

Ternium S.A.  
Form 6-K  
February 25, 2009

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FORM 6 - K

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Report of Foreign Private Issuer  
Pursuant to Rule 13a - 16 or 15d - 16 of  
the Securities Exchange Act of 1934

As of 2/24/2009

Ternium S.A.  
(Translation of Registrant's name into English)

Ternium S.A.  
46a, Avenue John F. Kennedy  
L-1855 Luxembourg  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or 40-F.

Form 20-F ☐ Form 40-F ☐

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12G3-2(b) under the Securities Exchange Act of 1934.

Yes ☐ No ☒

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):  
Not applicable

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The attached material is being furnished to the Securities and Exchange Commission pursuant to Rule 13a-16 and Form 6-K under the Securities Exchange Act of 1934, as amended.

This report contains Ternium S.A.'s consolidated financial statements as of December 31, 2008.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TERNIUM S.A.

By: /s/ Roberto Philipps  
Name: Roberto Philipps  
Title: Chief Financial Officer

By: /s/ Daniel Novegil  
Name: Daniel Novegil  
Title: Chief Executive Officer

Dated: February 24, 2009

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TERNIUM S.A.

CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2008 and 2007 and  
for the years ended December 31, 2008, 2007 and 2006

46a, Avenue John F. Kennedy, 2nd floor  
L – 1855  
R.C.S. Luxembourg : B 98 668

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TERNIUM S.A.

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Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in shareholders' equity present fairly, in all material respects, the financial position of Ternium S.A. and its subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We draw attention to Note 29 to the financial statements which describes the uncertainty related to the amount of the compensation to be received by Ternium in connection with the nationalization process of Sidor C.A. Our opinion is not qualified in respect of this matter.

Buenos Aires, Argentina

February 24, 2009

PRICE WATERHOUSE & CO. S.R.L.

by (Partner)  
Marcelo D. Pfaff

TERNIUM S.A.  
Consolidated financial statements  
as of December 31, 2008 and 2007 and  
for the years ended December 31, 2008, 2007 and 2006  
(All amounts in USD thousands)

## CONSOLIDATED INCOME STATEMENTS

		Year ended December 31,		
	Notes	2008	2007	2006
Continuing operations				
Net sales	30	8,464,885	5,633,366	4,484,918
Cost of sales	6 & 30	(6,128,027)	(4,287,671)	(3,107,629)
Gross profit		2,336,858	1,345,695	1,377,289
Selling, general and administrative expenses	7	(669,473)	(517,433)	(370,727)
Other operating income (expenses), net	9	8,662	8,514	(4,739)
Operating income		1,676,047	836,776	1,001,823
Interest expense	30 & 31	(136,111)	(133,109)	(96,814)
Interest income	30	32,178	41,613	33,903
Other financial expenses, net	10	(693,192)	(38,498)	(40,432)
Equity in earnings of associated companies	14	1,851	434	671
Income before income tax expense		880,773	707,216	899,151
Income tax (expense) benefit				
Current and deferred income tax expense	11	(258,969)	(291,345)	(353,044)
Reversal of deferred statutory profit sharing	4(n)	96,265	-	-
Income from continuing operations		718,069	415,871	546,107
Discontinued operations				
Income from discontinued operations	29	157,095	579,925	444,468
Net income for the year		875,164	995,796	990,575
Attributable to:				
Equity holders of the Company	28	715,418	784,490	795,424
Minority interest		159,746	211,306	195,151
		875,164	995,796	990,575
Weighted average number of shares outstanding	28	2,004,743,442	2,004,743,442	1,936,833,060
Basic earnings per share for profit attributable to the equity holders of the Company (expressed in		0.36	0.39	0.41

USD per share)

Diluted earnings per share for profit attributable to  
the equity holders of the Company (expressed in  
USD per share)

0.36

0.39

0.41

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

TERNIUM S.A.  
Consolidated financial statements  
as of December 31, 2008 and 2007 and  
for the years ended December 31, 2008, 2007 and 2006  
(All amounts in USD thousands)

CONSOLIDATED BALANCE SHEETS

	Notes	December 31, 2008		December 31, 2007	
ASSETS					
Non-current assets					
Property, plant and equipment, net	12	4,212,313		6,776,630	
Intangible assets, net	13	1,136,367		1,449,320	
Investments in associated companies	14	5,585		44,042	
Other investments, net	15 & 30	16,948		14,815	
Deferred tax assets	23	-		31,793	
Receivables, net	16 & 30	120,195	5,491,408	236,523	8,553,123
Current assets					
Receivables	17 & 30	248,991		405,031	
Derivative financial instruments	25	1,516		577	
Inventories, net	6 & 18	1,826,547		1,904,489	
Trade receivables, net	19 & 30	622,992		825,553	
Available for sale assets – discontinued operations	29	1,318,900		-	
Other investments	20	90,008		65,337	
Cash and cash equivalents	20	1,065,552	5,174,506	1,125,830	4,326,817
Non-current assets classified as held for sale	29		5,333		769,142
</					



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Borrowings	26	2,325,867	3,374,964	3,676,072	5,401,549
Current liabilities					
Current tax liabilities		194,075		179,678	
Other liabilities	24 & 30	103,376		180,974	
Trade payables	30	438,711		995,663	
Derivative financial instruments	25	57,197		13,293	
Borrowings	26	941,460	1,734,819	406,239	1,775,847
Liabilities directly associated with non-current assets classified as held for sale					
	29		-		213,763
			1,734,819		1,989,610
Total liabilities			5,109,783		7,391,159
Total equity and liabilities			10,671,247		13,649,082

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

TERNIUM S.A.  
Consolidated financial statements  
as of December 31, 2008 and 2007 and  
for the years ended December 31, 2008, 2007 and 2006  
(All amounts in USD thousands)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Attributable to the Company's equity holders (1)								
	Capital stock (2)	Initial public offering expenses	Revaluation and other reserves	Capital stock issue discount (3)	Currency translation adjustment	Retained earnings	Total	Minority interest	Total Equity
Balance at January 1, 2008	2,004,743	(23,295)	1,946,963	(2,324,866)	(110,739)	2,959,874	4,452,680	1,805,243	6,257,923
Currency translation adjustment (4)					(417,746)		(417,746)	(85,250)	(502,996)
Income for the year						715,418	715,418	159,746	875,164
Increase in fair value of cash hedge (net of taxes)			(52,745)				(52,745)	(6,708)	(59,453)
Net recognized income for the year			(52,745)		(417,746)	715,418	244,927	67,788	312,422
Reversal of revaluation reserves related to discontinued operations (5)			(91,696)			91,696			
Dividends paid in cash and in kind distributions			(100,237)				(100,237)		(100,237)
Dividends paid in cash and in kind distributions by subsidiary companies								(19,595)	(19,595)
Minority interest in discontinued operations								(889,342)	(889,342)
Balance at December 31, 2008	2,004,743	(23,295)	1,702,285	(2,324,866)	(528,485)	3,766,988	4,597,370	964,094	5,561,464

(1) Shareholders' equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 27 (iv).

