and Central America, North America, and Europe and others. The North American area comprises principally United States and Mexico. The South and Central American area comprises principally Argentina, Colombia, Paraguay, Guatemala, Costa Rica, Uruguay, Dominican Republic and Honduras.

	Year ended December 31, 2011			
	South and Central America	North America	Europe and other	Total
Net sales	4,015,858	5,085,227	56,113	9,157,198
<b>Segment assets</b>				
Trade receivables, net	237,910	496,506	8,112	742,528
Property, plant and equipment, net	1,392,065	2,639,229	1,381	4,032,675
Intangible assets, net	50,438	935,634	-	986,072
Capital expenditures - PP&E	201,849	350,524	977	553,350
Depreciation - PP&E	141,352	197,067	128	338,547

	Year ended December 31, 2010			
	South and Central America	North America	Europe and other	Total
Net sales	3,057,676	4,208,617	115,711	7,382,004
<b>Segment assets</b>				
Trade receivables, net	192,723	456,433	14,346	633,502
Property, plant and equipment, net	1,437,417	2,825,370	109	4,262,896
Intangible assets, net	54,443	1,074,905	-	1,129,348
Capital expenditures - PP&E	182,845	134,027	46	316,918
Depreciation - PP&E	118,774	194,029	17	312,820

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

**5 Segment information (continued)**

	Year ended December 31, 2009			Total
	South and Central America	North America	Europe and other	
Net sales	1,782,446	2,976,938	199,599	4,958,983
<b>Segment assets</b>				
Trade receivables, net	116,231	318,466	3,138	437,835
Property, plant and equipment , net	1,297,289	2,743,045	81	4,040,415
Intangible assets, net	36,188	1,049,224	-	1,085,412
Capital expenditures – PP&E	117,583	73,044	51	190,678
Depreciation - PP&E	111,895	201,071	14	312,980

**Revenues by product**

	Year ended December 31,		
	2011	2010	2009
Semi-finished (1)	-	29	11,389
Hot rolled	2,749,607	2,264,308	1,214,349
Cold rolled	1,458,875	1,213,813	837,798
Coated (2)	2,926,291	2,410,809	1,846,967
Roll-formed and tubular (3)	657,272	487,421	339,476
<b>Flat steel products</b>	<u>7,792,045</u>	<u>6,376,380</u>	<u>4,249,979</u>
Semi-finished (4)	91,955	147,282	30,835
Hot rolled (5)	1,125,922	685,855	542,065
<b>Long steel products</b>	<u>1,217,877</u>	<u>833,137</u>	<u>572,900</u>
<b>TOTAL STEEL PRODUCTS</b>	<u>9,009,922</u>	<u>7,209,517</u>	<u>4,822,879</u>
<b>Other products</b>	147,276	172,487	136,104
<b>TOTAL SALES</b>	<u>9,157,198</u>	<u>7,382,004</u>	<u>4,958,983</u>

- (1) Semi-finished includes slabs.
- (2) Coated includes hot-dipped galvanized, electrogalvanized, pre-painted, tin plate and tin-free steel.
- (3) Roll-formed and tubular includes steel pipes, tubular products, beams, insulated panels, roofing and cladding, roof tiles and steel decks.
- (4) Semi-finished includes billets and round bars.
- (5) Hot rolled includes wire rod, bars and stirrups.

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

**6 Cost of sales**

	Year ended December 31,		
	2011	2010	2009
<b>Inventories at the beginning of the year</b>	1,953,390	1,350,568	1,826,547
Acquisition of business (Note 3)	-	76,771	-
Translation differences	(229,685)	28,621	(46,857)
<b>Plus: Charges for the year</b>			
Raw materials and consumables used and other movements	5,933,893	4,763,000	2,473,327
Services and fees	246,364	197,873	126,325
Labor cost	577,101	496,961	378,558
Depreciation of property, plant and equipment	323,210	295,504	308,156
Amortization of intangible assets	16,557	19,453	14,462
Maintenance expenses	348,721	342,529	221,175
Office expenses	6,678	6,662	4,997
Freight and transportation	56,035	36,892	32,846
Insurance	7,032	7,530	9,256
Charge (Recovery) of obsolescence allowance	6,121	11,710	(7,556)
Valuation allowance	-	-	127,553
Recovery from sales of scrap and by-products	(40,532)	(40,654)	(27,326)
Others	26,391	25,224	19,475
<b>Less: Inventories at the end of the year</b>	<u>(2,137,024)</u>	<u>(1,953,390)</u>	<u>(1,350,568)</u>
<b>Cost of Sales</b>	<b><u>7,094,252</u></b>	<b><u>5,665,254</u></b>	<b><u>4,110,370</u></b>

**7 Selling, general and administrative expenses**

	Year ended December 31,		
	2011	2010	2009
Services and fees (1)	71,091	60,874	46,923
Labor cost	180,650	153,807	150,914
Depreciation of property plant and equipment	15,337	17,316	4,824
Amortization of intangible assets	50,738	51,027	57,663
Maintenance expenses	17,730	11,113	6,858
Taxes	120,264	89,412	65,889
Office expenses	32,973	29,567	26,134
Freight and transportation	269,630	232,184	156,520
Increase (Decrease) of allowance for doubtful accounts	322	(393)	(1,635)
Others	27,426	20,399	17,440
<b>Selling, general and administrative expenses</b>	<b><u>786,161</u></b>	<b><u>665,306</u></b>	<b><u>531,530</u></b>

(1) Includes fees accrued for professional services rendered by PwC to Ternium S.A. and its subsidiaries during the year ended December 31, 2011 that amounted to USD 3,776, including USD 3,281 for audit services, USD 447 for audit-related services, USD 24 for tax services and USD 24 for all other services.

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

	Year ended December 31,		
	2011	2010	2009
Wages, salaries and social security costs	687,877	594,909	450,828
Termination benefits	38,786	27,872	55,358
Pension benefits (Note 22 (i))	31,088	27,987	23,286
<b>Labor costs</b>	<b><u>757,751</u></b>	<b><u>650,768</u></b>	<b><u>529,472</u></b>

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

**9 Other operating (expenses) income, net**

	Year ended December 31,		
	2011	2010	2009
Results from the sale of sundry assets	(4,169)	(4,681)	(2,121)
Provision for legal claims and other matters (Note 20 and 25 (ii))	(29,932)	(5,543)	(4,614)
Fees related to the repurchase of shares from Usiminas (Note 30)	10,200	-	-
Impairment charge (Note 25 (ii))	-	-	(27,022)
Others	12,335	12,717	13,057
<b>Other operating (expenses) income, net</b>	<b>(11,566)</b>	<b>2,493</b>	<b>(20,700)</b>

**10 Other financial (expenses) income, net**

	Year ended December 31,		
	2011	2010	2009
Net foreign exchange (loss) gain	(236,362)	123,690	83,057
Change in fair value of financial instruments	7,968	1,545	10,607
Debt issue costs	(5,078)	(4,562)	(5,149)
Others	(6,525)	(5,561)	(6,876)
<b>Other financial (expenses) income, net</b>	<b>(239,997)</b>	<b>115,112</b>	<b>81,639</b>

**11 Income tax expense**

**Income tax**

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

	Year ended December 31,		
	2011	2010	2009
Current tax	(368,378)	(410,041)	(124,647)
Deferred tax (Note 21)	41,285	(1,035)	(24,812)
Deferred tax – effect of changes in tax rates	-	-	(11,216)
Effect of change in fair value of cash flow hedge	6,701	4,419	9,112
Recovery of income tax (1)	4,417	-	60,249
<b>Income tax expense</b>	<b>(315,974)</b>	<b>(406,657)</b>	<b>(91,314)</b>

(1) Represents gains recorded in 2011 and 2009 for several income tax claims filed against the tax authorities for which definitive favorable rulings were obtained in such years.

Income tax expense for the years ended December 31, 2011, 2010 and 2009 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,		
	2011	2010	2009
Income before income tax	965,882	1,186,127	430,415
Income tax expense at statutory tax rate	(292,300)	(366,992)	(92,662)
Non taxable income	5,929	2,797	1,940
Non deductible expenses	(28,568)	(38,132)	(41,085)
Unrecognized tax losses	(5,452)	(4,330)	(8,540)
Recovery of income tax	4,417	-	60,249
Effect of changes in tax rate	-	-	(11,216)
<b>Income tax expense</b>	<b>(315,974)</b>	<b>(406,657)</b>	<b>(91,314)</b>

Tax rates used to perform the reconciliation between tax expense (income) and accounting profit are those in effect at each relevant date or period in each applicable jurisdiction.



