

Ternium S.A.  
Form 20-F  
June 29, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 20-F**

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(Mark One)

- .. Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934  
or
- x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006  
or
- .. Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
or
- .. Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
Commission file number: 001-327734

**TERNIUM S.A.**

(Exact Name of Registrant as Specified in its Charter)

**N/A**

(Translation of registrant's name into English)

**Grand Duchy of Luxembourg**

(Jurisdiction of incorporation or organization)

**46a, Avenue John F. Kennedy 2<sup>nd</sup> floor**

**L-1855 Luxembourg**

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(Address of registrant's principal executive offices)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class  
**American Depositary Shares**  
**Ordinary Shares, par value USD1.00 per share**

Name of Each Exchange On Which Registered  
**New York Stock Exchange**  
**New York Stock Exchange\***

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\* Ordinary shares of Ternium S.A. are not listed for trading but only in connection with the registration of American Depositary Shares which are evidenced by American Depositary Receipts.

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Securities registered or to be registered pursuant to Section 12(g) of the Act:

**None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**2,004,743,442 ordinary shares, par value USD1.00 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ☐ No ☒

Note: checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ☐ Accelerated Filer ☐ Non-accelerated filer ☒

Indicate by check mark which financial statement item the registrant has elected to follow.

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Item 17    "

Item 18    x

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes    "

No    x

*Please send copies of notices and communications from the Securities and Exchange Commission to:*

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**CERTAIN DEFINED TERMS**

In this annual report, unless otherwise specified or if the context so requires:

References to the Company , we , us or our are exclusively to Ternium S.A., a joint stock corporation (*société anonyme* holding) organized under the laws of the Grand Duchy of Luxembourg;

References to Ternium refer to the flat and long steel manufacturing, processing and distribution businesses of various companies under the common control of San Faustín N.V. As part of a corporate reorganization, these companies were reorganized as our subsidiaries. See notes 1 and 2 to our consolidated financial statements included elsewhere in this annual report and Item 4.

Information on the Company History and Corporate Organization ;

References to Siderar are to Siderar S.A.I.C., a corporation (*sociedad anónima industrial y comercial*) organized under the laws of the Republic of Argentina ( Argentina ) and a subsidiary of the Company;

References to Amazonia refer to Consorcio Siderurgia Amazonia Ltd., a holding company organized under the laws of the Cayman Islands and a subsidiary of the Company that holds a 59.73% interest in Sidor;

References to Sidor are to Sidor C.A., a corporation (*compañía anónima*) organized under the laws of the Bolivarian Republic of Venezuela ( Venezuela ) and a subsidiary of the Company;

References to Hylsamex are to Hylsamex, S.A. de C.V., a corporation (*sociedad anónima de capital variable*) organized under the laws of the United Mexican States ( Mexico ) and a subsidiary of the Company;

References to Ylopa are to Ylopa Serviços de Consultadoria Lda., a company established under the laws of Portugal and registered in the Madeira Free Zone;

References to the Ternium companies are to Ternium's manufacturing subsidiaries, namely Siderar, Sidor and Hylsamex and their respective subsidiaries;

References to Usiminas are to Usinas Siderurgicas de Minas Gerais S/A USIMINAS, a company organized under the laws of Brazil and a shareholder of the Company;

References to Tenaris are to Tenaris S.A., a joint stock corporation (*société anonyme holding*) organized under the laws of Luxembourg and a shareholder of the Company;

References to ISL are to Inversora Siderurgica Limited, a company organized under the laws of Gibraltar and the Company's principal direct shareholder;

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References to "San Faustín" are to San Faustín N.V., a corporation organized under the laws of the Netherlands Antilles and the Company's indirect controlling shareholder;

References to the "Ternium internacional commercial network", the "Ternium network" or "Ternium Internacional" are to an international group of companies, formerly known as Techintrade or the Techintrade network, that markets and provides worldwide distribution services for products offered primarily by Ternium.

References to "ADSs" are to the American Depositary Shares which are evidenced by American Depositary Receipts;

References to "tons" are to metric tons; one metric ton is equal to 1,000 kilograms, 2,204.62 pounds or 1.102 U.S. (short) tons; and

References to "billions" are to thousands of millions, or 1,000,000,000.

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**PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION**

**Accounting Principles**

We prepare our consolidated financial statements in conformity with International Financial Reporting Standards, or IFRS. IFRS differ in certain significant respects from generally accepted accounting principles in the United States, commonly referred to as U.S. GAAP. See note 34 to our audited consolidated financial statements included in this annual report, which provides a description of the principal differences between IFRS and U.S. GAAP as they relate to the Company and a reconciliation of net income and shareholders' equity for the years and at the dates indicated.