(2) At December 31, 2008, the Capital Stock adds up to 2,004,743,442 shares with a nominal value of USD1 each.

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

(4) Includes an increase of USD 121.9 million corresponding to the currency translation adjustment from discontinued operations attributable to the Company's equity holders and of USD 29.6 million attributable to the Minority interest.

(5)

Corresponds to the reversal of the revaluation reserve recorded in fiscal year 2005, representing the excess of fair value over the book value of Ternium's pre-acquisition interest in the net assets of Sidor.

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 27 (iii). The accompanying notes are an integral part of these consolidated financial statements.

TERNIUM S.A.  
Consolidated financial statements  
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## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

	Attributable to the Company's equity holders (1)							
	Capital stock (2)	Initial public offering expenses	Revaluation and other reserves	Capital stock issue discount (3)	Currency translation adjustment	Retained earnings	Total	Minority interest
Balance at January 1, 2007	2,004,743	(23,295)	2,047,200	(2,324,866)	(121,608)	2,175,384	3,757,558	1,626
Currency translation adjustment					10,869		10,869	(13)
Net income for the year						784,490	784,490	211
Total recognized income for the year					10,869	784,490	795,359	198
Dividends paid in cash and other distributions			(100,237)				(100,237)	
Dividends paid in cash and other distributions by subsidiary companies								(20)
Acquisition of business (see Note 3)								
Contributions from minority shareholders in consolidated subsidiaries								1
Balance at December 31, 2007	2,004,743	(23,295)	1,946,963	(2,324,866)	(110,739)	2,959,874	4,452,680	1,805

(1) Shareholders' equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 27 (iv).

(2) At December 31, 2008, the Capital Stock adds up to 2,004,743,442 shares with a nominal value of USD1 each.

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

Dividends may be paid by Ternium to the extent distributable retained earnings calculated in accordance with Luxembourg law and regulations exist. Therefore, retained earnings included in these consolidated financial statements may not be wholly distributable. See Note 27 (iii). The accompanying notes are an integral part of these consolidated financial statements.



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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

	Attributable to the Company's equity holders (1)							
	Capital stock (2)	Initial public offering expenses	Revaluation and other reserves	Capital stock issue discount (3)	Currency translation adjustment	Retained earnings	Total	Minor interest
Balance at January 1, 2006	1,396,551	(5,456)	1,462,138	(2,298,048)	(92,691)	1,379,960	1,842,454	1,633,442
Currency translation adjustment					(28,917)		(28,917)	(6,442)
Net income for the year						795,424	795,424	195,424
Total recognized income for the year					(28,917)	795,424	766,507	188,982
Dividends paid in cash and other distributions by subsidiary companies								(27,442)
Acquisition of business (see Note 3)			(32,429)				(32,429)	(122,442)
Contributions from shareholders (see Note 1)	33,801		43,100	(26,818)			50,083	(46,442)
Conversion of Subordinated Convertible Loans (see Note 1)	302,962		302,962				605,924	
Initial Public Offering (see Note 1)	271,429	(17,839)	271,429				525,019	
Balance at December 31, 2006	2,004,743	(23,295)	2,047,200	(2,324,866)	(121,608)	2,175,384	3,757,558	1,626,000

(1) Shareholders' equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 27 (iv).

(2) At December 31, 2008, the Capital Stock adds up to 2,004,743,442 shares with a nominal value of USD1 each.

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

Dividends may be paid by Ternium to the extent distributable retained earnings calculated in accordance with Luxembourg law and regulations exist. Therefore, retained earnings included in these consolidated financial statements may not be wholly distributable. See Note 27 (iii). The accompanying notes are an integral part of these consolidated financial statements.



TERNIUM S.A.  
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CONSOLIDATED CASH FLOW STATEMENTS

	Notes	2008	Year ended December 31, 2007	2006
Cash flows from operating activities				
Income from continuing operations		718,069	415,871	546,107
Adjustments for:				
Depreciation and amortization	12&13	413,541	355,271	251,371
Income tax accruals less payments	31	(88,511)	(51,471)	72,613
Derecognition of property, plant and equipment	9 (iii)	-	-	13,130
Changes to pension plan	24	-	-	46,947
Equity in earnings of associated companies	14	(1,851)	(434)	(671)
Interest accruals less payments	31	(84,151)	87,580	2,237
Changes in provisions		2,358	2,995	2,770
Changes in working capital	31	(1,071,472)	97,728	(156,707)
Net foreign exchange losses (gains) and others		629,530	28,878	(23,789)
Net cash provided by operating activities		517,513	936,418	754,008
Cash flows from investing activities				
Capital expenditures	12&13	(587,904)	(344,293)	(314,863)
Changes in trust funds		-	-	5,185
Acquisition of business:				
Purchase consideration	3	-	(1,728,869)	(210,548)
Cash acquired	3	-	190,087	-
Income tax credit paid on business acquisition	3	-	(297,700)	-
Increase in other investments		(24,674)	(65,337)	-
Investments in associated companies		-	-	(2,598)
Proceeds from the sale of property, plant and equipment		2,103	24,490	2,787
Proceeds from the sale of discontinued operations	29 (i)	718,635	-	-
Discontinued operations	29 (iv)	242,370	419,305	326,904
Net cash provided by (used in) investing activities		350,530	(1,802,317)	(193,133)
Cash flows from financing activities				
Dividends paid in cash and other distributions to company's shareholders		(100,237)	(100,237)	-
Dividends paid in cash and other distributions by subsidiary companies		(19,595)	(20,000)	(27,175)
Net proceeds from Initial Public Offering		-	-	525,019
Contributions from shareholders		-	-	3,085