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

**12 Property, plant and equipment, net**

	<b>Year ended December 31, 2011</b>						
	<b>Land</b>	<b>Buildings and improvements</b>	<b>Production equipment</b>	<b>Vehicles, furniture and fixtures</b>	<b>Work in progress</b>	<b>Spare parts</b>	<b>Total</b>
<b>Cost</b>							
Values at the beginning of the year	489,750	1,799,404	4,181,696	152,280	318,330	37,148	6,978,608
Translation differences	(59,328)	(158,079)	(409,796)	(12,920)	(51,784)	(2,955)	(694,862)
Additions	46,565	2,514	13,760	4,359	482,981	3,171	553,350
Disposals / Consumptions	-	(10,412)	(10,563)	(3,942)	(1,315)	(133)	(26,365)
Transfers	-	86,869	106,692	6,749	(200,310)	-	-
Values at the end of the year	<b>476,987</b>	<b>1,720,296</b>	<b>3,881,789</b>	<b>146,526</b>	<b>547,902</b>	<b>37,231</b>	<b>6,810,731</b>
<b>Depreciation</b>							
Accumulated at the beginning of the year	-	(611,089)	(1,975,650)	(127,363)	-	(1,610)	(2,715,712)
Translation differences	-	53,672	195,284	10,570	-	129	259,655
Depreciation charge	-	(96,190)	(232,395)	(9,393)	-	(569)	(338,547)
Disposals / Consumptions	-	4,787	9,474	2,250	-	37	16,548
Accumulated at the end of the year	-	(648,820)	(2,003,287)	(123,936)	-	(2,013)	(2,778,056)
<b>At December 31, 2011</b>	<b>476,987</b>	<b>1,071,476</b>	<b>1,878,502</b>	<b>22,590</b>	<b>547,902</b>	<b>35,218</b>	<b>4,032,675</b>
	<b>Year ended December 31, 2010</b>						
	<b>Land</b>	<b>Buildings and improvements</b>	<b>Production equipment</b>	<b>Vehicles, furniture and fixtures</b>	<b>Work in progress</b>	<b>Spare parts</b>	<b>Total</b>
<b>Cost</b>							
Values at the beginning of the year	424,722	1,511,825	4,024,494	149,214	387,721	32,590	6,530,566
Translation differences	20,717	(18,926)	43,439	(4,097)	(7,566)	(1,522)	32,045
Acquisition of business	26,041	41,217	67,280	4,070	1,510	-	140,118
Additions	18,270	5,575	2,730	1,955	282,139	6,249	316,918
Disposals / Consumptions	-	(3,616)	(34,111)	(2,381)	(762)	(169)	(41,039)
Transfers	-	263,329	77,864	3,519	(344,712)	-	-
Values at the end of the year	<b>489,750</b>	<b>1,799,404</b>	<b>4,181,696</b>	<b>152,280</b>	<b>318,330</b>	<b>37,148</b>	<b>6,978,608</b>
<b>Depreciation</b>							
Accumulated at the beginning of the year	-	(554,581)	(1,809,902)	(124,455)	-	(1,213)	(2,490,151)
Translation differences	-	20,341	29,192	4,128	-	54	53,715
Depreciation charge	-	(78,000)	(225,866)	(8,464)	-	(490)	(312,820)
Disposals / Consumptions	-	1,151	30,926	1,428	-	39	33,544
Accumulated at the end of the year	-	(611,089)	(1,975,650)	(127,363)	-	(1,610)	(2,715,712)
<b>At December 31, 2010</b>	<b>489,750</b>	<b>1,188,315</b>	<b>2,206,046</b>	<b>24,917</b>	<b>318,330</b>	<b>35,538</b>	<b>4,262,896</b>

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

**13 Intangible assets, net**

	Year ended December 31, 2011						
	Information system projects	Mining concessions	Exploration costs	Customer relationships and other contractual rights	Trademarks	Goodwill	Total
<b>Cost</b>							
Values at the beginning of the year	118,784	109,809	31,688	324,670	81,023	750,127	1,416,101
Translation differences	(14,399)	(14,981)	(3,019)	(34,349)	(7,358)	(86,321)	(160,427)
Additions	34,345	-	13,648	-	-	-	47,993
Transfers	-	16,493	(16,493)	-	-	-	-
Values at the end of the year	138,730	111,321	25,824	290,321	73,665	663,806	1,303,667
<b>Depreciation</b>							
Accumulated at the beginning of the year	(82,741)	(47,600)	-	(108,711)	(47,701)	-	(286,753)
Translation differences	8,437	6,635	-	15,032	6,349	-	36,453
Depreciation charge	(11,455)	(9,884)	-	(31,625)	(14,331)	-	(67,295)
Accumulated at the end of the year	(85,759)	(50,849)	-	(125,304)	(55,683)	-	(317,595)
<b>At December 31, 2011</b>	<b>52,971</b>	<b>60,472</b>	<b>25,824</b>	<b>165,017</b>	<b>17,982</b>	<b>663,806</b>	<b>986,072</b>
<b>Year ended December 31, 2010</b>							
	Information system projects	Mining concessions	Exploration costs	Customer relationships and other contractual rights	Trademarks	Goodwill	Total
<b>Cost</b>							
Values at the beginning of the year	98,736	103,909	20,812	288,414	73,358	708,643	1,293,872
Translation differences	(363)	5,900	1,412	14,795	3,258	39,927	64,929
Acquisition of business	42	-	-	19,467	4,407	1,557	25,473
Additions	20,369	-	10,843	1,994	-	-	33,206
Disposals / Consumptions	-	-	(1,379)	-	-	-	(1,379)
Values at the end of the year	118,784	109,809	31,688	324,670	81,023	750,127	1,416,101
<b>Depreciation</b>							
Accumulated at the beginning of the year	(66,363)	(35,568)	-	(74,474)	(32,055)	-	(208,460)
Translation differences	690	(2,215)	-	(4,390)	(1,898)	-	(7,813)
Depreciation charge	(17,068)	(9,817)	-	(29,847)	(13,748)	-	(70,480)
Accumulated at the end of the year	(82,741)	(47,600)	-	(108,711)	(47,701)	-	(286,753)
<b>At December 31, 2010</b>	<b>36,043</b>	<b>62,209</b>	<b>31,688</b>	<b>215,959</b>	<b>33,322</b>	<b>750,127</b>	<b>1,129,348</b>

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

**14 Investments in associated companies**

	As of December 31,	
	2011	2010
At the beginning of the year	8,212	6,577
Translation adjustment	(124)	(53)
(Disposals)/Acquisitions	(70)	302
Dividends received from associated companies	-	(302)
Equity in earnings of associated companies	1,293	1,688
<b>At the end of the year</b>	<b>9,311</b>	<b>8,212</b>

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

Company	Country of incorporation	Voting rights at December 31,		Value at December 31,	
		2011	2010	2011	2010
Lomond Holdings BV. (1)	Netherlands	50.00%	50.00%	7,299	6,635
Finma S.A.I.F. (2)	Argentina	33.33%	33.33%	1,429	1,200
Arhsa S.A. (2)	Argentina	33.33%	33.33%	379	176
Techinst S.A. (3)	Argentina	33.33%	33.33%	204	126
Compañía Afianzadora de Empresas Siderúrgicas S.G.R. (4)	Argentina	-	38.89%	-	75
				<b>9,311</b>	<b>8,212</b>

- (1) Holding Company. Indirectly through the participation in Ternium Investments Switzerland A.G. since December 7, 2011. Prior to this date and since August 9, 2010, the participation was held by Ternium Treasury Services S.A. and prior to August 9, 2010, it was held by Ternium Procurement S.A.
- (2) Consulting and financial services. Indirectly through the participation in Siderar.
- (3) Consulting and financial services. Indirectly through the participation in Ternium Treasury Services S.A..
- (4) Granting of guarantees to participating partners to facilitate or permit access to credits for purchase of national raw material. Indirectly through the participation in Siderar.

**15 Other investments, net – Non-current**

	As of December 31,	
	2011	2010
Time deposits with related parties (i) (Note 28)	-	18,086
Investments in debt instruments	13,900	17,227
Others	187	262
<b>Other investments, net – Non-current</b>	<b>14,087</b>	<b>35,575</b>

- (i) The Company held a savings fund denominated in U.S. dollars until the fourth quarter of 2011.

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

**16 Receivables, net – Non-current and Current**

	<u>As of December 31,</u>	
	<u>2011</u>	<u>2010</u>
Receivables with related parties (Note 28)	197	285
Employee advances and loans	8,163	8,821
Advances to suppliers for the purchase of property, plant and equipment	98,455	21,125
Advances to suppliers for the purchase of property, plant and equipment with related parties (Note 28)	290	1,548
Tax credits	12,582	18,369
Others	4,514	6,323
<b>Receivables, net – Non-current</b>	<b><u>124,201</u></b>	<b><u>56,471</u></b>

	<u>As of December 31,</u>	
	<u>2011</u>	<u>2010</u>
Value added tax	14,455	26,169
Tax credits	46,059	26,806
Employee advances and loans	9,128	10,465
Advances to suppliers	8,289	4,815
Advances to suppliers with related parties (Note 28)	955	552
Expenses paid in advance	7,145	3,695
Government tax refunds on exports	3,092	9,263
Receivables with related parties (Note 28)	286	548
Others	16,182	12,260
<b>Receivables, net – Current</b>	<b><u>105,591</u></b>	<b><u>94,573</u></b>

**17 Trade receivables, net – Non-current and Current**

	<u>As of December 31,</u>	
	<u>2011</u>	<u>2010</u>
Trade receivables	7,672	354
Allowance for doubtful accounts (Note 20)	(146)	(354)
<b>Trade receivables, net – Non-current</b>	<b><u>7,526</u></b>	<b><u>-</u></b>

	<u>As of December 31,</u>	
	<u>2011</u>	<u>2010</u>
Current accounts	720,667	669,403
Trade receivables with related parties (Note 28)	30,337	10,959
Allowance for doubtful accounts (Note 20)	(16,002)	(16,860)
<b>Trade receivables, net - Current</b>	<b><u>735,002</u></b>	<b><u>663,502</u></b>

**18 Inventories, net**

	<u>As of December 31,</u>	
	<u>2011</u>	<u>2010</u>
Raw materials, materials and spare parts	593,903	523,832
Goods in process	1,055,934	998,552
Finished goods	414,614	415,985
Goods in transit	133,033	83,214
Obsolescence allowance (Note 20)	(60,460)	(68,193)
<b>Inventories, net</b>	<b><u>2,137,024</u></b>	<b><u>1,953,390</u></b>

