Ternium S.A.
Form 6-K
May 01, 2015
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of

the Securities Exchange Act of 1934

As of 4/30/2015

Ternium S.A.

(Translation of Registrant s name into English)

Ternium S.A.

29, Avenue de la Porte-Neuve

L-2227 Luxembourg

(352) 2668-3152

(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 x 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 x

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 (Commission) pursuant to Rule 13a-16 and Form 6-K under the Securities Exchange Act of 1934, as amended.

As part of its regular reviews of Ternium s filings of financial statements, the Staff of the Commission has issued comments regarding the carrying value of Ternium s investment in Usiminas, including seeking explanations on Ternium s value in use calculations and on the differences between value in use and certain fair value indicators. After receiving the Staff s comments, Ternium provided additional information to the Staff supporting the Company s accounting treatment of the Usiminas investment under IFRS as of September 30, 2014, and Ternium had further discussions with members of the Staff.

Discussions with the Staff continue. Ternium believes that its accounting of the Usiminas investment is in accordance with IFRS; however, if it is determined after the conclusion of this process that an additional impairment of the investment in Usiminas should be recorded in 2014, Ternium could be required to restate its financial statements for the year ended December 31, 2014. A restatement of the 2014 financial statements could also result in a restatement of the financial statements for the first quarter of 2015.

The value of Ternium s investment in Usiminas, which was determined by the application of IFRS and tested for impairment using the value in use calculation as per IAS 36, amounted to USD 1,301.5 million as of September 30, 2014, USD 1,390.7 million as of December 31, 2014 and USD 1,020.0 million as of March 31, 2015. The increase in the carrying value from September 30, 2014 to December 31, 2014 was related with the acquisition of additional Usiminas shares from PREVI at a price of BRL12 (approximately USD4.8) per ordinary share pursuant to an October 2, 2014 agreement.

On or before May 1, 2015, the Company will file Form 12b-25 with the Commission, disclosing that the Company was unable to file on April 30, 2015 its Annual Report on Form 20-F for the fiscal year ended December 31, 2014 (the 2014 Form 20-F), because the Company is continuing to work to resolve the Staff s outstanding comments noted above.

For more information on the carrying value of the Usiminas investment, see note 9 to Ternium s consolidated financial statements as of March 31, 2015, which have been furnished today to the Commission under Form 6-K.

Attached hereto is substantially all the information the Company currently expects it would include in its Annual Report on Form 20-F when that report is filed with the Commission, except it does not include any report by the Company s independent registered public accounting firm or any of the documents that will be filed as exhibits to the Form 20-F. Also, it does not reflect any adjustments to the financial statements or other disclosure that may be required upon resolution of the discussions with the Commission Staff referred to above.

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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/ Pablo Brizzio
Name: Pablo Brizzio
Title: Chief Financial Officer

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

Dated: April 30, 2015

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CERTAIN DEFINED TERMS

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

References to the Company refer exclusively to Ternium S.A., a Luxembourg public limited liability company (*société anonyme*);

References in this annual report to Ternium, we, us or our refer to Ternium S.A. and its consolidated subsidiaries;

References to the Ternium companies are to the Company s manufacturing subsidiaries, namely Ternium México S.A. de C.V., or Ternium Mexico , a Mexican corporation, Siderar S.A.I.C., or Siderar , an Argentine corporation, Ferrasa S.A.S., or Ferrasa , a Colombian corporation, Ternium Internacional Guatemala S.A., or Ternium Guatemala , a Guatemalan corporation, Ternium USA Inc., or Ternium USA , a Delaware corporation, Las Encinas S.A. de C.V., or Las Encinas , a Mexican corporation, and Consorcio Minero Benito Juárez Peña Colorada S.A. de C.V., or Consorcio Peña Colorada , a Mexican corporation, and their respective subsidiaries;

References to Tenaris are to Tenaris S.A., a Luxembourg public limited liability company (*société anonyme*) and a significant shareholder of the Company;

References to San Faustin are to San Faustin S.A., a Luxembourg corporation and the Company s indirect controlling shareholder;

References to the Ternium commercial network or Ternium Internacional are to an international group of companies wholly owned by Ternium that market and provide worldwide distribution services for products offered primarily by Ternium;

References to Exiros comprise Exiros B.V., a Netherlands corporation, and its subsidiaries under the brand Exiros ;

References to Tecpetrol refer to Tecpetrol International S.A., a wholly-owned subsidiary of San Faustin;

References to Tenigal refer to Tenigal S.R.L. de C.V., a Mexican company in which Ternium holds a 51% ownership and Nippon Steel & Sumitomo Metal Corporation holds the remaining 49%;

References to Usiminas refer to Usinas Siderúrgicas de Minas Gerais S.A. USIMINAS, a Brazilian corporation in which we own 32.9% of the ordinary shares. For further information on our investment in Usiminas, see note 3 to our consolidated financial statements included elsewhere in this annual report;

References to ADSs are to the American Depositary Shares, which are evidenced by American Depositary Receipts, or ADRs;

References to finished steel products when used in connection with production capacity are to finished steel products and semi-finished steel products intended to be sold to third parties;

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, as issued by the International Accounting Standards Board, or IASB, and adopted by the European Union (EU). IFRS differ in certain significant respects from generally accepted accounting principles in the United States, commonly referred to as U.S. GAAP.

Currencies

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

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

Mexican pesos or MXN each refers to the Mexican peso;

Argentine pesos or ARP each refers to the Argentine peso; and

Brazilian reais or BRL each refers to the Brazilian real.

On December 31, 2014, the U.S. dollar sell exchange rate in Mexico (as published by *Banco de México*, or the Mexican Bank) was MXN14.7414=USD1.0000, the U.S. dollar sell exchange rate in Argentina (as published by *Banco Central de la República Argentina*, or the Argentine Central Bank) was ARP8.551=USD1.0000, and the U.S. dollar sell exchange rate in Brazil (as published by *Banco Central do Brasil*, or the Brazilian Central Bank) was BRL2.6562=USD1.0000. Those rates may differ from the actual rates used in preparation of the Company 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 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.

Industry Data

Unless otherwise indicated, industry data and statistics (including historical information, estimates or forecasts) in this annual report are contained in or derived from internal or industry sources believed by Ternium to be reliable. Industry data and statistics are inherently predictive and are not necessarily reflective of actual industry conditions. Such statistics are based on market research, which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market. In addition, the value of comparisons of statistics for different markets is limited by many factors, including that (i) the markets are defined differently, (ii) the underlying information was gathered by different methods and (iii) different assumptions were applied in compiling the data. Such data and statistics have not been independently verified, and the Company makes no representation as to the accuracy or completeness of such data or any assumptions relied upon therein.