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Contributions from minority shareholders in consolidated subsidiaries	-	1,165	-
Proceeds from borrowings	519,809	4,052,745	109,144
Repayments of borrowings	(1,152,886)	(2,574,627)	(1,292,548)
Net cash (used in) provided by financing activities	(752,909)	1,359,046	(682,475)
Increase (Decrease) in cash and cash equivalents	115,134	493,147	(121,600)
Movement in cash and cash equivalents			
At January 1,(1)	1,125,830	632,941	754,856
Effect of exchange rate changes	(17,518)	(258)	(315)
Increase (Decrease) in cash and cash equivalents	115,134	493,147	(121,600)
Cash & cash equivalents of discontinued operations at March 31, 2008	(157,894)	-	-
Cash and cash equivalents at December 31, 20	1,065,552	1,125,830	632,941
Non-cash transactions			
Conversion of debt instruments into shares	-	-	605,924

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

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

TERNIUM S.A.  
Consolidated financial statements  
as of December 31, 2008 and 2007 and  
for the years ended December 31, 2008, 2007 and 2006  
(All amounts in USD thousands)

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TERNIUM S.A.  
Notes to the Consolidated Financial Statements

1 Business of the Company, Initial Public Offering and corporate reorganization

Ternium S.A. (the “Company” or “Ternium”), a Luxembourg Corporation (Société Anonyme), was incorporated on December 22, 2003 to hold investments in flat and long steel manufacturing and distributing companies.

Near the end of 2004, Ternium was acquired by its ultimate parent company San Faustín N.V. (“San Faustín”), a Netherlands Antilles company, to serve as a vehicle in the restructuring of San Faustín’s investments in the flat and long steel manufacturing and distribution business. This restructuring was carried out by means of a corporate reorganization through which Ternium was assigned the equity interests previously held by San Faustín and its subsidiaries in various flat and long steel manufacturing and distributing companies (the “Corporate Reorganization”). The Corporate Reorganization took place in fiscal year 2005. Until that date, Ternium was a dormant company.

On January 11, 2006, the Company successfully completed its registration process with the United States Securities and Exchange Commission (“SEC”) and announced the commencement of its offer to sell 24,844,720 American Depositary Shares (“ADS”) representing 248,447,200 shares of common stock through Citigroup Global Markets Inc., Deutsche Bank Securities Inc., JP Morgan Securities Inc., Morgan Stanley & Co. Incorporated, BNP Paribas Securities Corp., Caylon Securities (USA) Inc. and Bayerische Hypo-und Vereinsbank AG (collectively, the “Underwriters” and the offering thereunder, the “Initial Public Offering”). The Company’s Initial Public Offering was priced at USD20 per ADS. The gross proceeds from the Initial Public Offering totaled USD 496.9 million and have been used to fully repay Tranche A of the Ternium Credit Facility, after deducting related expenses.

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.

Also, the Company granted the Underwriters an option, exercisable for 30 days from January 31, 2006, to purchase up to 3,726,708 additional ADSs at the public offering price of USD20 per ADS less an underwriting discount of USD0.55 per ADS. On February 23, 2006 the Underwriters exercised partially this over-allotment option granted by the Company. In connection with this option, on March 1, 2006, the Company issued 22,981,360 new shares. The gross proceeds from this transaction totaled USD46.0 million.

In addition, during 2005, the Company entered into the Subordinated Convertible Loan Agreements for a total aggregate amount of USD594 million to fund the acquisition of Hylsamex S.A. de C.V. (“Hylsamex”). As per the provisions contained in the Subordinated Convertible Loan Agreements, the Subordinated Convertible Loans would be converted into shares of the Company upon delivery of Ternium’s ADSs to the Underwriters. On February 6, 2006, the Subordinated Convertible Loans (including interest accrued through January 31, 2006) were converted into shares at a conversion price of USD 2 per share, resulting in the issuance of 302,962,261 new shares on February 9, 2006.

Furthermore, in November 2005, Siderúrgica del Turbio Siderur S.A. (“Siderur”), a subsidiary of Siderúrgica Venezolana S.A. (“Sivensa”), exchanged with Inversora Siderúrgica Limited (“ISL”, a wholly-owned subsidiary of Ternium’s majority shareholder) its 3.42% equity interest in Consorcio Siderurgia Amazonia Ltd. (“Amazonia”) and USD 3.1 million in cash for shares of the Company. On February 9, 2006, ISL contributed all of its assets and liabilities (including its interest in Amazonia) to the Company in exchange for 959,482,775 newly issued shares of the Company after the settlement of the Initial Public Offering. The increase in equity resulting from this transaction is reflected under “Contributions from shareholders” line item in the Statement of changes in shareholders’ equity and amounts to USD 50.1 million.

After the completion of the Initial Public Offering, the conversion of the Subordinated Convertible Loans, the exercise of the option granted to the Underwriters and the consummation of the transactions contemplated in the Corporate Reorganization agreement, 2,004,743,442 shares (including shares in the form of ADSs) were outstanding.

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#### Basis of presentation

These consolidated financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (February 2009), as issued by the International Accounting Standards Board. These consolidated financial statements are presented in thousands of United States dollars ("USD").

As mentioned in Note 1, Ternium was assigned the equity interests previously held by San Faustín and its subsidiaries in various flat and long steel manufacturing and distributing companies. As these transactions were carried out among entities under common control, the assets and liabilities contributed to the Company have been accounted for at the relevant predecessor's cost, reflecting the carrying amount of such assets and liabilities. Accordingly, the consolidated financial statements include the financial statements of the above-mentioned companies on a combined basis at historical book values on a carryover basis as though the contribution had taken place on January 1, 2003, (the transition date to IFRS) and no adjustment has been made to reflect fair values at the time of the contribution.