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

**19 Cash, cash equivalents and other investments**

	<u>As of December 31,</u>	
	<u>2011</u>	<u>2010</u>
<b>(i) Other investments</b>		
Deposits with maturity of more than three months	<b>281,676</b>	<b>848,400</b>
<b>(ii) Cash and cash equivalents</b>		
Cash and banks	115,585	98,811
Restricted cash	248	12,343
Deposits with maturity of less than three months	2,042,758	1,668,262
<b>Cash and cash equivalents</b>	<b>2,158,591</b>	<b>1,779,416</b>

**20 Allowances and Provisions – Non-current and Current**

<b>Provisions and allowances - Non-current</b>	<u>Deducted from assets</u>	<u>Liabilities</u>
	<u>Allowance for doubtful accounts</u>	<u>Legal claims and other matters</u>
<b>Year ended December 31, 2011</b>		
Values at the beginning of the year	354	16,144
Translation differences	(23)	(2,228)
Additions	-	31,289
Reversals	(185)	(1,357)
Uses	-	(28,508)
<b>At December 31, 2011</b>	<b>146</b>	<b>15,340</b>
<b>Year ended December 31, 2010</b>		
Values at the beginning of the year	416	18,913
Translation differences	(18)	(290)
Additions	-	6,721
Reversals	(44)	(1,178)
Uses	-	(8,022)
<b>At December 31, 2010</b>	<b>354</b>	<b>16,144</b>
<b>Provisions and allowances - Current</b>	<u>Deducted from assets</u>	
	<u>Allowance for doubtful accounts</u>	<u>Obsolescence allowance</u>
<b>Year ended December 31, 2011</b>		
Values at the beginning of the year	16,860	68,193
Translation differences	(1,103)	(7,385)
Acquisition of business	-	-
Reversals	(2,133)	(26,261)
Additions	2,640	32,382
Uses	(262)	(6,469)
<b>At December 31, 2011</b>	<b>16,002</b>	<b>60,460</b>
<b>Year ended December 31, 2010</b>		
Values at the beginning of the year	16,310	58,153
Translation differences	(460)	1,911
Acquisition of business	4,168	1,290
Reversals	(3,885)	(17,719)
Additions	3,536	29,429
Uses	(2,809)	(4,871)
<b>At December 31, 2010</b>	<b>16,860</b>	<b>68,193</b>

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

**21 Deferred income tax**

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

Changes in deferred income tax are as follows:

	<b>Year ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
At beginning of the year	(865,355)	(857,297)
Translation differences	83,172	(14,855)
Acquisition of business	-	7,832
Deferred tax credit (charge)	41,285	(1,035)
<b>At end of the year</b>	<b>(740,898)</b>	<b>(865,355)</b>

The changes in deferred tax assets and liabilities (prior to offsetting the balances within the same tax jurisdiction) during the year are as follow:

<b>Deferred tax liabilities</b>	<b>Fixed assets</b>	<b>Inventories</b>	<b>Intangible assets</b>	<b>Other</b>	<b>Total at December 31, 2011</b>
At beginning of year	(682,027)	(70,498)	(81,161)	(169,373)	(1,003,059)
Translation differences	67,654	7,975	8,832	12,430	96,891
Income statement credit (charge)	27,936	10,718	10,596	(12,965)	36,285
<b>At end of year</b>	<b>(586,437)</b>	<b>(51,805)</b>	<b>(61,733)</b>	<b>(169,908)</b>	<b>(869,883)</b>

  

<b>Deferred tax assets</b>	<b>Provisions</b>	<b>Trade Receivables</b>	<b>Tax losses (1)</b>	<b>Other</b>	<b>Total at December 31, 2011</b>
At beginning of year	66,626	7,971	22,210	40,897	137,704
Translation differences	(6,037)	(1,531)	(3)	(6,148)	(13,719)
Income statement credit (charge)	409	2,363	(6,328)	8,556	5,000
<b>At end of year</b>	<b>60,998</b>	<b>8,803</b>	<b>15,879</b>	<b>43,305</b>	<b>128,985</b>

(1) As of December 31, 2011, the recognized tax losses amount to USD 15,879 and the net unrecognized deferred tax assets amount to USD 17,885. According to the tax law in force in the jurisdictions in which the tax losses are generated, these amounts do not have a certain expiration date.

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

The amounts shown in the statement of financial position include the following:

	<b>As of December 31,</b>	
	<b>2011</b>	<b>2010</b>
Deferred tax assets to be recovered after more than 12 months	74,202	82,980
Deferred tax liabilities to be settled after more than 12 months	(807,914)	(922,136)
	<b>(733,712)</b>	<b>(839,156)</b>

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

**22 Other liabilities – Non-current and Current**

	<u>As of December 31,</u>	
	<u>2011</u>	<u>2010</u>
<b>(i) Other liabilities - Non-current</b>		
Termination benefits	4,238	4,877
Pension benefits	155,625	166,812
Related parties (Note 28)	-	507
Other	40,982	29,116
<b>Other liabilities – Non-current</b>	<b><u>200,845</u></b>	<b><u>201,312</u></b>

*Pension benefits*

The amounts recognized in the consolidated statement of financial position are determined as follows:

	<u>Year ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
Present value of unfunded obligations	251,354	262,366
Unrecognized prior service costs	(3,578)	(3,694)
Unrecognized actuarial losses	(72,253)	(72,946)
Fair value of plan assets	(19,898)	(18,914)
<b>Liability in the statement of financial position</b>	<b><u>155,625</u></b>	<b><u>166,812</u></b>

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

	<u>Year ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
Current service cost	6,150	4,697
Interest cost	22,030	20,000
Amortization of prior service costs	818	634
Net actuarial losses recognized in the year	2,090	2,656
<b>Total included in labor costs</b>	<b><u>31,088</u></b>	<b><u>27,987</u></b>

Changes in the liability recognized in the consolidated statement of financial position are as follows:

	<u>Year ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
At the beginning of the year	166,812	151,562
Transfers, new participants and funding of the plan	(19,321)	(20,412)
Total expense	31,088	27,987
Translation differences	(21,261)	8,473
Contributions paid	(1,693)	(798)
<b>At the end of the year</b>	<b><u>155,625</u></b>	<b><u>166,812</u></b>

The principal actuarial assumptions used were as follows:

<b>Mexico</b>	<u>Year ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
Discount rate	8.75%	8.75%
Rate of compensation increase	4.00%	4.00%
<b>Argentina</b>	<u>Year ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
Discount rate	7.00%	7.00%
Rate of compensation increase	2.00%	2.00%

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

**22 Other liabilities (continued)**

	As of December 31,	
	2011	2010
<b>(ii) Other liabilities – Current</b>		
Payroll and social security payable	97,536	88,727
Termination benefits	8,547	6,693
Related Parties (Note 28)	4,052	22,017
Others	4,641	6,173
<b>Other liabilities – Current</b>	<b>114,776</b>	<b>123,610</b>

**23 Derivative financial instruments**

**Net fair values of derivative financial instruments**

The net fair values of derivative financial instruments at December 31, 2011 and 2010 were as follows:

	Year ended December 31,	
	2011	2010
<b>Contracts with positive fair values:</b>		
Foreign exchange contracts	50	212
	<b>50</b>	<b>212</b>
<b>Contracts with negative fair values:</b>		
Interest rate swap contracts	(19,264)	(54,675)
Foreign exchange contracts	(10,638)	(102)
	<b>(29,902)</b>	<b>(54,777)</b>

Derivative financial instruments breakdown is as follows:

*a) Interest rate contracts*

Fluctuations in market interest rates create a degree of risk by affecting the amount of the Company's interest payments and the value of its floating-rate debt. As of December 31, 2011, most of the Company's long-term borrowings were at variable rates.

Ternium Mexico entered into derivative instruments to manage the impact of the floating interest rate changes on its financial debt. The notional amount represents 42% of its total exposure as of December 31, 2011.

On February 23, 2007, Ternium Mexico entered into several interest rate collar agreements that fix the interest rate to be paid over an aggregate notional amount of USD 140 million, in an average range of 4.19% to 6.00%. These agreements are due in March 2012.

On June 18, 2008, Ternium Mexico entered into several knock-in swap agreements in an average swap level of 5.22% and a knock-in level of 2.5%. As of December 31, 2011, the notional amount outstanding is USD 396 million. These agreements are due in July 2012 and have been accounted for as cash flow hedges. Changes in fair value of derivative instruments designated as cash flow hedges for each of the years presented are included below:

	Cash flow hedges		
	Gross amount	Income Tax	Total
At December 31, 2009	(46,693)	14,009	(32,684)
(Decrease) / Increase	(19,334)	5,800	(13,534)
Reclassification to income statement	34,063	(10,219)	23,844
At December 31, 2010	(31,964)	9,590	(22,374)
(Decrease) / Increase	(658)	197	(460)
Reclassification to income statement	22,994	(6,898)	16,096
At December 31, 2011	(9,628)	2,889	(6,738)

The gross amount of the pre-tax reserve recorded in other comprehensive income at December 31, 2011 (amounting to a loss of USD 9.6 million) is expected to be reclassified to the income statements in 2012.



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

**23 Derivative financial instruments (continued)**

*b) Foreign exchange contracts*

From time to time, Ternium's subsidiaries enter into derivative agreements to manage their exposure to currencies other than the USD.