Our Internet Site is Not Part of this Annual Report

We maintain an Internet site at 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 this Internet site are inactive textual references to this URL, or uniform resource locator and are for your informational reference only. We assume no responsibility for the information contained on this website.

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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 continue, will likely result, 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 on 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. These factors include the risks related to our business discussed under Item 3. Key Information D. Risk Factors, and among them, the following:

- uncertainties about the behavior of steel consumers in the markets in which Ternium operates and sells its products;
- changes in the pricing environments in the countries in which Ternium operates;
- the impact in the markets in which Ternium operates of existing and new competitors whose presence may affect Ternium s customer mix, revenues and profitability;
- increases in the prices of raw materials, other inputs or energy or difficulties in acquiring raw materials or other inputs or energy supply cut-offs;
- the policies of, and the economic, political and social developments and conditions in, the countries in which Ternium owns facilities or other countries which have an impact on Ternium s business activities or investments;
- inflation or deflation and foreign exchange rates in the countries in which Ternium operates;
- volatility in interest rates;
- the performance of the financial markets globally and in the countries in which Ternium operates;
- the performance of our investment in Usiminas (including the operating and financial performance of Usiminas, and changes in the value of the Brazilian real versus the U.S. dollar) and the uncertainties associated with the ongoing controversies relating to our acquisition of Usiminas shares in October 2014 as well as the controversy that has arisen within Usiminas control group. See Item 8 Financial Information A. Consolidated Statements and Other Financial Information Legal Proceedings. and Item 4. Information on the Company C. Organizational Structure Other Investments Usiminas ;

changes in domestic and foreign laws and regulations, including changes relating to tax, trade and foreign exchange matters;

regional or general changes in asset valuations;

uncertainties as to the result of our iron ore exploration activities or the successful exploitation of our mines;

our ability to successfully implement our business strategy or to grow through acquisitions, greenfield and brownfield projects, joint ventures and other investments; and

other factors or trends affecting the steel and mining industries generally and our financial condition in particular.

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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.

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 consolidated financial statements for each of the years and at the dates indicated herein. Our consolidated financial statements were prepared in accordance with IFRS, and were audited by PricewaterhouseCoopers, *société coopérative* (formerly PricewaterhouseCoopers S.à r.l.), *Cabinet de révision agréé*, or PwC Luxembourg , an independent registered public accounting firm that is a member firm of the PwC International Ltd. network.

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.

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In thousands of U.S. dollars *(except number of shares and per share data)*	For the year ended December 31, 2014	2013	2012 (1)	2011 (1)(2)	2010 (1)(2)
Selected consolidated income statement data					
Net sales	8,726,057	8,530,012	8,608,054	9,122,832	7,339,901
Cost of sales	(6,925,169)	(6,600,292)	(6,866,379)	(7,016,322)	(5,560,201)
Gross profit	1,800,888	1,929,720	1,741,675	2,106,510	1,779,700
Selling, general and administrative expenses	(816,478)	(843,311)	(809,181)	(839,362)	(738,304)
Other operating income (expenses), net	71,751	23,014	(11,881)	(11,495)	2,162
Operating income	1,056,161	1,109,423	920,613	1,255,653	1,043,558
Finance expense	(117,866)	(132,113)	(150,302)	(105,570)	(71,228)
Finance income	5,715	(2,358)	11,400	26,190	24,024
Other financial income (expenses), net	42,701	(1,004)	17,270	(221,042)	176,441
Equity in (losses) earnings of non-consolidated companies	(34,218)	(31,609)	(346,833)	10,137	12,867
Income before income tax expense	952,493	942,339	452,148	965,368	1,185,662
Income tax expense	(363,708)	(349,426)	(261,227)	(312,555)	(406,191)
Profit for the year	588,785	592,913	190,921	652,813	779,470
Attributable to:					
Owners of the parent	452,404	455,425	142,043	517,668	622,076
Non-controlling interest	136,381	137,488	48,878	135,145	157,394
Profit for the year	588,785	592,913	190,921	652,813	779,470
Depreciation and amortization	414,797	377,133	370,855	395,988	374,201
Weighted average number of shares outstanding (3)	1,963,076,776	1,963,076,776	1,963,076,776	1,968,327,917	2,004,743,442
Basic earnings per share (in USD per share) (4) (5)	0.23	0.23	0.07	0.26	0.31
Dividends per share (in USD per share)	0.090(6)	0.075	0.065	0.075	0.075

(1) Starting on January 1, 2013, Consorcio Peña Colorada and Exiros have been proportionally consolidated. Comparative amounts for the years ended December 31, 2012, 2011 and 2010 show them as investments in non-consolidated companies and their results are included within Equity in (losses) earnings of non-consolidated companies in the consolidated income statement.

(2) Ternium changed prospectively the functional currency of its Mexican subsidiaries to the U.S. dollar, effective as of January 1, 2012. For the periods ended December 31, 2011 and 2010 the functional currency for the Company s Mexican subsidiaries was the Mexican peso.

(3) Of the 2,004,743,442 shares issued as of December 31, 2014, Ternium held 41,666,666 through its wholly-owned subsidiary Ternium International Inc., repurchased from Usiminas on February 15, 2011. Such shares were not considered outstanding for purposes of the calculation of the weighted average number of shares.

(4) International Accounting Standard N° 1 (IAS 1) (Revised) requires that income for the year as shown in the income statement includes the portion attributable to non-controlling interest. Basic earnings per share, however, continue to be calculated on the basis of income attributable solely to the owners of the parent.

(5) Diluted earnings per share (expressed in USD per share), equals basic earnings per share.

(6) Reflects dividend proposal for the year ended December 31, 2014, which has been submitted to the shareholders for a vote at the annual general shareholders meeting to be held on May 6, 2015.