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

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## 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,		
			2008	2007	2006
Ternium S.A.	Luxembourg	Holding of investments in flat and long steel manufacturing and distributing companies	100.00%	100.00%	100.00%
Hylsamex S.A. de C.V. (1)	Mexico	Holding company	-	88.23%	88.22%
Siderar S.A.I.C.	Argentina	Manufacturing and selling of flat steel products	60.93%	60.93%	60.93%
Sidor C.A. (2)	Venezuela	Manufacturing and selling of steel products	-	56.38%	56.38%
Ternium Internacional S.A.	Uruguay	Holding company and marketing of steel products	100.00%	100.00%	100.00%
Ylopa - Servicios de Consultadoria Lda. (3)	Portugal	Participation in the debt restructuring process of Amazonia and Sidor C.A.	94.38%	95.66%	95.66%
Consortio Siderurgia Amazonia S.L.U. (formerly Consortio Siderurgia Amazonia Ltd.) (4)	Spain	Holding of investments in Venezuelan steel companies	94.38%	94.38%	94.38%
Fasnet International S.A.	Panama	Holding company	100.00%	100.00%	100.00%
Alvory S.A.	Uruguay	Holding of investment in procurement services companies	100.00%	100.00%	100.00%
Comesi San Luis S.A.I.C. (5)	Argentina	Production of cold or hot rold prepainted, formed and skelped steel sheets	-	61.32%	61.32%
Impeco S.A. (6)	Argentina	Manufacturing of pipe products	60.96%	60.93%	60.93%
Inversiones Basilea S.A. (6)	Chile		60.93%	60.93%	60.93%

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		Purchase and sale of real estate and other			
Prosid Investments S.C.A.(6)	Uruguay	Holding company	60.93%	60.93%	60.93%
Ternium Internacional España S.L.U. (7)	Spain	Marketing of steel products	100.00%	100.00%	100.00%
Ternium International Ecuador S.A. (8)	Ecuador	Marketing of steel products	100.00%	100.00%	100.00%
Ternium International USA Corporation (8)	USA	Marketing of steel products	100.00%	100.00%	100.00%
Ternium Internationaal B.V. (8)	Netherlands	Marketing of steel products	100.00%	100.00%	100.00%
Ternium Internacional Perú S.A.C. (8)	Peru	Marketing of steel products	100.00%	100.00%	100.00%
Ternium International Inc.	Panama	Marketing of steel products	100.00%	100.00%	100.00%
Hylsa S.A. de C.V. (9)	Mexico	Manufacturing and selling of steel products	88.71%	88.23%	88.22%

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

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## Basis of presentation (continued)

Company	Country of Organization	Main activity	Percentage of ownership at December 31,		
			2008	2007	2006
Ferropak Comercial S.A. de C.V. (9)	Mexico	Scrap company	88.71%	88.23%	88.22%
Ferropak Servicios S.A. de C.V. (9)	Mexico	Services	88.71%	88.23%	88.22%
Galvacer America Inc (9)	USA	Distributing company	88.71%	88.23%	88.22%
Galvamet America Corp (9)	USA	Manufacturing and selling of insulates panel products	88.71%	88.23%	88.22%
Transamerica E. & I. Trading Corp (9)	USA	Scrap company	88.71%	88.23%	88.22%
Galvatubing Inc. (9)	USA	Manufacturing and selling of pipe products	88.71%	88.23%	88.22%
Las Encinas S.A. de C.V. (9)	Mexico	Exploration, exploitation and pelletizing of iron ore	88.71%	88.23%	88.22%
Técnica Industrial S.A. de C.V. (9)	Mexico	Services	88.71%	88.23%	88.22%
Consorcio Minero Benito Juárez Peña Colorada S.A.de C.V. (10)	Mexico	Exploration, exploitation and pelletizing of iron ore	44.36%	44.12%	44.11%
Peña Colorada Servicios S.A. de C.V. (10)	Mexico	Services	44.36%	44.12%	44.11%
Ternium Treasury Services S.A.	Uruguay	Financial Services	100.00%	100.00%	-
Ternium Treasury Services B.V	Holanda	Financial Services	100.00%	100.00%	-
Servicios Integrales Nova de Monterrey S.A. de C.V. (11)	Mexico	Medical and Social Services	66.09%	65.73%	-
Ternium Mexico S.A. de C.V. (formerly Grupo Imsa S.A.B. de C.V.)	Mexico	Holding company	88.71%	100.00%	-
Imsa Acero S.A. de C.V. (12)	Mexico	Holding company	88.71%	100.00%	-
Enermex S.A. de C.V. (12)	Mexico	Holding company	88.71%	100.00%	-
Sefimsa S.A. de C.V. (12)	Mexico	Financial Services	88.71%	100.00%	-
Ecore Holding S. de R.L. de C.V. (12)	Mexico	Holding company	88.71%	100.00%	-
Neotec L.L.C. (12)	USA	Holding company	88.71%	100.00%	-
Treasury Services L.L.C. (12)	USA	Financial Services	88.71%	100.00%	-
APM, S.A. de C.V. (12)	Mexico		88.71%	100.00%	-

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		Manufacturing and selling of steel products			
Acedor, S.A. de C.V. (12)	Mexico	Holding company	88.71%	100.00%	-
Empresas Stabilit S.A. de C.V. (12)	Mexico	Holding company	88.71%	100.00%	-
Acerus S.A. de C.V. (12)	Mexico	Manufacturing and selling of steel products	88.71%	100.00%	-
Imsa Monclova S.A. de C.V. (12)	Mexico	Services	88.71%	100.00%	-
Imsamex Ecuador S.A. (12)	Ecuador	Marketing of steel products	88.71%	100.00%	-
Industrias Monterrey S.A. (12)	Guatemala	Manufacturing and selling of steel products	88.71%	100.00%	-
Corporativo Grupo Imsa S.A. de C.V. (12)	Mexico	Services	88.71%	100.00%	-
Industrias Monterrey S.A. de C.V. (12)	Mexico	Manufacturing and selling of steel products	88.71%	100.00%	-



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

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## Basis of presentation (continued)

Company	Country of Organization	Main activity	Percentage of ownership at December 31,		
			2008	2007	2006
Ternium USA Inc. (formerly Imsa Holding Inc.) (12)	USA	Holding company	88.71%	100.00%	-
Industria Galvanizadora S.A. (12)	Guatemala	Manufacturing and selling of steel products	88.71%	100.00%	-
Imsa Americas Inc. (12)	USA	Marketing of steel products	88.71%	100.00%	-
Imsa Caribbean Inc. (12)	Puerto Rico	Manufacturing and selling of steel products	88.71%	100.00%	-
Ternium Internacional de Colombia S.A. (formerly Imsa Colombia S.A.)	Colombia	Marketing of steel products	100.00%	100.00%	-
Imsa Andina S.A. (12)	Peru	Marketing of steel products	88.71%	100.00%	-
Multypanel de América S.A. (12)	Costa Rica	Manufacturing and selling of insulates panel products	88.71%	100.00%	-
Industria Galvanizadora S.A. (12)	Nicaragua	Manufacturing and selling of steel products	88.09%	99,30%	-
Industria Galvanizadora de Honduras S.A. de C.V. (12)	Honduras	Manufacturing and selling of steel products	88.00%	99.20%	-
Ternium Internacional El Salvador, S.A. de C.V. (formerly Industria Galvanizadora S.A. de C.V.) (12)	El Salvador	Manufacturing and selling of steel products	88.65%	99.93%	-
Industrias Monterrey S.A. (12)	Costa Rica	Manufacturing and selling of steel products	88.71%	100.00%	-
Dirken Company S.A. (13)	Uruguay	Holding Company	100.00%	-	-
Secor- Servicios Corporativos S.A. (14)	Venezuela	Holding Company	93.44%	-	-
Ternium Brasil S.A. (14)	Brazil	Holding Company	100.00%	-	-

(1) Effective April 1, 2008 it was merged with and into Ternium México S.A. de C.V.