During 2011, Prosid Investments entered into several forward agreements to manage the exchange rate exposure generated by Siderar's debt in ARS against USD. The notional amount hedged as of December 31, 2011 was ARS 2.1 billion with an average forward price of 4.67 ARS per USD.

Furthermore, during 2011, Ferrasa Colombia S.A.S. has been hedging the exposure of certain trade receivables denominated in its local currency through non-deliverable forward agreements. As of December 31, 2011, the agreements aggregate notional amount were COP 34.4 billion at an exchange rate of 1,923 COP per USD.

On December 14, 2011, Ternium Mexico S.A. de C.V. entered into a forward agreement over an aggregate notional amount of MXN 627.5 million, at an exchange rate of 13.94 MXN per USD, to manage its operating exposure in MXN. This agreement is due in January 19, 2012.

During December 2011 and in connection with the purchase of the investment in Usiminas (see note 35), both Ternium Investments S.a.r.l., through its Zug branch, and Prosid Investments entered into several non-deliverable forward and forward exchange collar agreements to manage the exchange rate exposure generated by the share purchase agreement in BRL against USD. The notional amount hedged as of December 31, 2011 by Ternium Investments S.a.r.l. and Prosid Investments was BRL 2.9 billion and BRL 1.0 billion, respectively. These agreements are due in January 2012 and have been accounted for as cash flow hedges. As of December 31, 2011, the after-tax cash flow hedge reserve related to these agreements amounted to USD 8.2 million.

The net fair values of the exchange rate derivative contracts as of December 31, 2011 and December 31, 2010 were as follows:

Currencies	Contract	Notional amount	Fair Value at December 31,	
			2011	2010
BRL/USD	ND Forward (1)	3.9 billion BRL	(8,902)	-
ARS/USD	Forward	2.1 billion ARS	(1,653)	-
MXN/USD	Forward	0.6 billion MXN	(83)	-
COP/USD	ND Forward	34.4 billion COP	50	-
USD/EUR	Forward	-	-	212
USD/EUR	Cross Currency Swap	-	-	(52)
CRC/USD	ND Forward	-	-	8
GTQ/USD	ND Forward	-	-	(57)
			<b>(10,588)</b>	<b>111</b>

(1) These foreign exchange contracts were accounted for as cash flow hedges.

USD: US dollars; ARS: Argentine pesos; BRL: Brazilian reals; MXN: Mexican pesos; COP: Colombian pesos; GTQ: Guatemalan quetzales; CRC: Costa Rican colon.

**24 Borrowings**

	Year ended December 31,	
	2011	2010
<b>(i) Non-current</b>		
Bank borrowings	951,469	1,429,278
Less: debt issue costs	(2,974)	(2,704)
	<b>948,495</b>	<b>1,426,574</b>
<b>(ii) Current</b>		
Bank borrowings	1,043,977	517,718
Less: debt issue costs	(2,427)	(4,635)
	<b>1,041,550</b>	<b>513,083</b>
<b>Total Borrowings</b>	<b>1,990,045</b>	<b>1,939,657</b>

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

**24 Borrowings (continued)**

The maturity of borrowings is as follows:

	<b>Expected Maturity Date</b>				
				<b>At December 31, (1)</b>	
	<b>2012</b>	<b>2013</b>	<b>2014 and thereafter</b>	<b>2011</b>	<b>2010</b>
Fixed Rate	484,996	-	-	484,996	14,206
Floating Rate	556,554	401,791	546,704	1,505,049	1,925,451
<b>Total</b>	<b>1,041,550</b>	<b>401,791</b>	<b>546,704</b>	<b>1,990,045</b>	<b>1,939,657</b>

(1) As most borrowings incorporate floating rates that approximate market rates and the contractual repricing occurs every 3 to 6 months, the fair value of the borrowings approximates their carrying amount and it is not disclosed separately.

The weighted average interest rates - which incorporate instruments denominated mainly in US dollars and Argentina pesos and which also include the effect of derivative financial instruments- at year end were as follows:

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
Bank borrowings	3.42%	3.29%

The nominal average interest rates shown above were calculated using the rates set for each instrument in its corresponding currency and weighted using the dollar-equivalent outstanding principal amount of said instruments at December 31, 2011 and 2010, respectively.

Breakdown of borrowings by currency is as follows:

<b>Currency</b>	<b>Interest rates</b>	<b>December 31,</b>	
		<b>2011</b>	<b>2010</b>
USD	Floating	1,357,795	1,786,928
USD	Fixed	1,690	-
ARS	Floating	467	-
ARS	Fixed	460,946	312
BRL	Floating	17,177	12,725
COP	Floating	125,300	125,798
COP	Fixed	-	3,746
CRC	Fixed	6,475	-
GTQ	Fixed	15,885	10,148
MXN	Floating	4,310	-
<b>Total Borrowings</b>		<b>1,990,045</b>	<b>1,939,657</b>

USD: US dollars; ARS: Argentine pesos; BRL: Brazilian reals; COP: Colombian pesos; CRC: Costa Rican colon; GTQ: Guatemalan quetzales; MXN: Mexican pesos.

On April 6, 2011, the Company's subsidiary Ternium Mexico, S.A. de C.V. (Ternium Mexico), Crédit Agricole Corporate and Investment Bank, acting as Administrative Agent, and certain banks parties to a loan agreement dated as of July 12, 2007, partially refinanced a syndicated loan facility that had been incurred to finance Ternium's 2007 acquisition of Grupo Imsa, a company subsequently merged into Ternium Mexico.

The outstanding balance of the facility refinanced amounted to USD 1.0 billion. As part of the refinancing, the final maturity date of bank loans in a principal amount of USD 0.8 billion was extended to July 23, 2014 (with the extended loans being payable in four consecutive and equal semi-annual installments commencing on January 26, 2013), and the applicable margin structure for the extended loans was amended. On July 26, 2012, Ternium Mexico will repay the remaining USD 0.2 billion principal amount of the loans that was not refinanced.

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

**25 Contingencies, commitments and restrictions on the distribution of profits**

Ternium is involved in litigation arising from time to time in the ordinary course of business. The Company recorded a provision for those cases in which there is a probable cash outflow and the outcome can be reliably estimated. Based on management's assessment and the advice of legal counsel, it is not anticipated that the ultimate resolution of existing litigation would be material to Ternium's consolidated financial position, results of operations or liquidity.

*(i) Tax claims*

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

The *Administración Federal de Ingresos Públicos* ("AFIP" – the Argentine tax authority) has challenged the charge to income of certain disbursements that Siderar has treated as expenses necessary to maintain industrial installations, which as such should be deducted in the year in which they take place. The AFIP asserts that these are investments or improvements that must be capitalized and, therefore, it made a jeopardy assessment of income tax due on a nominal tax basis plus fines and interest in fiscal years 1995 to 1999 amounting to approximately USD 18.7 million as of December 31, 2011.

The Company appealed these assessments before the National Tax Court, as in the view of its legal and tax advisors, there are reasons that would likely result in a favorable ruling for the Company.

On April 13, 2005 the Company was notified of a ruling issued by the National Tax Court reducing the assessments made by the AFIP for fiscal years 1995 and 1996. The ruling was appealed both by the Company and the AFIP.

On June 10, 2010 the Company was notified of a ruling issued by the Court of Appeals in federal administrative law which mainly resulted in favor of the Company. The ruling was appealed both by the Company and the AFIP.

Based on the above, the Company recognized a provision amounting to USD 2.0 million as of December 31, 2011 as management considers there could be a potential cash outflow.

*(b) Ternium Mexico. SAT – Income tax claim for fiscal year 2004*

On January 26, 2012, the Mexican tax authorities notified Ternium Mexico and its subsidiary Acerus S.A. de C.V. of a tax assessment that challenges the value attributed by a predecessor of Acerus to a capital reduction made in 2004 (i.e., prior to the Company's investment in Ternium Mexico's predecessor Grupo Imsa in 2007) and assesses an income tax deficiency. The tax authorities assert that the capital reduction should have been valued at a price significantly higher than the value attributed at the time by the shareholder. The proposed assessment represents an estimated contingency of MXN 4,092 Million (approximately USD 293 million) at December 31, 2011, in taxes and penalties. The Company will appeal this assessment before the Mexican tax authorities and ultimately the tax courts and believes that it is not probable that the ultimate resolution of the matter will result in an obligation. Accordingly, no provision was recorded in these Consolidated Financial Statements.

*(ii) Commitments*

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

(a) Siderar entered into a contract with Tenaris, a related company of Ternium, for the supply of steam generated at the power generation facility that Tenaris owns in the compound of the Ramallo facility of Siderar. Under this contract, Tenaris has to provide 250 tn/hour of steam, and Siderar has the obligation to take or pay this volume. The amount of this outsourcing agreement totals USD 93.6 million and is due to terminate in 2018.

(b) Siderar, within the investment plan to increase its production capacity, has entered into several commitments to acquire new production equipment for a total consideration of USD 117.3 million.