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In thousands U.S. dollars			At December 31,		
(except number of shares and per share data)	**2014**	**2013**	**2012**	**2011**	**2010**
Selected consolidated balance sheet data					
Non-current assets	6,905,672	7,153,162	7,211,371	5,195,688	5,600,608
Property, plant and equipment, net	4,481,027	4,708,895	4,438,117	3,969,187	4,203,685
Other non-current assets (1)	2,424,645	2,444,267	2,773,254	1,226,501	1,396,923
Current assets	3,348,869	3,219,462	3,655,628	5,547,374	5,499,306
Cash and cash equivalents	213,303	307,218	560,307	2,158,044	1,779,294
Other current assets (2)	3,120,810	2,894,474	3,083,303	3,378,956	3,710,050
Non-current assets classified as held for sale	14,756	17,770	12,018	10,374	9,961
Total assets	10,254,541	10,372,624	10,866,999	10,743,062	11,099,914
Capital and reserves attributable to the owners of the parent (3)	5,284,959	5,340,035	5,369,183	5,711,495	5,833,246
Non-controlling interest	973,523	998,009	1,065,730	1,077,055	1,127,526
Non-current liabilities	1,904,673	2,185,421	2,306,640	1,975,129	2,583,032
Borrowings	900,611	1,204,880	1,302,753	948,495	1,426,574
Deferred tax liabilities	611,126	605,883	657,211	719,061	847,044
Other non-current liabilities	392,936	374,658	346,676	307,573	309,414
Current liabilities	2,091,386	1,849,159	2,125,446	1,979,383	1,556,110
Borrowings	1,264,208	797,944	1,121,610	1,047,641	513,083
Other current liabilities	827,178	1,051,215	1,003,836	931,742	1,043,028
Total liabilities	3,996,059	4,034,580	4,432,086	3,954,512	4,139,142
Total equity and liabilities	10,254,541	10,372,624	10,866,999	10,743,062	11,099,914
Number of shares (3)	1,963,076,776	1,963,076,776	1,963,076,776	1,963,076,776	2,004,743,442

(1) As of December 31, 2014, 2013, 2012, 2011 and 2010, includes goodwill mainly related to the acquisition of our Mexican subsidiaries for a total amount of USD662.3 million, USD662.3 million, USD663.8 million, USD663.8 million and USD750.1 million, respectively.

(2) As of December 31, 2014, 2013, 2012, 2011 and 2010, includes financial assets with maturity of more than three months for a total amount of USD150.0 million, USD169.5 million, USD160.8 million, USD281.7 million and USD848.4 million, respectively.

(3) The Company s share capital as of December 31, 2014, 2013, 2012, 2011 and 2010 was represented by 2,004,743,442 shares, par value USD1.00 per share, for a total amount of USD2,004.7 million. Of the 2,004,743,442 shares, as of December 31, 2014, Ternium held 41,666,666 through its wholly-owned subsidiary Ternium International Inc., repurchased from Usiminas on February 15, 2011.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

You should carefully consider the risks and uncertainties described below, together with all other information contained in this annual report, before making any investment decision. Any of these risks and uncertainties could have a material adverse effect on our business, financial condition and results of operations, which could in turn affect the price of the Company s shares and ADSs.

Risks Relating to the Steel Industry

A downturn in the global economy would cause a reduction in worldwide demand for steel and would have a material adverse effect on the steel industry and Ternium.

Ternium s activities and results are affected by international economic conditions, as well as by national and regional economic conditions in the markets where Ternium operates and/or sells its products. A downturn in the global economy would reduce demand for steel products. This would have a negative effect on Ternium s business and results of operations.

If global macroeconomic conditions deteriorate, the outlook for steel producers would be adversely affected. In particular, a recession or depression in the developed economies (such as the global downturn experienced in 2008 and 2009 and the latest European crisis), or slower growth or recessionary conditions in emerging economies that are substantial consumers of steel (such as China and India,

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as well as emerging Asian markets, the Middle East, Latin America and the Commonwealth of Independent States regions) would exact a heavy toll on the steel industry, and would depress demand for our products and adversely affect our business and results of operations. The current slowdown in the Chinese economy has had and may continue to have adverse effects on the steel industry, and, accordingly, may adversely affect our business and results of operations.

A protracted fall in steel prices would have a material adverse effect on the results of Ternium, as could price volatility.

Steel prices are volatile and are sensitive to trends in cyclical industries, such as the construction, automotive, appliance and machinery industries, which are significant markets for Ternium s products. For example, steel prices in the international markets, which had been rising quickly during the first half of 2008, fell sharply beginning in the second half of 2008 as a result of collapsing demand and the resulting excess capacity in the industry. The fall in prices during this period adversely affected the results of steel producers generally, including Ternium, as a result of lower revenues and write-downs of finished steel products and raw material inventories. Historically, the length and nature of business cycles affecting the steel industry has been unpredictable. A downturn in steel prices would materially and adversely affect Ternium s revenues and profitability.

A sudden increase in exports from China could have a significant impact on international steel prices and adversely affect Ternium s profitability.

China is now the largest worldwide steel producing country, accounting for close to half of the worldwide steel production. Due to the size of the Chinese steel market, a significant slowdown or reduction in steel consumption in that market could cause a sizable increase in the volume of steel offered in the international steel markets, exerting a downward pressure on sales and margins of steel companies operating in other markets and regions, including Ternium. For example, exports of steel products from China to Latin America, which represent approximately 10% of the region s steel consumption, reached 8 million tons in 2014, a 56% increase year-over-year, reflecting a combination of excess steel capacity and a slight decrease in steel consumption in China.

Excess capacity may hamper the steel industry s ability to sustain adequate profitability.

In addition to economic conditions and prices, the steel industry is affected by other factors such as worldwide production capacity and fluctuations in steel imports/exports and tariffs. Historically, the steel industry has suffered, especially on downturn cycles, from substantial over-capacity. Currently, as a result of the 2008 global downturn, the latest European crisis and the increase in steel industry production capacity in recent years, there are signs of excess capacity in all steel markets, which is impacting the profitability of the steel industry. Accordingly, it is possible that the industry s excess capacity will result in an extended period of depressed margins and industry weakness.

Sales may fall as a result of fluctuations in industry inventory levels.

Inventory levels of steel products held by companies that purchase Ternium s products can vary significantly from period to period. These fluctuations can temporarily affect the demand for Ternium s products, as customers draw from existing inventory during periods of low investment in construction and the other industry sectors that purchase Ternium s products and accumulate inventory during periods of high investment and, as a result, these companies may not purchase additional steel products or maintain their current purchasing volume. Accordingly, Ternium may not be able to increase or maintain its current levels of sales volumes or prices.

Price fluctuations or shortages in the supply of raw materials, slabs and energy could adversely affect Ternium s profitability.