(2) See Note 29 (ii).

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- (3) Directly (85.62%) and indirectly through Prosid Investments S.C.A. (8.76%). Total voting rights held: 100.00%.
- (4) Indirectly through Ylopa – Servicios de Consultoría Lda.. Total voting rights held: 100.00%. As of April 25, 2008, this subsidiary was relocated into Spain (formerly Cayman Islands)
- (5) As of December, 2008 it was merged with and into Impeco S.A.
- (6) Indirectly through Siderar S.A.I.C. Total voting rights held 100.00%.
- (7) Indirectly through Dirken Company S.A. Total voting rights held 100.00%
- (8) Indirectly through Ternium Internacional S.A. Total voting rights held 100.00%
- (9) Indirectly through Ternium Mexico S.A. de C.V. Total voting rights held: 99.92%.
- (10) Indirectly through Ternium Mexico S.A. de C.V. Total voting rights held: 50.00%. Consolidated under the proportionate consolidation method (see Note 2 (ii))
- (11) Indirectly through Ternium Mexico S.A. de C.V. Total voting rights held: 74.44%.
- (12) Indirectly through Ternium Mexico S.A. de C.V. (see Note 3 (a)). Effective April 1, 2008 Siderar exchanged all of its shares in Hylsamex for shares in Ternium Mexico S.A. de C.V., thus reducing Ternium's indirect participation in all of Ternium Mexico's subsidiaries.
- (13) Incorporated during 2008, as a result of a spin off of Ternium Internacional S.A.
- (14) Incorporated during 2008.

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

2

## Basis of presentation (continued)

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. The most significant modifications to comparative information are described below:

(i) In fiscal year 2007, Ternium presented cash flows from disposal groups and discontinued operations based on their nature as either cash flows from operating, investing or financing activities. In 2008 net cash flows from disposal groups and discontinued operations have been disclosed within cash flows from investing activities.

Caption	As originally presented	Current period presentation
Cash flows from operating activities	6,535	-
Cash flows from investing activities	(10,435)	(3,900)
Cash flows from financing activities	-	-

(ii) Until December 31, 2007, Ternium's investment in Consorcio Minero Benito Juárez Peña Colorada S.A. de C.V. and Peña Colorada Servicios S.A. de C.V. was presented following the consolidation method prescribed by IAS 27. Beginning in December 31, 2008, the Company began accounting for its investments in these companies under the proportionate consolidation method described by IAS 31, the effect of such modification being immaterial. Changes in the most relevant figures are detailed below:

Caption	Year ended December 31, 2006		Year ended December 31, 2007	
	As originally presented	Current period presentation	As originally presented	Current period presentation
Total assets	8,770,539	8,658,254	13,767,310	13,649,082
Total liabilities	3,283,398	3,274,576	7,400,420	7,391,159
Minority interest	1,729,583	1,626,119	1,914,210	1,805,243
Operating income	1,003,807	1,001,823	849,030	836,776
Cash flows from operating activities	761,338	754,008	939,901	936,418
Cash flows from investing activities	(200,526)	(193,133)	(1,805,650)	(1,802,317)
Cash flows from financing activities	(682,475)	(682,475)	1,359,046	1,359,046

The preparation of financial statements requires management to make estimates and assumptions that might affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet dates, and the reported amounts of revenues and expenses during the reporting periods. The most critical estimates made by management in these financial statements are those related to impairment tests of Property, plant and equipment, Goodwill and other assets, valuation allowances for inventories and other provisions. Actual results may differ from these estimates.

These consolidated financial statements have been approved for issue by the board of directors on February 24, 2009.

3

Acquisition of business

(a) Grupo Imsa S.A.B. de C.V. (“Grupo Imsa”)

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

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

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

3

## Acquisition of business (continued)

## (a) Grupo Imsa S.A.B. de C.V. (“Grupo Imsa”) (continued)

Concurrently with the consummation of the tender offer, on July 26, 2007, all the shares of Grupo Imsa that were not tendered into the tender offer (including the shares owned by Grupo Imsa’s majority shareholders), representing 90.7% of Grupo Imsa’s issued and outstanding share capital were redeemed for cash pursuant to a capital reduction effected at the same price per share.

Grupo Imsa is a steel manufacturer with operations in Mexico, the United States, Guatemala, Nicaragua, Honduras, El Salvador and Costa Rica. It has an annual production capacity of 2.2 million tons of hot rolled coils, 1.8 million tons of cold rolled products and 1.7 million tons of coated products. In addition, Grupo Imsa produces panels and other steel products.

Grupo Imsa contributed revenues of USD 976.3 million and a net loss of USD 77.5 million in the period from July 26, 2007 to December 31, 2007 (these amounts do not include revenues or net profits generated by discontinued operations). The book value of Grupo Imsa’s net assets acquired totals USD 543.9 million. The fair value of assets and liabilities arising from the transaction are as follows:

	USD Thousands	
	Fair value	Book value
Property, plant and equipment	1,602,398	1,205,128
Intangible assets	456,404	73,227
Inventories	501,304	501,304
Cash and cash equivalents	190,087	190,087
Deferred Tax Liabilities	(481,930)	(253,991)
Provisions	(10,011)	(10,011)
Borrowings	(1,437,676)	(1,437,676)
Other assets and liabilities, net	(99,069)	(99,069)
Net assets pertaining to discontinued operations (1)	485,651	374,949
Net	1,207,158	543,948
Goodwill	455,776	
Goodwill – Discontinued operations	65,740	
Total Purchase Consideration	1,728,674	
Other cash consideration – Income Tax paid on the transaction	297,700	

(1) These amounts do not include the goodwill attributable to discontinued operations for USD 65.7 million.

Goodwill, representing the excess of the purchase price paid over the fair value of identifiable assets, liabilities and contingent liabilities totaled USD 521.5 million. Goodwill derives principally from synergies expected to be obtained by the Company after the transaction, as well as the fair value of the going concern element of the acquiree.