(c) Siderar is a party to a long-term contract with Air Liquide Argentina S.A. for the supply of oxygen, nitrogen and argon. The agreement requires Siderar to take or pay minimum daily amounts of these gases for an aggregate amount of USD 59.0 million to satisfy Siderar's current production needs through 2021, and to make incremental purchases of these gases for an aggregate amount of USD 116.1 million to satisfy the requirements through 2025 of a new separation facility to be constructed as part of Siderar's expansion plan. As a result of the several global crisis that began in 2008 and the uncertainties surrounding the evolution of steel demand in the domestic and global markets, the parties engaged in discussions for the renegotiation of the contract. In February 2011, Siderar and Air Liquide Argentina reached agreement on the terms of the renegotiation; the obligations of the parties under the agreement related to the new separation facility were suspended through March 31, 2012, and Siderar agreed to purchase from Air Liquide Argentina certain equipment for an aggregate amount of approximately USD 21.4 million (as of December 31, 2011, Siderar paid advances in an amount of USD 12.6 million). If Siderar were to resume its expansion plan on or prior to March 31, 2012, Air Liquide Argentina would be required to repurchase that equipment, and all of the parties' obligations under the contract would be reinstated; otherwise, all rights and obligations relating to the new separation plant and the related supply of gases would terminate automatically on March 31, 2012, and Siderar would be required to pay to Air Liquide Argentina an aggregate amount currently estimated at USD 12.0 million.

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

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

(d) Siderar assumed fixed commitments for the purchase of raw materials for a total amount of USD 948.4 million to be expended during the next 3 years.

(e) The production process of Ternium Mexico's (former Hylsa's plants) requires a large amount of electricity. On December 20, 2000, Hylsa entered into a 25-year contract with Iberdrola Energía Monterrey, S.A. de C.V. ("Iberdrola"), a Mexican subsidiary of the Spanish Company Iberdrola Energía, S.A., for the supply to four of Mexico's plants of a contracted electrical demand of 111.2 MW, for a contracted amount of USD 0.9 billion, which is due to terminate in 2027. There are no penalties if consumption is lower in 30 MW per year. This contract effectively started on April 30, 2002, and currently supplies approximately 26% of Ternium Mexico's electricity needs.

(f) Several Ternium Mexico's subsidiaries which have facilities throughout the Mexican territory are parties to a long term energy purchase agreement for approximately 90 MW of electricity as purchased capacity with Tractebel Energía de Monterrey, S. de R.L. de C.V., distributed among each plant defined as a capacity user. Each capacity user is committed to pay Tractebel for the purchased capacity and for the net energy delivered. Ternium Mexico is required to provide its best estimate of its expected nomination for capacity and energy under the specific limits and timelines. The monthly payments are calculated considering the capacity charges, energy charges, back-up power charges, and transmission charges, less any steam credits. The contracted amount is of USD 221 million and the contract will terminate in 2018.

(g) Grupo Imsa (now Ternium Mexico), together with Grupo Marcegaglia, Duferco International Investment Holding and Donkuk Steel Mill Co., were parties to a ten-year steel slab off-take framework agreement with Corus UK Limited (now Tata Steel UK Limited) dated as of December 16, 2004, which was supplemented by bilateral off-take agreements. Under the agreements, the off-takers could be required to purchase, in the aggregate, approximately 78% of the steel slab production of Corus' former Teesside facility in the North East of England, of which Grupo Imsa's share was 15.38%, or approximately 0.5 million tons per year, of the total production.

In addition, the off-takers were required to make, in the aggregate and according to their respective pro rata shares, significant payments to Corus to finance capital expenditures. In December 2007, all of Grupo Imsa's rights and obligations under this contract were assigned to Ternium Procurement S.A. (formerly known as Alvory S.A.).

On April 7, 2009, Ternium Procurement S.A., together with the other off-takers, declared the early termination of the off-take framework agreement and their respective off-take agreements with Corus pursuant to a provision allowing the off-takers to terminate the agreements upon the occurrence of certain events specified in the off-take framework agreement. Corus initially denied the occurrence of the alleged termination event, stated that it would pursue specific performance and initiated an arbitration proceeding against the off-takers and Ternium Mexico (as guarantor of Ternium Procurement's obligations) seeking damages arising out of the alleged wrongful termination of the off-take agreements, which damages Corus did not quantify but stated that would exceed USD 150 million (approximately USD 29.7 million in the case of Ternium Procurement), the maximum aggregate cap on liability that the off-takers would have under the off-take framework agreement (a limitation that Corus disputed). In addition, Corus threatened to submit to arbitration further claims in tort against the off-takers, and also threatened to submit such claims against certain third-parties to such agreements, including the Company. The off-takers and Ternium Mexico, in turn, denied Corus' claims and brought counterclaims against Corus which, in the aggregate, would also be greater than USD 150 million.

On May 12, 2009, Corus, by a letter from its lawyers, alleged that the off-takers's termination notice amounted to a repudiatory breach of the agreements and stated that it accepted that the agreements had come to an end and that it would no longer pursue a claim for specific performance in the arbitration; the claim for damages, for all losses caused by the alleged off-takers' wrongful repudiation of the agreements, however, would be maintained. On July 9, 2009, Corus submitted an amended request for arbitration adding tortious claims against the off-takers and adding to its claims the payment of punitive or exemplary damages.

On December 21, 2010, the arbitration tribunal issued a partial final award where it held that the off-takers had invalidly terminated the off-take agreements. The tribunal also held that the maximum aggregate USD 150 million liability cap (out of which approximately USD 29.7 million corresponds to Ternium Procurement) provided in the off-take framework agreement applied to all of Corus's claims against the off-takers, including tort as well as contract claims. The tribunal formally admitted new claims and counterclaims into the arbitration proceedings on April 10, 2011.

On April 15, 2011, the arbitration tribunal issued a second partial final award where it held that the off-takers should pay to the claimant GBP 1.6 million for its reasonable legal and other costs incurred before the first partial final award. The off-takers paid that amount around mid May. In addition, on May 27, 2011, the off-takers paid to Tata an aggregate amount of USD 16.3 million (of which Ternium Procurement paid USD 3.2 million) as indemnification for one of its claims under the arbitration proceedings.

On June 16, 2011, Tata, the off-takers and Ternium Mexico settled the dispute, and the off-takers, in exchange for a full release and discharge of each of them and their respective representatives and affiliates, from all claims and disputes that Tata may have against any of them in relation to the off-take framework agreement and its related agreements, agreed to pay to Tata an aggregate amount of USD 124 million (including the USD16.3 million previously paid) and authorized their agent under the off-take agreements to transfer to Tata UK£1.8 million and €0.5 million which had been received by the agent from the off-takers under the off-take framework agreement before the early termination of such agreement. Ternium Procurement paid to Tata its share of the settlement amount (i.e., USD21.3 million) on June 17, 2011.

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

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

On June 21, 2011, Tata notified the arbitration tribunal that the arbitration proceedings were withdrawn. On July 8, 2011 and as a consequence of the settlement reached among the parties, the tribunal declared the termination of the arbitration proceedings.

*(iii) Restrictions on the distribution of profits*

Under Luxembourg law, at least 5% of net income per year calculated in accordance with Luxembourg law and regulations must be allocated to a reserve until such reserve has reached an amount equal to 10% of the share capital. At December 31, 2011, this reserve reached the above-mentioned threshold.

As of December 31, 2011, Ternium may pay dividends up to USD 6.1 billion in accordance with Luxembourg law and regulations.

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

	<b>At December 31, 2011</b>
Share capital	2,004,743
Legal reserve	200,474
Non distributable reserves	1,414,122
Accumulated profit at January 1, 2011 (1)	6,153,015
Loss for the year	(20,029)
<b>Total shareholders' equity under Luxembourg GAAP</b>	<b>9,752,325</b>

(1) As a result of the repurchase of its own shares from Usiminas on February 15, 2011 (see Note 30), the Company is required under applicable Luxembourg law to create a new non-distributable reserve in the amount of USD 150 million.

**26 Earnings per share**

As of December 31, 2011, the capital was USD 2,004,743,442 represented by 2,004,743,442 shares, each having a nominal value of USD 1.00 each.

For fiscal years 2011, 2010 and 2009, the weighted average of shares outstanding totaled 1,968,327,917, 2,004,743,442 and 2,004,743,442 shares, respectively. See note 30.

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the daily weighted average number of ordinary shares outstanding during the year.

	<b>2011</b>	<b>2010</b>	<b>2009</b>
Profit from continuing operations attributable to equity holders of the Company	513,541	622,076	305,830
Profit from discontinued operations attributable to equity holders of the Company	-	-	411,570
Weighted average number of ordinary shares in issue	1,968,327,917	2,004,743,442	2,004,743,442
Basic and diluted earnings per share from continuing operations attributable to equity holders of the Company (USD per share)	0.26	0.31	0.15
Basic and diluted earnings per share from discontinued operations attributable to equity holders of the Company (USD per share)	-	-	0.21

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

**27 Discontinued operations - Nationalization of Sidor**

On March 31, 2008, Ternium S.A. (the “Company”) controlled approximately 59.7% of Sidor, while Corporación Venezolana de Guayana, or CVG (a Venezuelan governmental entity), and Banco de Desarrollo Económico y Social de Venezuela, or BANDES (a bank owned by the Venezuelan government), held approximately 20.4% of Sidor and certain Sidor employees and former employees held the remaining 19.9% interest.

Further to several threats of nationalization and various adverse interferences with management in preceding years, on April 8, 2008, the Venezuelan government announced its intention to take control over Sidor. On April 29, 2008, the National Assembly of Venezuela passed a resolution declaring that the shares of Sidor, together with all of its assets, were of public and social interest, and authorizing the Venezuelan government to take any action it deemed appropriate in connection with any such assets, including expropriation. Subsequently, Decree Law 6058 of the President of Venezuela dated April 30, 2008, ordered that Sidor and its subsidiaries and associated companies be transformed into state-owned enterprises (“empresas del Estado”), with the government owning not less than 60% of their share capital. On July 12, 2008, Venezuela, acting through CVG, assumed operational control and complete responsibility for Sidor's operations, and Sidor's Board of Directors ceased to function. However, negotiations between the Venezuelan government and the Company regarding the terms of the compensation continued over several months, and the Company retained formal title over the Sidor shares during that period.