Like other manufacturers of steel-related products, Ternium s operations require substantial amounts of raw materials, energy and other inputs from domestic and foreign suppliers. In particular, the Ternium companies consume large quantities of iron ore, scrap, ferroalloys, electricity, coal, natural gas, oxygen and other gases in operating their blast and electric arc furnaces. In addition, Ternium is a large consumer of slabs, which are used as inputs in the production process. The prices of these raw materials, slabs, energy and other inputs can be volatile. Also, the availability and price of a significant portion of such raw materials, slabs, energy and other inputs Ternium requires are subject to market conditions and government regulation affecting supply and demand. For example, shortages of natural gas in Argentina and the consequent supply restrictions imposed by the government could lead to higher costs of production and eventually to production cutbacks at Siderar s facilities in Argentina. Similarly, in Mexico, existing constraints in natural gas transportation capacity have led to increased imports of liquefied natural gas, which, from April 1, 2013, resulted in increased natural gas transportation costs and, thus, higher steel production costs. In the past, Ternium has usually been able to procure sufficient supplies of raw materials, slabs, energy and other inputs to meet its production needs; however, it could be unable to procure adequate supplies in the future. Any protracted interruption, discontinuation or other disruption of the supply of principal inputs to the Ternium companies (including as a result of strikes, lockouts or other problems) would result in lost sales and

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would have a material adverse effect on Ternium s business and results of operations. For further information related to raw materials, energy and other inputs requirements, see Item 4. Information on the Company B. Business Overview Raw Materials, Slabs, Energy and Other Inputs.

The Ternium companies depend on a limited number of key suppliers.

The Ternium companies depend on certain key suppliers for their requirements of some of their principal inputs, including Vale for iron ore and ArcelorMittal for slabs. In general, there is a trend in the industry towards consolidation among suppliers of iron ore and other raw materials. The Ternium companies have entered into long-term contracts for the supply of some (but not all) of their principal inputs and it is expected that they will maintain and, depending on the circumstances, renew these contracts. However, if any of the key suppliers fails to deliver or there is a failure to renew these contracts, the Ternium companies could face limited access to some raw materials, slabs, rolled steel products, energy or other inputs, or higher costs and delays resulting from the need to obtain their input requirements from other suppliers.

Intense competition could cause Ternium to lose its share in certain markets and adversely affect its sales and revenues.

The market for Ternium s steel products is highly competitive, particularly with respect to price, quality and service. In both the global and regional markets, Ternium competes against other global and local producers of steel products, which in some cases have greater financial and operating resources. Competition from larger steel manufacturers could result in declining margins and reductions in sales volumes and revenues.

Ternium s larger competitors could use their resources against Ternium in a variety of ways, including by making additional acquisitions, implementing modernization programs, expanding their production capacity, investing more aggressively in product development, and displacing demand for Ternium s products in certain markets. To the extent that these producers become more efficient, Ternium could confront stronger competition and could fail to preserve its current share of the relevant geographic or product markets. In addition, there has been a trend in recent years toward steel industry consolidation among Ternium s competitors, and current smaller competitors in the steel market could become larger competitors in the future. For example, in June 2006, Mittal Steel and Arcelor merged to create the world s largest steel company, ArcelorMittal, and in October 2012 Nippon Steel Corporation and Sumitomo Metal Industries merged to form Nippon Steel & Sumitomo Metal Corporation, or NSSMC, the world s second largest steel company. Regional players in Ternium s markets have also experienced consolidation through acquisitions. For further information, see Item 4. Information on the Company B. Business Overview Competition.

Moreover, competition from alternative materials (including aluminum, wood, concrete, plastic and ceramics) could adversely affect the demand for, and consequently the market prices of, certain steel products and, accordingly, could affect Ternium s sales volumes and revenues.

Competition in the global and regional markets could also be affected by antidumping and countervailing duties imposed on some producers in major steel markets and by the removal of barriers to imported products in those countries where the Ternium companies direct their sales. For further information, see Item 4. Information on the Company B. Business Overview Regulations Trade regulations.

Risks Relating to our Business

If Ternium does not successfully implement its business strategy, its opportunities for growth and its competitive position could be adversely affected.

Ternium plans to continue implementing its business strategy of enhancing its position as a competitive steel producer, focusing on higher margin value-added products, pursuing strategic growth opportunities, implementing Ternium s best practices in acquired and new businesses, providing services to a wider range of customers in the local and export markets, and improving utilization levels of our plants, increasing efficiency and further reducing production costs. Any of these components or Ternium s overall business strategy could be delayed or abandoned or could cost more than anticipated, any of which could impact its competitive position and reduce its revenue and profitability. For example, Ternium could fail to develop its projects and/or to make acquisitions to increase its steel production capacity, or may lose market share in its regional markets. Even if Ternium successfully implements its business strategy, it may not yield the desired goals.

Future acquisitions or other significant investments could have an adverse impact on Ternium s operations or profits, and Ternium may not realize the benefits it expects from these business decisions.

A key element of Ternium s business strategy is to identify and pursue growth-enhancing opportunities, and as part of that strategy we regularly consider acquisitions, greenfield and brownfield projects and other significant investments. However, any growth project

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will depend upon market and financing conditions. We must necessarily base any assessment of potential acquisitions or other investments on assumptions with respect to operations, profitability and other matters that may subsequently prove to be incorrect. Furthermore, we may fail to find suitable acquisition targets or fail to consummate our acquisitions under favorable conditions.

In the past, Ternium acquired interests in various companies, including Hylsamex, one of the main steel producers in Mexico; Grupo Imsa, a leading steel processor with operations in Mexico, the United States and Guatemala; and Ferrasa, a Colombian steel producer and processor. Ternium has also formed, together with Nippon Steel (currently, NSSMC), Tenigal for the manufacturing and sale of hot-dip galvanized and galvannealed steel sheets to serve the Mexican automobile market. In 2012, Ternium acquired a participation in the control group of Usiminas, the largest flat steel producer in Brazil, and in 2014, Ternium acquired a significant additional stake in that company. Our acquisitions or other investments may not perform in accordance with our expectations and could have an adverse impact on our operations and profits. Furthermore, we may be unable to successfully integrate any acquired businesses into our operations, realize expected synergies or accomplish the business objectives that were foreseen at the time of deciding any such investment. Moreover, we may also acquire, as part of future acquisitions, assets unrelated to our business, and we may not be able to integrate them or sell them under favorable terms and conditions. These risks, and the fact that integration of any acquired businesses will require a significant amount of time and resources of Ternium s management and employees, could have an adverse impact on Ternium s ongoing business and could have a material adverse effect on its business, financial condition and results of operations.