Upon consummation of the transaction, the Company was subject to an income tax payment of USD 297.7 million. This payment can be credited against future income tax obligations for the following three fiscal years. As the Company expects to generate sufficient taxable income in that period, the above mentioned amount has been considered as an income tax prepayment (USD 222.7 million have been disclosed under Other Receivables line item and USD 75.0 million have been offset against Current Tax Liabilities at December 31, 2007). As of December 31, 2008, the remaining tax credit is USD 28.2 million.

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

- Ternium made several borrowings in an aggregate principal amount of USD 125 million under a loan facility (the “Ternium Facility”) with a syndicate of banks led by Calyon New York Branch as administrative agent, the proceeds of which were primarily used to finance the above described tender offer. Ternium’s loans under the Ternium Facility would have been repaid in nine consecutive and equal semi-annual installments commencing on July 26, 2008. On January 28, 2008, the company prepaid all of its outstanding obligations with Calyon New York Branch, amounting to approximately USD 129.1 million.

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

3 Acquisition of business (continued)

(a) Grupo Imsa S.A.B. de C.V. (“Grupo Imsa”) (continued)

- Ternium’s subsidiary Hylsa S.A. de C.V. (“Hylsa”) made several borrowings in an aggregate principal amount of 3,485 million under a loan facility (the “Hylsa Facility”) with a syndicate of banks led by Calyon New York Branch as administrative agent, the proceeds of which were primarily used to finance the above described capital reduction by Grupo Imsa, to refinance existing indebtedness of Grupo Imsa and Hylsa and to pay taxes, fees and expenses related to the transactions.

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

These facilities contain covenants customary for transactions of this type, including limitations on liens and encumbrances, restrictions on investments and capital expenditures, limitations on the sale of certain assets and compliance with financial ratios (e.g., leverage ratio and interest coverage ratio). There are no limitations to the payment of dividends under either facility, except in case of non compliance of the above mentioned covenants.

Pro forma data including acquisitions for the year ended December 31, 2007

Had the Grupo Imsa transaction been consummated on January 1, 2007, then Ternium’s unaudited pro forma net sales and net income for the year ended December 31, 2007 would have been approximately \$9.6 billion and \$0.8 billion, respectively. These pro forma results were prepared based on public information and 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.

Subsidiary reorganization

Effective April 1, 2008, Ternium Mexico S.A. de C.V. (“Ternium Mexico”) was formed as a result of the merger of Grupo Imsa, Hylsamex and Hylsamex’s major shareholder. Ternium Mexico and its subsidiaries operate all of Ternium’s mining and steel production activities in Mexico.

(b) Acerex S.A. de C.V.

In April 2006, the Company acquired a 50% equity interest in Acerex S.A. de C.V. (“Acerex”) through its subsidiary Hylsa S.A. de C.V. for a total purchase price of USD 44.6 million. Upon completion of this transaction Hylsa S.A. de C.V. owns 100% of Acerex. Acerex is a service center dedicated to processing steel to produce short-length and steel sheets in various widths. Acerex operates as a cutting and processing plant for Ternium’s Mexican operations and as an independent processor for other steel companies. On August 31, 2006 Acerex S.A. de C.V. was merged into Hylsa S.A. de C.V.

As permitted by IFRS 3 “Business Combinations” (“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 (amounting to USD 24.3 million) being recorded directly in equity.

(c) Additional shares of Siderar bought by Ternium S.A.

On December 28, 2006, Ternium S.A. acquired from CVRD International S.A. 16,860,000 shares of Siderar S.A.I.C, representing 4.85% of that company, for an aggregate purchase price of USD 107.5 million. After this acquisition Ternium has increased its ownership in Siderar to 60.93%.

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 (amounting to USD 8.1 million) being recorded directly in equity.

(d) Additional shares of Hylsamex bought by Siderar

On June 19, 2006, Siderar completed the acquisition of 940,745 additional shares of Hylsamex, representing 0.2% of that company's issued and outstanding common stock, for a total consideration of USD 3.3 million. This acquisition was effected through a trust fund established by Siderar in 2005 in connection with the initial acquisition of Hylsamex. Goodwill resulting from this acquisition totaled USD 0.7 million. During 2007 and 2008, Siderar completed the acquisition of 94,379 additional shares of Hylsamex, representing 0.02% of that company's issued and outstanding common stock, for a total consideration of USD 0.3 million.



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

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Accounting policies

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

Subsidiary companies are those entities in which the Company has an interest of more than 50% of the voting rights or otherwise has the power to exercise control over the operating decisions. Subsidiaries are consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the acquisition cost over the Company's share of the fair value of net assets acquired is recorded as goodwill. Acquisition of minority interests in subsidiaries is accounted for following the economic entity model and, accordingly, assets acquired and liabilities assumed are valued at book value and the difference arising on purchase price allocation is recorded in equity under "Revaluation and other reserves" line item. Material intercompany transactions, balances and unrealized gains on transactions among the Company and its subsidiaries are eliminated; unrealized losses are also eliminated unless cost cannot be recovered. 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.

(4) First-time application of IFRS

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

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

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

4 Accounting policies (continued)

(4) First-time application of IFRS (continued)

4.1. Exemptions from full retrospective application – elected by the Company

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

(a) Fair value as deemed cost exemption

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

(b) Cumulative translation differences exemption

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

4.2 Exceptions from full retrospective application followed by the Company

Ternium has applied the following mandatory exceptions from retrospective application.

(a) Derecognition of financial assets and liabilities exception

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

(b) Hedge accounting exception

At January 1, 2003, the Company did not have derivatives that qualify for hedge accounting. This exception is therefore not applicable.

(c) Estimates exception

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

(d) Assets held for sale and discontinued operations exception

Ternium did not have assets that met the held-for-sale criteria (as defined by IFRS 5) at the transition date (January 1, 2003).

(b) Foreign currency translation

(1) Functional and presentation currency

Items included in the financial statements of each of the Company's subsidiaries and associated companies are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is the U.S. dollar. 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.

(2) Subsidiary companies

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

- (i) assets and liabilities are translated at the closing rate of each balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates; and
- (iii) all resulting translation differences are recognized as a separate component of equity.