On May 7, 2009, the Company completed the transfer of its entire 59.7% interest in Sidor to CVG. The Company agreed to receive an aggregate amount of USD 1.97 billion as compensation for its Sidor shares. Of that amount, CVG paid USD 400 million in cash at closing. The balance was divided in two tranches: the first tranche of USD 945 million was scheduled to be paid in six equal quarterly installments beginning in August 2009 until November 2010, while the second tranche would be due in November 2010, subject to quarterly mandatory prepayment events based on the increase of the WTI crude oil price over its May 6, 2009 level. Under the agreements with CVG and Venezuela, in the event of non-compliance by CVG with its payment obligations, the Company reserved the rights and remedies that it had prior to the transfer of the Sidor shares in relation to any claim against Venezuela, subject to certain limitations, including that the Company may not claim an amount exceeding the outstanding balance due from CVG.

CVG made all payments required to be made under the agreements governing the transfer of Sidor to Venezuela except for the payment due on November 8, 2010. On December 18, 2010, Ternium reached an agreement with CVG, on the rescheduling of the unpaid balance, which amounted to USD 257.4 million. As provided in the refinancing agreement, CVG paid USD 7.0 million to Ternium in January 2011, and CVG is required to pay the remainder in five quarterly installments, beginning on February 15, 2011 and ending on February 15, 2012. As security for the payment of the outstanding balance, Ternium received, duly endorsed in its favor, promissory notes issued by Energía Argentina S.A. (“Enarsa”) and Compañía Administradora del Mercado Mayorista Eléctrico S.A. (“Cammesa”) (both companies owned by the Argentine government) to PDVSA Petróleo S.A. (a company owned by the Venezuelan government). While the first three installments were paid, the final two installments were not paid when due, and, as of the date of these financial statements, a total principal amount of USD 130.3 million remains outstanding. Ternium is pursuing the payment of the outstanding amounts and has reserved all of its rights under contracts, investment treaties and Venezuelan and international law with respect to such amounts.

In the years ended December 31, 2011, 2010 and 2009, the Company recorded gains in the amount of USD 11.4 million, USD 61.0 million and USD 136.0 million, respectively. These gains are included in “Interest income – Sidor financial asset” in the Income Statement and represent the accretion income over the receivable held against CVG. In addition, the Company recorded a gain related to the disposal of Sidor of USD 428,023, net of income tax, during the year ended December 31, 2009.

**28 Related party transactions**

As of December 31, 2011, Techint owned 62.02% of the Company's share capital, Tenaris held 11.46% and Inverban S.A. owned 0.33%, of the Company's share capital. Each of Techint, Tenaris and Inverban were controlled by San Faustin S.A., a Luxembourg company (“San Faustin”). Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin (“RP STAK”), a Dutch private foundation (Stichting), held shares in San Faustin sufficient in number to control San Faustin. No person or group of persons controls RP STAK.

For commitments with Related Parties see Note 25.

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

**28 Related party transactions (continued)**

The following transactions were carried out with related parties:

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>(i) Transactions</b>			
<b>(a) Sales of goods and services</b>			
Sales of goods to other related parties	167,786	172,337	40,915
Sales of services to associated parties	109	65	76
Sales of services to other related parties	1,682	1,763	562
	<b>169,577</b>	<b>174,165</b>	<b>41,553</b>
<b>(b) Purchases of goods and services</b>			
Purchases of goods from other related parties	58,219	49,735	34,834
Purchases of services from associated parties	42,762	38,939	31,403
Purchases of services from other related parties	129,844	114,377	91,404
	<b>230,825</b>	<b>203,051</b>	<b>157,641</b>
<b>(c) Financial results</b>			
Income with associated parties	95	78	581
Income with other related parties	-	-	118
Expenses with other related parties	-	-	(29)
	<b>95</b>	<b>78</b>	<b>670</b>
<b>(d) Dividends</b>			
Dividends received from associated parties	-	302	-
<b>(ii) Year-end balances</b>			
	<b>At December 31,</b>		
	<b>2011</b>	<b>2010</b>	
<b>a) Arising from sales/purchases of goods/services and other transactions</b>			
Receivables from associated parties	97	368	
Receivables from other related parties	30,723	11,424	
Advances to suppliers with other related parties	1,245	2,101	
Payables to associated parties	(2,576)	(1,953)	
Payables to other related parties	(50,265)	(42,048)	
	<b>(20,776)</b>	<b>(30,108)</b>	
<b>(b) Other investments</b>			
Time deposit	-	18,086	
	-	<b>18,086</b>	

**(iii) Officers and Directors' compensation**

During the year ended December 31, 2011 the cash compensation of Officers and Directors amounted to USD 12,853. In addition, Officers received 824,000 Units for a total amount of USD 2,366 in connection with the incentive retention program mentioned in note 4 (n) (3).

**29 Investments in Mexico**

On October 4, 2010, Ternium and Nippon Steel Corporation signed a definitive agreement to form an operation in Mexico for the manufacturing and sale of hot-dip galvanized and galvanized steel sheets to serve the Mexican automobile market. The company was established in November 2010 and operates under the name of Tenigal, S.R.L. de C.V. Ternium and Nippon Steel hold 51% and 49% participations in Tenigal, respectively.

Tenigal plans to build a hot-dip galvanizing plant in the vicinity of Monterrey City (equivalent to the state-of-the-art equipment now in operation at Nippon Steel's steelworks in Japan) with a production capacity of 400,000 metric tons per year. Ternium expects that construction of the facility would require a total investment of approximately USD 350 million. The plant is currently expected to commence production of high-grade and high-quality galvanized and galvanized automotive steel sheets, including outer-panel and high-strength qualities, in 2013. Tenigal is expected to serve the requirements of the growing automotive industry in Mexico, including those of the Japanese car makers.

In addition, Ternium Mexico plans to construct new pickling, cold-rolling, annealing and tempering lines at the same site. Part of the output from these lines will be used to supply the Tenigal plant. Ternium expects that construction of these lines would require a total investment of approximately USD 700 million. As of December 31, 2011, the amount invested in property, plant and equipment totaled USD 40.5 million.

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

**30 Repurchase of Shares from Usiminas concurrently with secondary public offering**

On January 31, 2011, Ternium entered into a transaction and registration rights agreement with its 14.3% shareholder Usinas Siderúrgicas de Minas Gerais S.A. – Usiminas (“Usiminas”) and Techint Holdings S.à.r.l. (“Techint”). The transaction and registration rights agreement provided, among other things, for a SEC-registered underwritten public offering of up to all of Ternium shares held by Usiminas (less the number of shares that Ternium and Techint agreed to purchase as discussed below) in the form of ADSs listed on the New York Stock Exchange. Neither Ternium nor Techint offered to sell any Ternium shares or ADSs in the public offering.

On February 9, 2011, Ternium and Techint, following the pricing of the underwritten public offering mentioned above, entered into purchase agreements with Usiminas relating to their concurrent purchase transactions of Ternium shares. Under these agreements, on February 15, 2011, Ternium and Techint purchased from Usiminas 41,666,666 and 27,777,780 Ternium shares for a total consideration of USD 150 million and USD 100 million, respectively. In connection with the sale of Ternium’s shares by Usiminas, Ternium collected a USD 10.2 million fee, included in “Other operating income (expenses), net” and was reimbursed of all expenses relating to the offering and concurrent purchase.

Following consummation of these transactions, Techint owns directly 62.02% of the Company’s share capital and Tenaris holds directly 11.46% of the Company’s share capital (both including treasury shares) and Usiminas will no longer own any Ternium shares. In addition, the two members of Ternium’s Board of Directors nominated by Usiminas resigned from the Ternium board.

Related to the dividends distributed on June 9, 2011, and as these treasury shares are held by one of Ternium’s subsidiaries, the dividends attributable to these treasury shares amounting to USD 3.1 million were included in equity as less dividend paid.

**31 Other required disclosures**

**(a) Statement of comprehensive income**

	Cash flow hedges			Currency translation adjustment
	Gross amount	Income Tax	Total	
At December 31, 2009	(46,693)	14,009	(32,684)	(715,372)
(Decrease) / Increase	(19,334)	5,800	(13,534)	35,915
Reclassification to income statement	34,063	(10,219)	23,844	-
At December 31, 2010	(31,964)	9,590	(22,374)	(679,457)
(Decrease) / Increase	(8,861)	197	(8,663)	(433,633)
Reclassification to income statement	22,994	(6,898)	16,096	-
At December 31, 2011	(17,831)	2,889	(14,941)	(1,113,090)

**(b) Statement of cash flows**

	At December 31,		
	2011	2010	2009
<b>(i) Changes in working capital (1)</b>			
Inventories	(413,321)	(497,430)	429,122
Receivables and others	(12,113)	30,052	115,252
Trade receivables	(116,856)	(179,308)	193,677
Other liabilities	25,332	63,062	(67,778)
Trade payables	119,152	135,651	(35,094)
	<b>(397,806)</b>	<b>(447,973)</b>	<b>635,179</b>
<b>(ii) Income tax accrual less payments</b>			
Tax accrued (Note 11)	315,974	406,657	91,314
Taxes paid	(571,919)	(179,837)	(140,656)
	<b>(255,945)</b>	<b>226,820</b>	<b>(49,342)</b>
<b>(iii) Interest accruals less payments</b>			
Interest accrued	105,570	70,771	105,655
Interest paid	(62,523)	(70,830)	(94,949)
	<b>43,047</b>	<b>(59)</b>	<b>10,706</b>

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



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

**32 Recently issued accounting pronouncements**

**(i) International Accounting Standard 19 (amended 2011), “Employee benefits”**

In June 2011, the IASB issued IAS 19 (amended 2011), “Employee benefits”, which makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. IAS 19 (amended 2011) must be applied for annual periods beginning on or after 1 January 2013.