Ternium may be required to record a significant charge to earnings if it must reassess its goodwill, other amortizable intangible assets, or investments in non-consolidated companies.

In accordance with IFRS, management must test for impairment all of Ternium s assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets subject to testing include goodwill, intangible assets and investments in non-consolidated companies. In addition, management must test for impairment goodwill at least once a year whether or not there are indicators of impairment. IFRS requires us to recognize a non-cash charge in an amount equal to any impairment.

We recorded significant goodwill in connection with the acquisition of our Mexican subsidiaries, as well as in our investments in non-consolidated companies in connection with our acquisition of a participation in Usiminas. We performed several impairment tests on our investment in Usiminas and, as of December 31, 2012, December 31, 2014 and March 31, 2015, wrote it down by USD275.3 million, USD196.4 million and USD109.7 million, respectively, as described further below.

As of December 31, 2014, goodwill in connection with our Mexican subsidiaries amounted to USD662.3 million and, following the write-downs of our investment in Usiminas recorded as of December 31, 2012 and December 31, 2014, our investment in non-consolidated companies as of December 31, 2014 amounted to USD1.4 billion. As of March 31, 2015, following the write-down of our investment in Usiminas recorded as of March 31, 2015, our investments in non-consolidated companies amounted to USD1.0 billion. For further information on the Usiminas impairment risk and its implications, see If Usiminas is not able to successfully implement its business strategy, or the business conditions in Brazil or in the global steel and mining industries were to be worse than we expected, the Company may be required to record a significant charge to earnings in the form of an impairment to its investment in Usiminas, which could have a material adverse effect on Ternium s results, financial condition or net worth , for further information on the Usiminas impairment test performed on March 31, 2015, see Item 5 Operating and Financial Review and Prospects G. Recent Developments March 31, 2015 Impairment of Usiminas Investment and for a discussion of the SEC s review process in connection with the impairment of our investment in Usiminas, see Item 4A. Unresolved Staff Comments .

If Ternium s management determines in the future that the goodwill from our acquisitions or our investments in non-consolidated companies are impaired, Ternium will be required to recognize a non-cash charge against earnings, which could materially adversely affect Ternium s results of operations and net worth.

If Usiminas is not able to successfully implement its business strategy, or the business conditions in Brazil or in the global steel and mining industries were to be worse than we expected, the Company may be required to record a significant charge to earnings in the form of an impairment to its investment in Usiminas, which could have a material adverse effect on Ternium s results, financial condition or net worth.

On January 16, 2012, Ternium, together with its subsidiary Siderar, acquired a participation in the control group of Usiminas, the largest flat steel producer in Brazil, for a total consideration of USD2.2 billion. On October 30, 2014, Ternium acquired additional ordinary shares of Usiminas for a total consideration of USD249.0 million. Ternium owns approximately 32.9% of Usiminas ordinary shares, holds 35.6% of the voting rights within Usiminas control group and has a 16.8% participation in Usiminas results. For further information on the Usiminas transactions, see note 3 to our consolidated financial statements included elsewhere in this annual report.

Between 2012 and until September 2014, Usiminas improved its performance and results of operations as a result of the implementation of certain changes in its strategy and business practices. However, results deteriorated during the fourth quarter of 2014 as Brazilian steel-intensive industrial sectors such as the capital goods, durable goods, vehicles and machinery and equipment sectors were adversely affected by low investments, weak consumption, strong imports and high inventories. Further changes to Usiminas strategy and business practices may be required in the future in order to recover profitability, and we cannot assure you that

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such changes will be successful. Under the shareholders agreement governing the rights of the members of Usiminas control group, Ternium cannot, without the consensus of one or more of the other shareholder groups party to that agreement, cause the control group to adopt any decision at Usiminas shareholders meetings or cause the directors nominated by the control group to adopt any decision at Usiminas board of directors meetings (see Item 4. Information on the Company C. Organizational Structure Other Investments Usiminas). Accordingly, Ternium cannot, without the consensus of such other shareholder group or groups, implement any change to Usiminas business strategy, and therefore any necessary changes may fail to be implemented. In addition, a controversy has arisen within the Usiminas control group with respect to the governance of Usiminas and the rules applicable to the appointment of senior managers, which may make it more difficult to reach consensus within the control group. For further information related to the controversy within the Usiminas control group, see Item 4. Information on the Company C. Organizational Structure Other Investments Usiminas.

The Company reviews periodically the recoverability of its investment in Usiminas. To determine the recoverable value, the Company estimates the value in use of the investment by calculating the present value of the expected cash flows. There is a significant interaction among the principal assumptions made in estimating Usiminas cash flow projections, which include iron ore and steel prices, foreign exchange and interest rates, Brazilian GDP and steel consumption in the Brazilian market.

Many of the above mentioned drivers of the estimated recoverable value of Usiminas have exhibited a high degree of volatility in the past and may continue to do so in the future, as they are affected by fluctuations in Brazil s macro-economic variables. Brazil has experienced from time to time varying degrees of economic, political, social and regulatory developments, including fluctuating prices of commodities, fluctuating trade balances, inflation, devaluation, civil unrest, tax increases, changes (including retroactive changes) in the enforcement or interpretation of tax laws and other retroactive tax claims or challenges, and changes in laws or regulations, creating uncertainty regarding the country s future macro-economic environment. Furthermore, the business conditions in Brazil or the global steel and mining industries could turn out to be worse than those we expected when assessing the value of our investment in Usiminas, which could in turn modify our expectations for the financial return on our investment in Usiminas. For example, as of December 31, 2014 and March 31, 2015, Ternium wrote down its investment in Usiminas by USD196.4 million and USD109.7 million, respectively. The impairment performed on December 31, 2014 was mainly due to expectations of a weaker industrial environment in Brazil, and consequently lower steel demand, as a result of worsening economic activity, as well as a significant additional downturn in international prices of iron ore and steel, leading to diminished cash flow expectations. For further information on the Usiminas impairment test performed on March 31, 2015, see Item 5 Operating and Financial Review and Prospects G. Recent Developments March 31, 2015 Impairment of Usiminas Investment and for a discussion of the SEC s review process in connection with the impairment of our investment in Usiminas, see Item 4A. Unresolved Staff Comments .