Our audited consolidated financial statements as of, and for the years ended December 31, 2006, 2005 and 2004 included in this annual report consolidate, in addition to the consolidated results and other financial data of Siderar, Ylopa, and Ternium Internacional, the results and other financial data of Amazonia and Hylsamex, which companies came under the control of San Faustín on February 15, 2005 and August 22, 2005, respectively. As a result of the consolidation of Amazonia's and Hylsamex's results and other financial data, Ternium's results and other financial data for the year ended December 31, 2006 varied significantly from the results and other financial data for the years ended December 31, 2005 and 2004. For a list of our subsidiaries, see note 2 to our audited consolidated financial statements included in this annual report. For comparative purposes, the audited combined consolidated financial data of Ternium as of December 31, 2005 and 2004 and for the years then ended included in this annual report combine and consolidate the results and other financial data of each of Siderar, Ylopa and Ternium Internacional, and recognize the investment in Amazonia under the equity method, as of each such dates and for each of the years then ended, on the basis that such companies were under the common control of San Faustín as of each such dates and for each such years. The effect of this presentation is to show the combined historical results, financial condition and other data of the various companies under the common control of San Faustín as though these companies had been our subsidiaries at the dates and during the periods presented. For more information, see notes 1, 2 and 3 to our audited consolidated financial statements included in this annual report.

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**Currencies**

In this annual report, unless otherwise specified or the context otherwise requires:

dollars , U.S. dollars or USD each refers to the United States of America dollar;

, EUR or euros each refers to the Euro;

Argentine pesos or ARP each refers to the Argentine peso;

Venezuelan bolívars or VEB each refers to the Venezuelan bolívar; and

Mexican pesos or MXN each refers to the Mexican peso.

On December 29, 2006, the exchange rate between the Argentine peso and the U.S. dollar (as published by *Banco Central de la República Argentina*, or the Argentine Central Bank), was ARP3.0695=USD1.00; the noon buying rate for the Venezuelan bolívar as certified for customs purposes by the Federal Reserve Bank of New York was VEB2,144.60=USD1.00; and the noon buying rate for the Mexican peso as published by the Federal Reserve Bank of New York was MXN10.7995=USD1.00. Those rates may differ from the actual rates used in preparation of Ternium's consolidated financial statements. We do not represent that any of these currencies could have been or could be converted into U.S. dollars or that the U.S. dollars could have been or could be converted into any of these currencies.

**Rounding; Comparability of Data**

Certain monetary amounts, percentages and other figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% or, as applicable, when aggregated may not be the arithmetic aggregation of the percentages that precede them.

**Our Internet Site is Not Part of This Annual Report**

We maintain an Internet site at [www.ternium.com](http://www.ternium.com). Information contained in or otherwise accessible through this website is not a part of this annual report. All references in this annual report to these Internet sites are inactive textual references to these URLs, or uniform resource locators and are for your informational reference only. We assume no responsibility for the information contained on these sites.



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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This annual report and any other oral or written statements made by us to the public may contain forward-looking statements within the meaning of and subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. This annual report contains forward-looking statements, including with respect to certain of our plans and current goals and expectations relating to Ternium's future financial condition and performance.

Sections of this annual report that by their nature contain forward-looking statements include, but are not limited to, Item 3. Key Information, Item 4. Information on the Company, Item 5. Operating and Financial Review and Prospects and Item 11. Quantitative and Qualitative Disclosures About Market Risk.

We use words such as aim, will likely result, will continue, contemplate, seek to, future, objective, goal, should, will pursue, expect, project, intend, plan, believe and words and terms of similar substance to identify forward-looking statements, but they are not the only way we identify such statements. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. In addition to the risks related to Ternium's business discussed under Item 3. Key Information D. Risk Factors, other factors could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to:

our ability to successfully implement our business strategy;

our ability to successfully integrate the operations of future acquisitions (for example, Grupo Imsa) into the operations of Ternium;

uncertainties about the degree of growth in the number of consumers in the markets in which Ternium operates and sells its products;

the impact of existing and new competitors in the markets in which Ternium operates, including competitors that may effect Ternium's customer mix, profitability and revenue and/or offer less expensive products and services, desirable or innovative products, or have extensive resources or better financing;

other factors or trends affecting the flat and long steel industry generally and our financial condition in particular;

general economic and political conditions in the countries in which Ternium operates or other countries which have an impact on Ternium's business activities or investments;

the monetary and interest rate policies of the countries in which Ternium operates;

inflation or deflation in the countries in which Ternium operates;

unanticipated volatility in interest rates;

foreign exchange rates;

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the performance of the financial markets globally and in the countries in which Ternium operates;

changes in domestic and foreign laws, regulations and taxes;

changes in competition and the pricing environments in the countries in which Ternium operates;

regional or general changes in asset valuations; and

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raw material and energy price increases or difficulties in acquiring raw materials or energy supply cut-offs. By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses that may affect Ternium's financial condition and results of operations could differ materially from those that have been estimated. You should not place undue reliance on the forward-looking statements, which speak only as of the date of this annual report. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

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### **PART I**

#### **Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

#### **Item 2. Offer Statistics and Expected Timetable**

Not applicable.