**(ii) International Accounting Standard 1 (amended 2011), “Presentation of financial statements”**

In June 2011, the IASB issued IAS 1 (amended 2011), “Presentation of financial statements”. The amendment requires entities to separate items presented in Other Comprehensive Income into two groups, based on whether or not they may be recycled to profit or loss in the future. IAS 1 (amended 2011) must be applied for annual periods beginning on or after 1 July 2012.

**(iii) International Financial Reporting Standard 9 (amended 2011), “Financial Instruments”**

In November 2009, the IASB issued IFRS 9 “Financial Instruments” which establishes principles for the financial reporting of financial assets by simplifying their classification and measurement. This interpretation is applicable for annual periods beginning on or after 1 January 2015. Earlier application is not permitted for entities that prepare financial statements in accordance with IFRS as adopted by the EU, since the interpretation is not yet adopted by the EU.

**(iv) International Financial Reporting Standard 10, “Consolidated financial statements”**

In May 2011, the IASB issued IFRS 10, “Consolidated financial statements”. IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 and SIC-12. IFRS 10 must be applied for annual periods beginning on or after 1 January 2013.

**(v) International Financial Reporting Standard 11, “Joint arrangements”**

In May 2011, the IASB issued IFRS 11, “Joint arrangements”. IFRS 11 sets out the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that defined type of joint arrangement. IFRS 11 must be applied for annual periods beginning on or after 1 January 2013.

**(vi) International Financial Reporting Standard 12, “Disclosures of interest in other entities”**

In May 2011, the IASB issued IFRS 12, “Disclosures of interest in other entities”. This standard includes the disclosure requirements for all forms of interest in other entities. IFRS 12 must be applied for annual periods beginning on or after 1 January 2013.

**(vii) International Financial Reporting Standard 13, “Fair value measurement”**

In May 2011, the IASB issued IFRS 13, “Fair value measurement”. IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. IFRS 13 must be applied for annual periods beginning on or after 1 January 2013.

**(viii) IFRIC Interpretation 20, “Stripping costs in the production phase of a surface mine”**

In October 2011, the IFRIC issued IFRIC Interpretation 20, “Stripping costs in the production phase of a surface mine”. IFRIC addresses the recognition of production stripping costs as an asset and the measurement of the stripping activity asset. IFRIC 20 must be applied for annual periods beginning on or after 1 January 2013.

These standards, amendments to standards and interpretations are not effective for the financial year beginning January 1, 2011 and have not been early adopted.

The Company's management is currently assessing the potential impact that the application of these standards may have on the Company's financial condition or results of operations.

**33 Financial risk management**

**1) Financial risk factors**

Ternium's activities expose the Company to a variety of risks: market risk (including the effects of changes in foreign currency exchange rates, interest rates and commodities prices), credit risk and liquidity risk.

Ternium's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance. Ternium's subsidiaries may use derivative financial instruments to hedge certain risk exposures.

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

**33 Financial risk management (continued)**

**1.1) Market Risk**

*(i) Foreign exchange rate risk*

Ternium operates and sells its products in different countries, and as a result is exposed to foreign exchange rate volatility. In addition, the Company entered into several borrowings that contain covenants providing for the compliance with certain financial ratios, including ratios measured in currencies other than the U.S. dollar. This situation exposes Ternium to a risk of non-compliance derived from volatility in foreign exchange rates. Ternium's subsidiaries may use derivative contracts in order to hedge their exposure to exchange rate risk derived from their trade and financial operations.

Ternium general policy is to minimize the negative impact of fluctuations in the value of other currencies with respect to the U.S. dollar. Ternium's subsidiaries monitor their net operating cash flows in currencies other than the U.S. dollar, and analyze potential hedging according to market conditions. This hedging can be carried out by netting operational positions or by financial derivatives. However, regulatory or legal restrictions in the countries in which Ternium's subsidiaries operate, could limit the possibility of the Company carrying out its hedging policy.

Ternium has foreign operations, whose net assets are exposed to foreign currency translation risk, some of which may impact net income. The fact that some subsidiaries have measurement currencies other than the U.S. dollar may, at times, distort the results of the hedging efforts as reported under IFRS.

The following table shows a breakdown of Ternium's assessed financial position exposure to currency risk as of December 31, 2011. These balances include intercompany positions where the intervening parties have different functional currencies.

USD million Exposure to	Functional Currency			
	USD	MXN	ARS	COP
US dollar (USD)	(n/a)	(1,708.2)	214.0	(93.1)
EU euro (EUR)	6.3	(3.5)	13.5	-
Other currencies	(0.1)	-	-	-

We estimate that if the Argentine peso, Mexican peso and Colombian peso had weakened by 1% against the US dollar with all other variables held constant, total pre-tax income for the year would have been USD 16.3 million lower (USD 17.2 million lower as of December 31, 2010), as a result of foreign exchange gains/losses on translation of US dollar-denominated financial position, mainly trade receivables, borrowings and trade payables. This effect would have been offset by the change in the currency translation adjustment recorded in equity.

Considering the same variation of the currencies against the US dollar of all net investments in foreign operations amounting to USD 3.8 billion, the currency translation adjustment included in total equity would have been USD 37.2 million lower (USD 38.8 million lower as of December 31, 2010), arising from the adjustment on translation of the equity related to the Mexican peso, the Argentine peso and the Colombian peso.

*(ii) Interest rate risk*

Ternium manages its exposure to interest rate volatility through its financing alternatives and hedging instruments. Borrowings issued at variable rates expose the Company to the risk of increased interest expense in the event of a raise in market interest rates, while borrowings issued at fixed rates expose the Company to a variation in its fair value. The Company's interest-rate risk mainly arises from long-term borrowings that bear variable-rate interest that is partially fixed through different derivative transactions, such as swaps and structures with options. The Company's general policy is to maintain a balance between instruments exposed to fixed and variable rates; which can be modified according to long term market conditions.

Ternium's nominal weighted average interest rate for its debt instruments, which also includes the effect of derivative financial instruments, was 3.42% and 3.29% for 2011 and 2010, respectively. These rates were calculated using the rates set for each instrument in its corresponding currency and weighted using the dollar-equivalent outstanding principal amount of each instrument as of December 31, 2011 and 2010, respectively.

Ternium's total variable interest rate debt amounted to USD 1,505 million (75.6% of total borrowings) at December 31, 2011 and USD 1,925 million (99.3 % of total borrowings) at December 31, 2010.

If interest rates on the aggregate average notional of US dollar denominated borrowings held during 2011, excluding borrowings with derivatives contracts mentioned in Note 23(a), had been 100 basis points higher with all other variables held constant, total pre-tax income for the year ended December 31, 2011 would have been USD 12.1 million lower (USD 10.3 million lower as of December 31, 2010).

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

**33 Financial risk management (continued)**

*(iii) Commodity price risk*

In the ordinary course of its operations, Ternium purchases raw materials (such as iron ore, coal and slabs) and other commodities (including electricity and gas). Commodity prices are generally volatile as a result of several factors, including those affecting supply and demand, political, social and economic conditions, and other circumstances. Ternium monitors its exposure to commodity price volatility on a regular basis and applies customary commodity price risk management strategies. For further information on long-term commitments, see note 25(ii).

**1.2) Credit risk**

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. Ternium's subsidiaries have credit guidelines in place to ensure that derivative and treasury counterparties are limited to high credit quality financial institutions.

Ternium has no significant concentrations of credit risk from customers. No single customer accounts for more than five percent of Ternium's sales. Ternium's subsidiaries have policies in place to ensure that sales are made to customers with an appropriate credit history, and that credit insurances, letters of credit or other instruments are requested to reduce credit risk whenever deemed necessary. The subsidiaries maintain allowances for potential credit losses. The utilization of credit limits is regularly monitored.

Trade and other receivables are carried at face value less allowance for doubtful accounts, if applicable. This amount does not differ significantly from fair value. The other receivables do not contain significant impaired assets.

As of December 31, 2011, trade receivables total USD 742.5 million. These trade receivables are collateralized by guarantees under letter of credit and other bank guarantees of USD 7.1 million, credit insurance of USD 471.6 million and other guarantees of USD 19.3 million.

As of December 31, 2011, trade receivables of USD 667.0 million were fully performing.

As of December 31, 2011, trade receivables of USD 58.9 million were past due. These trade receivables as of December 31, 2011, are past due less than 3 months.

The amount of the allowance for doubtful accounts was USD 16.1 million as of December 31, 2011.

The carrying amounts of the Company's trade and other receivables as of December 31, 2011, are denominated in the following currencies:

<b>Currency</b>	<b>USD million</b>
US dollar (USD)	553.1
EU euro (EUR)	28.7
Argentine peso (ARS)	22.2
Mexican peso (MXN)	263.4
Colombian peso (COP)	104.2
Other currencies	0.7
	<b>972.3</b>

**1.3) Liquidity risk**

Management maintains sufficient cash and marketable securities and credit facilities to finance normal operations. Management monitors rolling forecasts of the group's liquidity reserve on the basis of expected cash flow.

The Company has negotiated additional credit facilities in its Argentine subsidiaries and renegotiated a part of an existing credit facility in Mexico (see note 24).