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

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

4 Accounting policies (continued)

(b) Foreign currency translation (continued)

(3) Transactions in currencies other than the functional currency

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

(c) Financial instruments

Non derivative financial instruments

Non derivative financial instruments comprise investment 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 specified categories:

- Financial assets as at fair value through profit or loss: mainly financial assets that are held for trading;
- Held to maturity investments: these investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis;
- Available-for-sale (“AFS”) financial assets: gains and losses arising from changes in fair value are recognized directly in equity (AFS reserve) 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 the investments revaluation reserve is included in the income statement for the period;
- Loans and receivables: are measured at amortized cost using the effective interest method less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial; and
- Other non derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses when applicable.

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 trade date.

Financial assets are initially measured at fair value, net of transaction costs, except for those financial assets classified at fair value through the income statement.

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.

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). Nevertheless, as mentioned in Note 4(a), property, plant and equipment have been valued at its deemed cost at the transition date to IFRS.

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

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

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

4 Accounting policies (continued)

(d) Property, plant and equipment (continued)

In accordance with IAS 23, borrowing costs that are attributable to the acquisition or construction of certain capital assets could be capitalized as part of the cost of the assets. Capital assets for which borrowing costs may be capitalized are those that require a substantial period of time to be ready for their intended use. At December 31, 2008, no borrowing costs have been capitalized.

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

Land	N o Depreciation
B u i l d i n g s a n d improvements	15-40 years
Production equipment	10-25 years
Vehicles, furniture and f i x t u r e s a n d o t h e r equipment	5-15 years

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

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

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

(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.

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 and exploration costs

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

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. Capitalization is made within Property, Plant and Equipment or Intangible Assets according to the nature of the expenditure. Exploration costs are tested for impairment annually. No impairment losses have been recorded for any of the years presented.

(3) Goodwill

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

Goodwill is allocated to cash-generating units 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.



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

4 Accounting policies (continued)

(e) Intangible assets (continued)

(4) Research and development

Research expenditures are recognized as expenses as incurred. Development costs are recorded as cost of sales in the income statement as incurred because they do not fulfill the criteria for capitalization. Research and development expenditures for the years ended December 31, 2008, 2007 and 2006 totaled USD 0.8 million, USD 1.1 million and USD 1.3 million, respectively.

(5) Customer relationships acquired in a business combination

In accordance with IFRS 3 and IAS 38, Ternium has recognized the value of customer relationships separately from goodwill attributable to the acquisition of Grupo Imsa.

Customer relationships are amortized over a useful life of approximately 10 years.

(6) Trademarks

In accordance with IFRS 3 and IAS 38, Ternium has recognized the value of trademarks separately from goodwill attributable to the acquisition of Grupo Imsa.

Trademarks are amortized over a useful life of approximately 5 years.

(f) Impairment

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

To carry out these tests, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The value in use of these units is determined on the basis of the present value of net future cash flows which will be generated by the assets tested. Cash flows are discounted at rates that reflect specific country and currency risks.

In order to test goodwill for impairment and other assets indicated as possibly impaired, the "fair value less costs to sell" of the related cash-generating unit is calculated and only if it is lower than the carrying amount is the value in use determined. Ternium uses projections for the next 5 years based on past performance and expectations of market development. After the fifth year a perpetuity rate with no grow up increase was utilized. Discounted Cash Flow (DCF) method to determine the "fair value less costs to sell" of a related cash-generating unit, starts with a forecast of all expected future net cash flows.

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The net present values involve highly sensitive estimates and assumptions specific to the nature of Ternium's activities with regard to:

- The amount and timing of projected future cash flows;
- The discount rate selected and;
- The tax rate selected

The discount rates used are based on Ternium's weighted average cost of capital, which is adjusted for specific country and currency risks associated with the cash flow projections. To perform the test, post-tax rates have been applied. Discount rates used range from 12.4 to 18.3%.

Due to the above factors, actual cash flows and values could vary significantly from the forecasted future cash flows and related values derived using discounting techniques.

At December 31, 2008, 2007 and 2006, no impairment provisions were recorded.

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

4 Accounting policies (continued)

(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 trade date, which is not significantly different from the settlement date, which is the date that Ternium commits to purchase or sell the investment.

Income from financial instruments is recognized in Other financial expenses, net in the income statement. Interest receivable on investments in debt securities is calculated using the effective rate. 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 Company assesses the recoverability of its inventories considering if their selling prices have declined, if the inventories are damaged, or if they have become wholly or partially 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 the potential obsolescence due to technological change.

As of December 31, 2008, the Company established a valuation allowance for net realizable value of USD 160.9 million and maintains an allowance for obsolescence of USD 124.9 million.

(i) Trade 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.

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

In the consolidated balance sheet, 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 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 a continuing use.

The carrying value of non-current assets classified as held for sale, at December 31, 2008, totals USD 5.3 million, which corresponds principally to land and other real estate items. Sale is expected to be completed within a one-year period.

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

4 Accounting policies (continued)

(l) Shareholders' equity

The consolidated statement of changes in shareholders' equity for the years 2008, 2007 and 2006 was prepared based on the following criteria:

- Currency translation differences arising from the translation of financial statements expressed in currencies other than the U.S. dollar are shown in a separate line.
- Expenses incurred in connection with the Initial Public Offering at December 31, 2006 and 2005 totaled USD 17.8 million and USD 5.5 million, respectively, and have been deducted from equity, since they directly relate to a transaction which itself is to be recorded in equity.

(m) 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 borrowing costs are amortized over the life of their respective debt.

(n) Income taxes – current and deferred

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

The Company has qualified for, and was admitted to, the Billionaire holding company tax regime in conjunction with the financing holding company tax regime in Luxembourg starting January 1, 2006.

On December 29, 2006, the Grand-Duchy of Luxembourg announced the decision to terminate its 1929 holding company regime, effective January 1, 2007. However, under the implementing legislation, pre-existing publicly listed companies (including Ternium S.A.) will be entitled to continue benefiting from their current tax regime until December 31, 2010.

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

Deferred income taxes are calculated, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise on fixed assets, 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 the balance sheet date. Under IFRS, deferred income tax assets (liabilities) are classified as non-current assets (liabilities).

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

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

Under Mexican law, Ternium's subsidiaries are required to pay their employees an annual benefit which is as a percentage of taxable profit for the year. Because Mexican employee statutory profit sharing is determined on a basis similar to that used for determining local income taxes, the Company accounts for temporary differences arising between the statutory calculation and the reported expense determined under IFRS in a manner similar to calculation of deferred income tax.