#### **Item 3. Key Information**

##### **A. Selected Financial Data**

The selected consolidated financial data set forth below have been derived from our audited consolidated financial statements for each of the years and at the dates indicated. Our consolidated financial statements were prepared in accordance with IFRS and were audited by Price Waterhouse & Co. S.R.L., Argentina, an independent registered public accounting firm and a member firm of PricewaterhouseCoopers. IFRS differ in certain significant respects from U.S. GAAP. See note 34 to our audited consolidated financial statements included in this annual report, which provide a description of the principal differences between IFRS and U.S. GAAP as they relate to the Company and a reconciliation to U.S. GAAP of net income and shareholders' equity for the years and at the dates indicated therein.

The audited consolidated financial statements of Ternium as of December 31, 2006, 2005 and 2004 and for the years then ended included in this annual report consolidate, in addition to the consolidated results and other financial data of each of Siderar, Ylopa and Ternium Internacional, the results and other financial data of Amazonia and Hylsamex, which companies came under the control of San Faustín on February 15, 2005 and on August 22, 2005, respectively. As a result of the consolidation of Amazonia's and Hylsamex's results and other financial data, Ternium's results and other financial data for the year ended December 31, 2006 varied significantly from the results and other financial data for the years ended December 31, 2005 and 2004. The audited combined consolidated financial data of Ternium as of December 31, 2005 and 2004 and for the years then ended included in this annual report combine and consolidate the results and other financial data of each of Siderar, Ylopa and Ternium Internacional, and recognize the investment in Amazonia under the equity method, as of each such dates and for each of the years then ended, on the basis that such companies were under the common control of San Faustín as of each such dates and for each such years. The effect of this presentation is to show the combined historical results, financial condition and other data of the various companies under the common control of San Faustín as though these companies had been our subsidiaries at the dates and during the years presented. For more information, see notes 1, 2 and 3 to our audited consolidated financial statements included in this annual report. For a discussion of the currencies used in this annual report, exchange rates and accounting principles affecting the financial information contained in this annual report, see Presentation of Certain Financial and Other Information Accounting Principles and Currencies.

**Table of Contents***In thousands of U.S. dollars***For the year ended December 31,***(except number of shares and per share data)***Selected consolidated income statement data**

	<b>2006</b>	<b>2005<sup>(1) (2)</sup></b>	<b>2004<sup>(1) (2)</sup></b>	<b>2003<sup>(1) (2)</sup></b>
IFRS				
Net sales	6,568,975	4,447,680	1,598,925	1,056,566
Cost of sales	(4,301,384)	(2,488,980)	(965,004)	(671,720)
Gross profit	2,267,591	1,958,700	633,921	384,846
Selling, general and administrative expenses	(623,772)	(500,590)	(116,626)	(115,662)
Other operating expenses, net	(7,250)	(65,949)	(3,124)	(4,402)
Operating income	1,636,569	1,392,161	514,171	264,782
Interest expense	(112,918)	(81,608)	(18,257)	(39,980)
Interest income	52,554	32,324	8,911	6,036
Other financial (expenses) income, net	(322,417)	(261,452)	211,635	109,550
Excess of fair value of net assets acquired over cost		188,356		
Equity in earnings of associated companies	4,534	21,524	209,201	110,250
Income before income tax expense	1,258,322	1,291,305	925,661	450,638
Income tax expense	(262,356)	(218,492)	(177,486)	(94,087)
Net income for the year <sup>(3)</sup>	995,966	1,072,813	748,175	356,551
Attributable to:				
Equity holders of the Company	795,424	704,406	457,339	218,215
Minority interest	200,542	368,407	290,836	138,336
	995,966	1,072,813	748,175	356,551
Depreciation and amortization	424,495	316,405	99,192	85,479
Weighted average number of shares outstanding <sup>(4)</sup>	1,936,833,060	1,209,476,609	1,168,943,632	1,168,943,632
Basic earnings per share for profit attributable to the equity holders of the Company <sup>(4)</sup>	0.41	0.58	0.39	0.19
Diluted earnings per share for profit attributable to the equity holders of the Company <sup>(5)</sup>	0.41	0.54	0.39	0.19
Dividends per share declared <sup>(6)</sup>	0.05			
<b>U.S. GAAP</b>				
Net sales	6,568,975	4,447,680	1,598,925	1,056,566
Net income for the year <sup>(7)</sup>	841,018	559,305	424,655	264,173
Weighted average number of shares outstanding <sup>(4)</sup>	1,936,833,060	1,209,476,609	1,168,943,632	1,168,943,632
Basic earnings per share for profit attributable to the equity holders of the Company <sup>(4)</sup>	0.43	0.46	0.36	0.23
Diluted earnings per share for profit attributable to the equity holders of the Company <sup>(5)</sup>	0.43	0.43	0.36	0.23