As of March 31, 2015 the value of the investment in Usiminas, which is equal to its recoverable value estimation, was USD1,020.0 million. The closing price of the Usiminas ordinary shares as quoted on the São Paulo stock exchange, BM&FBOVESPA S.A *Bolsa de Valores, Mercadorias e Futuros* on March 31, 2015, was BRL21.50 (approximately USD 6.70) per share, giving Ternium s ownership stake a market value of approximately USD1,113.4 million as of that date. Since the acquisition of its investment in Usiminas, Ternium has reduced the carrying value of the investment by 59% through impairment charges, currency translation adjustments due to the devaluation of the Brazilian currency against the US dollar, and the results of the company.

Ternium reviews the economic policies of Brazil and the expectations relating to the BRL against USD exchange rate on an ongoing basis and will continue to evaluate their impact in the drivers used for calculating the recoverable value of Ternium s investment in Usiminas. These matters could lead to further reductions in the carrying value of Ternium s investment in Usiminas, either through currency translation adjustments or impairment charges. Any further write-downs to Ternium s investment in Usiminas could have a material adverse effect on Ternium s results of operations or net worth.

Labor disputes at Ternium s operating subsidiaries could result in work stoppages and disruptions to Ternium s operations.

A substantial majority of Ternium s employees at its manufacturing subsidiaries are represented by labor unions and are covered by collective bargaining or similar agreements, which are subject to periodic renegotiation. Strikes or work stoppages could occur prior to or during the negotiations leading to new collective bargaining agreements, during wage and benefits negotiations or, occasionally, during other periods for other reasons. Ternium could also suffer plant stoppages or strikes if it were to implement cost reduction plans.

From time to time, Ternium takes measures in order to become more competitive in Mexico, Argentina and Colombia; none of the measures taken in the past have resulted in significant labor unrest. However, we cannot assure that this situation will remain stable or that future measures will not result in labor actions against us. Any future stoppage, strike, disruption of operations or new collective bargaining agreements could result in lost sales and could increase Ternium s costs, thereby affecting our results of operations. For more information on labor relations and collective bargaining agreements, see Item 6. Directors, Senior Management and Employees D. Employees.

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Ternium s related party transactions with companies controlled by San Faustin may not always be on terms as favorable as those that could be obtained from unaffiliated third parties.

Some of Ternium s sales and purchases are made to and from other companies controlled by San Faustin. These sales and purchases are primarily made in the ordinary course of business, and we believe that they are made on terms no less favorable than those we could obtain from unaffiliated third parties. Ternium will continue to engage in related party transactions in the future, and these transactions may not be on terms as favorable as those that could be obtained from unaffiliated third parties. For information concerning the principal transactions between Ternium and related parties see Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions.

Changes in exchange rates or any limitation in the ability of the Ternium Companies, including associates, to hedge against exchange rate fluctuations could adversely affect Ternium s business and results.

The operations of the Ternium companies expose them to the effects of changes in foreign currency exchange rates and changes in foreign exchange regulations. A significant portion of Ternium s sales are carried out in currencies other than the U.S. dollar. As a result of this foreign currency exposure, exchange rate fluctuations impact the Ternium companies results and net worth as reported in their income statements and statements of financial position in the form of both translation risk and transaction risk. In the ordinary course of business, the Ternium companies enter from time to time into exchange rate derivatives agreements to manage their exposure to exchange rate changes. Future regulatory or financial restrictions in the countries where Ternium operates may affect its ability to mitigate its exposure to exchange rate fluctuations, and thus cause an adverse impact on Ternium s results of operations, financial condition or cash flows. For information concerning the effect of the changes in exchange rates on Ternium s business and results, see Item 5. Operating and Financial Review and Prospects Overview.

Risks Relating to our Mining Activities

Mining is one of Ternium s two reporting segments, and iron ore is one of the principal raw materials used by Ternium s operating subsidiaries in its steelmaking segment. Ternium has equity interests in two iron ore mining companies in Mexico: a 100% interest in Las Encinas and a 50% interest in Consorcio Peña Colorada. In addition, Ternium may seek to expand its mining activities in the future depending upon, among other factors, market conditions and strategic needs. Our present and future mining activities are or would be subject to particular risks, as follows:

Required governmental concessions could be subject to changes or termination, and permits and rights of use and occupancy could be difficult to obtain or maintain, all of which could adversely affect our mining activities and operating costs.

Our mining activities are subject to specific regulations and depend on concessions and authorizations granted by governmental authorities. Amendments to applicable laws and regulations in Mexico may change the terms pursuant to which we are required to pursue our exploration, mining and ore processing activities. For example, on January 1, 2014 a comprehensive tax reform became effective in Mexico, including the enactment of new taxes and royalties over mining activities, which in the case of Ternium s iron ore mining subsidiaries resulted in a 7.5% royalty on mining profits, calculated on a special tax basis. Additional changes to Mexican laws and regulations may result in new taxes or royalties or require modifications to the processes and technologies used in our mining activities, leading to unexpected capital expenditures and higher costs. If the relevant government authority determines that we are not in compliance with our obligations as concessionaires, it may terminate our concession.

Furthermore, in order to explore or exploit mines it is necessary to obtain the right of use and occupancy of the land where the mines are situated. Even though government regulations frequently establish provisions intended to facilitate the establishment of such rights, in some cases it may be difficult to reach and maintain agreements with the landowners or such agreements may be excessively onerous. If we are unable to establish use and occupancy rights on acceptable terms, our mining activities may be compromised. For example, during 2014, Consorcio Peña Colorada s shareholders approved the investments required to increase the processing capacity of its crushing, grinding and concentration facilities, aimed at increasing the facility s processing capacity. If Consorcio Peña Colorada is unable to obtain the relevant environmental permits, this expansion project could be compromised. For further information on the Consorcio Peña Colorada project see Item 4. Information on the Company B. Business Overview Mining Consorcio Peña Colorada.

Our reserve estimates may differ materially from mineral quantities that we may be able to actually recover, or our estimates of mine life may prove inaccurate; and market price fluctuations and changes in operating and capital costs may render certain ore reserves uneconomical to mine in the future or cause us to revise our reserve estimates.

Ternium s reserves are estimated quantities of ore that it has determined can be economically mined and processed under present and anticipated conditions to extract their mineral content. There are numerous uncertainties inherent in estimating quantities of reserves and in projecting

potential future rates of mineral production, including factors beyond our control. Reserve calculations involve estimating deposits of minerals that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment.

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Reserve estimates also depend on assumptions relating to the economic viability of extraction, which are established through the application of a life of mine plan for each operation or project providing a positive net present value on a forward-looking basis, using forecasts of operating and capital costs based on historical performance, with forward adjustments based on planned process improvements, changes in production volumes and in fixed and variable proportions of costs, and forecasted fluctuations in costs of raw material, supplies, energy and wages. These forecasts and projections involve assumptions and estimations that, although we believe are reasonable at the time of estimating our reserves, may change in the future and may fail to anticipate geological or other environmental factors or events that could make it difficult or unprofitable to mine certain ore deposits.