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

4 Accounting policies (continued)

(n) Income taxes – current and deferred (continued)

In 2008, Hylsa S.A. de C.V. (“Hylsa”) entered into a spin off that became effective on March 31, 2008. After this corporate reorganization, all of Hylsa’s employees were transferred to the payroll of a company that is expected to generate non-significant taxable income and non-significant temporary differences. The Company agreed to pay its employees a bonus salary that will be calculated on the basis of agreed-upon criteria. Accordingly, during the year ended December 31, 2008, the Company reversed the outstanding balance of the deferred tax liability recorded in connection with the statutory profit sharing as of December 31, 2007 (amounting to USD 96 million) and disclosed the related gain within Income tax (expense) benefit line item in the Consolidated Income Statement.

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

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

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

México

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' contribution 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 officers on August 1, 1995. The plan is designed to provide retirement, termination and other benefits to those officers. For its main plan, Siderar is accumulating assets for the ultimate payment of those benefits in the form of investments that carry time limitations for their redemption. The investments are not part of a particular plan, nor are they segregated from Siderar's other assets, and therefore this plan is classified as "unfunded" under IFRS definitions. Benefits provided by the plan are 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.



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

4 Accounting policies (continued)

(o) Employee liabilities (continued)

(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 minority interest). Also, the beneficiaries of the Program are entitled to receive cash amounts based on (i) the amount of dividend payments made by Ternium to its shareholders, and (ii) the number of Units held by each beneficiary to the Program. Units vest ratably over a period of four years 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 of December 31, 2008, the outstanding liability corresponding to the Program amounts to USD 5.8 million. 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, 2008, is USD 4.8 million.

(4) Social security contributions

Social security laws in force in Argentina and Mexico 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.

(p) 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.

(q) Trade payables

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

(r) Revenue recognition

Revenues are recognized as sales when revenue is earned and is realized or realizable. This includes satisfying all of the following criteria: the arrangement with the customer is evident, usually through the receipt of a purchase order;

the sales price is fixed or determinable; delivery as defined by the risk transfer provision of the sales contracts has occurred, and collectibility is reasonably assured.

Interest income is recognized on an effective yield basis.

Income from participation account is recognized when earned according to its contractual terms (see Note 29 (iii)).

(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.

(t) 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 28).

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

4 Accounting policies (continued)

(u) 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 and commodities contracts). The effective portion of the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. Amounts accumulated in equity 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 Balance Sheet.

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, 2008, the effective portion of designated cash flow hedges amounts to USD 59.5 million (net of taxes for USD 23.1 million) and is included as “Change in fair value of cash flow hedge (net of taxes)” under “Revaluation and other reserves” line item in the Statement of changes in shareholders’ equity.

More information about accounting for derivative financial instruments and hedging activities is included in Note 33 “Financial risk management”.

(v) Segment information

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

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

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

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

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

Allocation of net sales is based on the customers’ location. Allocation of assets, liabilities and capital expenditures is based on their corresponding location.



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

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## Segment information

## Primary reporting format – business segments

	Flat steel products	Long steel products	Other	Unallocated	Total
Year ended December 31, 2008					
Net sales	7,124,687	1,075,090	265,108	-	8,464,885
Cost of sales	(5,256,340)	(732,332)	(139,355)	-	(6,128,027)
Gross profit	1,868,347	342,758	125,753	-	2,336,858
Selling, general and administrative expenses	(560,189)	(80,303)	(28,981)	-	(669,473)
Other operating income, net	2,789	2,419	3,454	-	8,662
Operating income	1,310,947	264,874	100,226	-	1,676,047
Capital expenditures - PP&E	511,658	29,684	2,915	-	544,257
Depreciation - PP&E	292,236	37,810	3,715	-	333,761
Segment assets					
Inventories, net	1,708,324	100,494	17,729	-	1,826,547
Trade receivables, net	449,168	133,673	40,151	-	622,992
Property, plant and equipment, net	3,836,241	336,603	39,469	-	4,212,313
Intangible assets, net	1,039,337	51,769	45,261	-	1,136,367
Assets – discontinued operations	-	-	-	1,318,900	1,318,900
Other assets	-	-	-	1,554,128	1,554,128
Segment liabilities	704,455	103,134	43,527	4,258,667	5,109,783

	Flat steel products	Long steel products	Other	Unallocated	Total
Year ended December 31, 2007					
Net sales	4,731,715	772,829	128,822	-	5,633,366
Cost of sales	(3,633,368)	(581,123)	(73,180)	-	(4,287,671)
Gross profit	1,098,347	191,706	55,642	-	1,345,695
Selling, general and administrative expenses	(439,170)	(66,513)	(11,750)	-	(517,433)
Other operating income, net	4,970	4,044	(500)	-	8,514
Operating income	664,147	129,237	43,392	-	836,776
Capital expenditures - PP&E	285,858	21,463	1,277	-	308,598
Depreciation - PP&E	264,382	37,741	7,733	-	309,856

Segment assets					
Inventories, net	1,345,386	91,170	12,917	-	1,449,473
Trade receivables, net	553,692	87,237	18,542	-	659,471
Property , plant and equipment, net	4,398,526	360,529	42,309	-	4,801,364
Intangible assets, net	1,319,544	63,506	53,539	-	1,436,589
Assets – discontinued operations	-	-	-	3,599,667	3,599,667
Other assets	-	-	-	1,702,518	1,702,518
Segment liabilities					
Liabilities – discontinued operations	-	-	-	853,722	853,722
Other liabilities	704,292	127,252	29,448	5,676,445	6,537,437

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

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## Segment information (continued)

	Flat steel products	Long Steel products	Other	Unallocated	Total
Year ended December 31, 2006					
Net sales	3,593,053	739,919	151,946	-	4,484,918
Cost of sales	(2,519,689)	(537,001)	(50,939)	-	(3,107,629)
Gross profit	1,073,364	202,918	101,007	-	1,377,289
Selling, general and administrative expenses	(297,647)	(54,196)	(18,884)	-	(370,727)
Other operating expenses, net	(7,687)	1,479	1,469	-	(4,739)
Operating income	768,030	150,201	83,592	-	1,001,823
Capital expenditures - PP&E	293,815	1,372	3,705	-	298,892
Depreciation - PP&E	202,323	25,411	7,638	-	235,372
Segment assets					
Inventories, net	822,533	53,212	20,843	-	896,588
Trade receivables, net	303,774	100,219	22,995	-	426,988
Property, plant and equipment, net	2,941,125	254,724	50,608	-	