- (1) Combined consolidated financial information on the basis of common control. See note 2 to our audited consolidated financial statements.
- (2) Certain comparative amounts for 2005, 2004 and 2003 have been reclassified to conform to changes in presentation in the current period.
- (3) For IFRS purposes, net income for the year is shown gross of the interest of minority shareholders in controlled subsidiaries. The portion of net income attributable to the equity holders of the Company and to minority shareholders is disclosed separately. Under U.S. GAAP, net income for the year is shown net of minority interest.
- (4) As discussed in note 29 to our audited consolidated financial statements, in October 2005, Usiminas exchanged its 5.3% equity interest in Siderar, its 16.6% equity interest in Amazonia and its 19.1% equity interest in Ylopa and other items for 227,608,254 new shares of the Company. Upon the consummation of this exchange, capital increased to USD1,396.6 million, represented by 1,396,551,887 shares of

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USD1.00 nominal value each. Pursuant to certain provisions contained in a subordinated convertible loan agreement, on February 6, 2006 the Company exchanged certain subordinated convertible loans (including interest accrued through January 31, 2006) held by ISL and converted them into shares at a conversion price of USD2 per share, resulting in the issuance of 302,962,261 new shares on February 9, 2006. As provided in the Corporate Reorganization Agreement, 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 its initial public offering. In connection with the over-allotment described in note 1 to our audited consolidated financial statements, on March 1, 2006, the Company issued 22,981,360 new shares. Upon consummation of the transactions discussed above, as of December 31, 2006, the capital of the Company was increased to USD2,004.7 million, represented by 2,004,743,442 shares, each having a nominal value of USD1.00. Ternium's combined earnings per share for the year ended December 31, 2004 and 2003 have been calculated based on the assumption that 1,168,943,632 shares were issued and outstanding in each of the periods presented. For fiscal years 2006 and 2005, the weighted average of shares outstanding totaled 1,936,833,060 shares and 1,209,476,609 shares, respectively.

- (5) Diluted earnings per share have been calculated giving effect to the conversion of the Subordinated Convertible Loans. See note 1 to our audited consolidated financial statements.
- (6) On June 6, 2007, at the Ternium's annual general shareholders meeting a dividend of USD0.05 per share (USD0.50 per ADS), or approximately USD100 million, was approved. Ternium paid the dividend on June 12, 2007.
- (7) We are not presenting net income from continuing operations since it is identical to net income for all periods presented.

**Table of Contents***In thousands of U.S. dollars***At December 31,***(except number of shares and per share data)*

	<b>2006</b>	<b>2005<sup>(2)</sup></b>	<b>2004<sup>(1) (2)</sup></b>	<b>2003<sup>(1)</sup></b>
<b>Selected consolidated balance sheet data</b>				
<b>IFRS</b>				
<b>Non-current assets</b>	6,117,284	6,116,423	1,728,410	1,610,810
Property, plant and equipment, net	5,420,683	5,463,871	1,244,691	1,275,699
Other non-current assets <sup>(3)</sup>	696,601	652,552	483,719	335,111
<b>Current assets</b>	2,653,255	2,543,558	918,220	576,078
Cash and cash equivalents	643,352	765,630	194,875	129,020
Other current assets	2,002,861	1,774,768	723,345	447,058
Non-current assets classified as held for sale	7,042	3,160		
<b>Total assets</b>	8,770,539	8,659,981	2,646,630	2,186,888
Capital and reserves attributable to the Company's equity holders <sup>(4)</sup>	3,757,558	1,842,454	1,026,725	701,821
Minority interest	1,729,583	1,733,465	745,126	550,264
<b>Non-current liabilities</b>	1,875,894	3,691,288	359,510	677,649
Borrowings	548,401	2,399,878	1,008	283,914
Deferred income tax	985,155	1,048,188	337,473	374,907
Other non-current liabilities	342,338	243,222	21,029	