In addition, our reserve estimates are of in-place material after adjustments for mining depletion and mining losses and recoveries, with no adjustments made for metal losses due to processing. As a result, no assurance can be given that the indicated amount of ore will be recovered from our reserves, or that it will be recovered at the anticipated rates, or that extracted ore will be converted into saleable production over the mine life at levels consistent with our reserve estimates. Reserve estimates may vary from those included in this annual report, and results of mining and production subsequent to the date of an estimate may lead to future revisions of estimates.

Estimates of mine life may require revisions based on actual production figures, changes in reserve estimates and other factors. For example, fluctuations in the market prices of minerals, reduced recovery rates or increased operating and capital costs due to inflation, exchange rates, mining duties or other factors could affect our mine life projections. To the extent that market price fluctuations or changes in our operating and capital costs increase our costs to explore, locate, extract and process iron ore, we may be required to revise our reserve estimates if certain ore reserves become uneconomical to mine in the future.

Our exploration activities are subject to uncertainties as to the results of such exploration; even if the exploration activities lead to the discovery of ore deposits, the effective exploitation of such deposits remains subject to several risks.

Exploration activities are highly speculative, involve substantial risks and may be unproductive. We may incur substantial costs for exploration which do not yield the expected results. The failure to find sufficient and adequate reserves could adversely affect our business. In addition, even if ore deposits are discovered, our ability to pursue exploitation activities may be delayed for a long time during which market conditions may vary. Significant resources and time need to be invested in order to establish ore resources through exploration, define the appropriate processes that shall be undertaken, obtain environmental licenses, concessions and permits (including water usage permits), acquire land, build the necessary facilities and infrastructure for greenfield projects and obtain the ore or extract the metals from the ore. If a project does not turn out to be economically feasible by the time we are able to exploit it, we may incur substantial write-offs.

Our expected costs and capital expenditure requirements for exploration or exploitation activities may vary significantly and affect our financial condition and expected results of operations.

We may be subject to increased costs or delays relating to the acquisition of adequate equipment for the exploration and exploitation of ore deposits. We may also fail to obtain any necessary permits, or experience significant delays in connection with the issuance of such permits. Moreover, we may face increasing costs or capital expenditure requirements related to several factors, including diminished iron ore reserve grades, deeper pits and operational sections of our mines, iron ore deposits within the pit area that are more difficult to locate or extract and increased energy supply requirements that may be difficult to obtain. Adverse mining conditions and other situations related to the operation of the mine, whether permanent or temporary, may lead to a significant increase in our planned capital expenditures and our costs, as well as affect our ability to produce the expected quantities of mineral. If this occurs, our financial condition and expected results of operations may also be negatively affected.

Difficulties in relationships with local communities may adversely affect our mining activities and results of operations.

Communities living or owning land near areas where we operate may take actions to oppose and interfere with our mining activities. Although we make significant efforts to maintain good relationships with such communities, actions taken by them (or by interest groups within those communities) may hamper our ability to conduct our mining activities as planned, request the government to revoke or cancel our concessions or environmental or other permits, prevent us from fulfilling agreements reached with the government in connection with our mining activities, or significantly increase the cost of exploring and/or exploiting the mines, thereby adversely affecting our business and results of operations. For example, in Aquila, Mexico, in 2011, 2012 and 2013, members of certain native communities blocked roads demanding higher compensation for the use of land for mining activities (and these actions prevented Ternium from transporting iron ore from the mines to the pelletizing facilities for periods of time that on some occasions ultimately resulted in a technical stoppage of the mining activities in Aquila). Moreover, in 2013, local communities initiated legal actions aimed at the cancellation of certain permits granted to Las Encinas and to Consorcio Peña Colorada. Although management believes that those legal actions are not likely to succeed, Mexican legislation affords judges the power to preemptively suspend environmental or other permits or concessions, or to take certain other measures, in order to protect the *ejidos* (land jointly

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owned by native communities) until a legal action is resolved. An adverse legal decision suspending or cancelling our permits could adversely impact our mining activities and results of operations.

Risks Relating to the Structure of the Company

As a holding company, the Company s ability to pay cash dividends depends on the results of operations and financial condition of its subsidiaries and could be restricted by legal, contractual or other limitations.

The Company conducts all its operations through subsidiaries. Dividends or other intercompany transfers of funds from those subsidiaries are the Company s primary source of funds to pay its expenses, debt service and dividends and to repurchase shares or ADSs. The Company does not and will not conduct operations at the holding company level.

The ability of the Company s subsidiaries to pay dividends and make other payments to the Company will depend on their results of operations and financial condition and could be restricted by, among other things, applicable corporate and other laws and regulations, including those imposing foreign exchange controls or restrictions on the repatriation of capital or the making of dividend payments, and agreements and commitments of such subsidiaries. If earnings and cash flows of the Company s operating subsidiaries are substantially reduced, the Company may not be in a position to meet its operational needs or to pay dividends. In addition, the Company s ability to pay dividends is subject to legal and other requirements and restrictions in effect at the holding company level. For example, the Company may only pay dividends out of net profits, retained earnings and distributable reserves and premiums, each as defined and calculated in accordance with Luxembourg laws and regulations.

The Company s controlling shareholder may be able to take actions that do not reflect the will or best interests of other shareholders.

As of March 31, 2015, San Faustin beneficially owned 62.02% of our outstanding voting shares and Tenaris, which is also controlled by San Faustin, also held 11.46% of our outstanding voting shares. Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin, or RP STAK, controls a significant portion of the voting power of San Faustin and has the ability to influence matters affecting, or submitted to a vote of, the shareholders of San Faustin. As a result, RP STAK is indirectly able to elect a substantial majority of the members of the Company s board of directors and has the power to determine the outcome of most actions requiring shareholder approval, including, subject to the requirements of Luxembourg law, the payment of dividends. The decisions of the controlling shareholder may not reflect the will or best interests of other shareholders. For example, the Company s articles of association permit the board of directors to waive, limit or suppress preemptive rights in certain cases. Accordingly, our controlling shareholder may cause our board of directors to approve an issuance of shares for consideration without preemptive rights, thereby diluting the minority interest in the Company. See Risk Factors Risks Relating to our ADSs Holders of our shares and ADSs in the United States may not be able to exercise preemptive rights in certain cases and Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders.