The table below analyses financial liabilities into relevant maturity groups based on the remaining period at the date of the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

<b>USD million</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Thereafter</b>
Borrowings	1,041.5	401.8	422.6	24.5	99.6
Interests to be accrued (1)	91.3	47.1	29.5	18.0	8.9
Trade payables and other liabilities	653.3	5.0	3.1	3.1	11.5
Derivatives financial instruments	29.9	-	-	-	-
<b>Total</b>	<b>1,816.1</b>	<b>453.9</b>	<b>455.2</b>	<b>45.6</b>	<b>120.1</b>

(1) These amounts do not include the effect of derivative financial instruments.

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

**33 Financial risk management (continued)**

As of December 31, 2011 total cash and cash equivalents and other current investments less borrowings amounted to USD 450.2 million.

**1.4) Capital risk**

Ternium seeks to maintain an adequate debt/equity ratio considering the industry and the markets where it operates. The year-end ratio debt over debt plus equity is 0.23 and 0.22 as of December 31, 2011 and 2010, respectively. The Company does not have to comply with regulatory capital adequacy requirements as known in the financial services industry.

**2) Financial instruments by category and fair value hierarchy level**

The accounting policies for financial instruments have been applied to the line items below. According to the scope and definitions set out in IFRS 7 and IAS 32, employers' rights and obligations under employee benefit plans, and non financial assets and liabilities such as advanced payments and income tax payables, are not included.

<u>At December 31, 2011 (in USD thousands)</u>	<u>Loans and receivables</u>	<u>Assets at fair value through profit and loss</u>	<u>Total</u>
<b>(i) Assets as per statement of financial position</b>			
Receivables	38,467	-	38,467
Derivative financial instruments	-	50	50
Trade receivables	742,528	-	742,528
Other investments	46,535	249,041	295,576
Cash and cash equivalents	26,345	2,132,246	2,158,591
<b>Total</b>	<b>853,875</b>	<b>2,381,337</b>	<b>3,235,212</b>
<u>At December 31, 2011 (in USD thousands)</u>	<u>Derivatives</u>	<u>Other financial liabilities</u>	<u>Total</u>
<b>(ii) Liabilities as per statement of financial position</b>			
Other liabilities	-	31,418	31,418
Trade payables	-	644,641	644,641
Derivative financial instruments	29,902	-	29,902
Borrowings	-	1,990,045	1,990,045
<b>Total</b>	<b>29,902</b>	<b>2,666,104</b>	<b>2,696,006</b>
<u>At December 31, 2010 (in USD thousands)</u>	<u>Loans and receivables</u>	<u>Assets at fair value through profit and loss</u>	<u>Total</u>
<b>(i) Assets as per statement of financial position</b>			
Receivables	38,693	-	38,693
Derivative financial instruments	-	212	212
Trade receivables	663,502	-	663,502
Other investments	23,864	859,849	883,713
Cash and cash equivalents	113,342	1,666,073	1,779,416
<b>Total</b>	<b>839,401</b>	<b>2,526,134</b>	<b>3,365,536</b>
<u>At December 31, 2010 (in USD thousands)</u>	<u>Derivatives</u>	<u>Other financial liabilities</u>	<u>Total</u>
<b>(ii) Liabilities as per statement of financial position</b>			
Other liabilities	-	28,682	28,682
Trade payables	-	541,709	541,709
Derivative financial instruments	54,777	-	54,777
Borrowings	-	1,939,657	1,939,657
<b>Total</b>	<b>54,777</b>	<b>2,510,048</b>	<b>2,564,825</b>

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

**33 Financial risk management (continued)**

*Fair Value by Hierarchy*

Following the requirements contained in paragraph 27B of IFRS 7, Ternium categorizes each class of financial instrument measured at fair value in the statement of financial position into three levels, depending on the significance of the judgment associated with the inputs used in making the fair value measurements. Level 1 comprises financial assets and financial liabilities whose fair values have been determined on the basis of quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 includes financial assets and financial liabilities for which fair values have been estimated using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Level 3 comprises financial instruments for which inputs to estimate fair value of the assets or liabilities are not based on observable market data (unobservable inputs).

<b>Description</b>	<b>Fair value measurement at December 31, 2011</b>		
	<b>(in USD thousand):</b>		
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>
<b>Financial assets at fair value through profit or loss</b>			
Cash and cash equivalents	2,132,246	1,971,564	160,682
Other investments	249,041	213,655	35,386
Derivatives financial instruments	50	-	50
<b>Total assets</b>	<b>2,381,338</b>	<b>2,185,219</b>	<b>196,118</b>
<b>Financial liabilities at fair value through profit or loss</b>			
Derivatives financial instruments	29,902	-	29,902
<b>Total liabilities</b>	<b>29,902</b>	<b>-</b>	<b>29,902</b>
<b>Fair value measurement at December 31, 2010</b>			
<b>(in USD thousand):</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>
<b>Financial assets at fair value through profit or loss</b>			
Cash and cash equivalents	1,666,073	1,531,082	134,991
Other investments	859,849	811,824	48,025
Derivatives financial instruments	212	-	212
<b>Total assets</b>	<b>2,526,134</b>	<b>2,342,906</b>	<b>183,228</b>
<b>Financial liabilities at fair value through profit or loss</b>			
Derivatives financial instruments	54,777	-	54,777
<b>Total liabilities</b>	<b>54,777</b>	<b>-</b>	<b>54,777</b>

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy and there were no financial assets and liabilities considered as Level 3.

**3) Accounting for derivative financial instruments and hedging activities**

Derivative financial instruments are initially recognized in the statement of financial position at cost and subsequently measured at fair value. Changes in fair value are disclosed under "Other financial income (expenses), net" line item in the income statement. Ternium does not hedge its net investments in foreign entities.

Ternium designates certain derivatives as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction. These transactions are classified as cash flow hedges (mainly interest rate swaps, collars and commodities contracts). The effective portion of the fair value of derivatives that are designated and qualify as cash flow hedges is recognized within other comprehensive income. Amounts accumulated in other comprehensive income are recognized in the income statement in the same period than any offsetting losses and gains on the hedged item. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. The fair value of Ternium derivative financial instruments (asset or liability) continues to be reflected on the statement of financial position.

For transactions designated and qualifying for hedge accounting, Ternium documents at inception the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. At December 31, 2011, the effective portion of designated cash flow hedges amounts to USD 14.9 million (net of taxes for USD 2.9 million) and is included as "Cash flow hedges" line item in the statement of comprehensive income.

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

**33 Financial risk management (continued)**

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 23. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognized immediately in the income statement.

**4) Fair value estimation**

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

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

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

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

**34 Subsequent events - Share purchase agreement of Usiminas**

On November 27, 2011, the Company's wholly-owned Luxembourg subsidiary Ternium Investments S.à.r.l., together with the Company's Argentine majority-owned subsidiary Siderar S.A.I.C. (and Siderar's wholly-owned Uruguayan subsidiary Prosid Investments S.C.A.), and Confab Industrial S.A., a majority-owned Brazilian subsidiary of Tenaris S.A. ("TenarisConfab"), entered into share purchase agreements with Camargo Corrêa, Votorantim and Caixa dos Empregados da Usiminas (Usiminas employee pension fund, or CEU) for the acquisition of 139.7 million ordinary shares of Usinas Siderúrgicas de Minas Gerais S.A. – USIMINAS ("Usiminas"), representing 27.7% (out of which 22.7% corresponds to Ternium) of Usiminas' voting capital, at a price of BRL 36.0 (approximately USD 19.0) per ordinary share. Ternium Investments and Siderar financed their BRL 4.1 billion share (approximately USD 2.2 billion) with cash on hand and, in the case of Ternium Investments, a USD 700 million syndicated term loan.

Upon closing of the transaction on January 16, 2012, Ternium Investments, Siderar and TenarisConfab joined Usiminas' existing control group through the acquisition of 84.7, 30.0, and 25.0 million ordinary shares, respectively. In addition, Nippon Steel acquired from CEU 8.5 million ordinary shares. In addition, Ternium Investments, Siderar and Prosid entered into an amended and restated Usiminas shareholders' agreement with Nippon Steel, Mitsubishi, Metal One and CEU, governing Ternium Investments, Siderar (and Prosid) and TenarisConfab's rights within the Usiminas control group; most decisions in that control group are subject for its approval to a 65% majority of the control group shares. As a result of these transactions, the control group, which holds 322.7 million ordinary shares representing the majority of Usiminas' voting rights, is now formed as follows: Nippon Group 46.1%, Ternium/Tenaris Group 43.3% (out of which 35.6% corresponds to Ternium), and CEU 10.6%. The rights of Ternium Investments, Siderar (and Prosid) and TenarisConfab within the Ternium/Tenaris Group are governed under a separate shareholders agreement.

Following the closing of the transaction, Messrs. Daniel Novegil, Roberto Vidigal and Alcides Morgante were appointed as members of Usiminas' Board of Directors, together with their alternates, to replace the Board members nominated by Camargo Correa and Votorantim. In addition, Usiminas' Board of Directors appointed Julián Eguren, previously a senior executive with Ternium, as Chief Executive Officer (Diretor-Presidente) of Usiminas.

With strategically located facilities near the main consumers of steel in Brazil and iron ore mines in the Serra Azul region, Usiminas is organized under four main business units: Mining, Steel, Steel Processing and Capital Goods. In 2010, Usiminas had net sales of BRL 13.0 billion (approximately USD 7.4 billion).



Pablo Brizzio

Chief Financial Officer