Non-controlling interests in our subsidiaries could delay or impede our ability to complete our strategy.

We do not own one hundred percent of the interests in certain of our subsidiaries.

As of March 31, 2015, approximately 26.03% of Siderar is held by *Administración Nacional de la Seguridad Social*, or ANSeS, Argentina s governmental social security agency, approximately 11.68% is publicly held, and approximately 1.34% is held by certain Siderar employees. ANSeS became a significant shareholder of Siderar in the last quarter of 2008 as a result of the nationalization of Argentina s private pension system, which caused assets under administration of Argentina s private pension funds including significant interests in publicly traded companies, such as Siderar, held by such funds to be transferred to ANSeS.

Ternium holds a 51% ownership interest in Tenigal, and NSSMC holds the remaining 49%. We also have a participation in the control group of Usiminas. For further information on the Usiminas investment, see Item 4. Information on the Company C. Organizational Structure Other Investments Usiminas .

The existence of non-controlling interests in these companies could prevent Ternium from taking actions that, while beneficial to Ternium, might not be beneficial to each relevant subsidiary, considered separately. As a result, we could be delayed or impeded in the full implementation of our strategy or the maximization of Ternium s competitive strengths.

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Risks Relating to the Countries in Which We Operate

Negative economic, political and regulatory developments in certain markets where Ternium has a significant portion of its operations and assets could hurt Ternium s shipment volumes or prices, increase its costs or disrupt its manufacturing operations, thereby adversely affecting its results of operations and financial condition.

The results of Ternium s operations are subject to the risks of doing business in emerging markets, principally in Mexico and Argentina and to a lesser extent in Colombia, and have been, and could in the future be, affected from time to time to varying degrees by economic, political, social and regulatory developments, such as nationalization, expropriation or forced divestiture of assets; restrictions on production, domestic sales, imports and exports; interruptions to essential energy inputs; restrictions on the exchange or transfer of currency, repatriation of capital, or payment of dividends, debt principal or interest, or other contractual obligations; inflation; devaluation; war or other international conflicts; civil unrest and local security concerns that threaten the safe operation of our facilities; direct and indirect price controls; tax increases, changes (including retroactive) in the enforcement or interpretation of tax laws and other retroactive tax claims or challenges; changes in laws or regulations; cancellation of contract rights; and delays or denial of governmental approvals. Both the likelihood of such occurrences and their overall effect upon Ternium vary greatly from country to country and are not predictable. Realization of these risks could have an adverse impact on the results of operations and financial condition of Ternium s subsidiaries located in the affected country and, depending on their materiality, on the results of operations and financial condition of Ternium as a whole.

Mexico

Ternium has significant manufacturing operations and assets located in Mexico and a majority of its sales are made to customers in this country. The majority of Ternium s revenues from its Mexican operations, therefore, are related to market conditions in Mexico and to changes in its economic activity. Ternium s business could be materially and adversely affected by economic, political and regulatory developments in Mexico.

Economic and social conditions and government policies in Mexico could negatively impact Ternium s business and results of operations.

In the past, Mexico has experienced several periods of slow or negative economic growth, high inflation, high interest rates, currency devaluation and other economic problems. Furthermore, the Mexican national economy tends to reflect changes in the economic environment in the United States. If problems such as deterioration in Mexico s economic conditions reemerge (for example, as a result of lower revenues due to oil price decline) or there is a future re-emergence of social instability, political unrest, reduction in government spending or other adverse social developments, foreign exchange and financial markets may exhibit continued volatility, which, depending on its severity and duration, could adversely affect the business, results of operations, financial condition or liquidity of Ternium. Moreover, adverse economic conditions in Mexico could result in, among other things, higher interest rates accompanied by reduced opportunities for refunding or refinancing, reduced domestic consumption of Ternium s products, decreased operating results and delays in the completion of ongoing and future capital expenditures.

Regulatory changes in Mexico could adversely impact our results of operations and net results.

Mexico has recently experienced a period of economic reform. In December 2012, new labor regulations became effective in Mexico. The most relevant aspects of those regulations were a reassessment of the status of third-party workers, changes in rest periods, and an increase in the amounts of fines and penalties applicable for violations of the regulations. In addition, in 2014 a comprehensive tax reform became effective in Mexico. Among other things, the reform maintained the corporate income tax at 30% (eliminating the scheduled reduction to 29% in 2014 and 28% in 2015); repealed the tax consolidation regime, limiting Ternium s ability to perform fiscal consolidation among its Mexican subsidiaries beginning as of January 1, 2014; introduced a 10% withholding tax on dividend distributions; and created a new royalty over mining activities, which in the case of Ternium s iron ore mining subsidiaries resulted in a 7.5% royalty on mining profits calculated on a special tax basis. These measures resulted in a deferred tax loss of USD22.3 million in Ternium s 2013 results. Any additional new changes to Mexican regulations, including regulations imposing new obligations that may be issued as part of the energy reform agenda, could adversely impact our results of operations and net results.

Violence and crime in Mexico could negatively impact Ternium s business and operations.

In recent years there have been high incidences of violence and crime related to drug trafficking in Mexico, especially in the Monterrey areas, where our main facilities are located, and in Michoacán, where some of our mining facilities are located. Security issues could affect our day-to-day operations and could also result in an economic slowdown, reducing domestic demand for our products and thereby having an adverse effect on our business. A deterioration of the security situation could result in significant obstacles or additional costs to the implementation of our growth plans in Mexico, including delays in the completion of capital expenditures.

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Argentina

Approximately 14% of Ternium s consolidated net assets are located in Argentina and a significant portion of its sales are made in Argentina through its subsidiary, Siderar. Most of Siderar s sales revenue is affected by market conditions in Argentina and changes in Argentina s gross domestic product, or GDP, and per capita disposable income. Accordingly, Siderar s business could be materially and adversely affected by economic, political, social, fiscal and regulatory developments in Argentina. For more information on Ternium s sales in Argentina, see Item 4. Information on the Company B. Business Overview Sales Southern Region.

Economic and political instability in Argentina, which on several occasions resulted in economic uncertainties and recession, may occur in the future, thereby adversely affecting our business, financial condition and results.

Our business and results of operations in Argentina depend on macroeconomic conditions, among other factors. Domestic sales of Siderar were severely affected by Argentina s political and economic crisis in 2001-2002. Steel shipments to the Argentine domestic market were again disrupted during the 2008-2009 downturn in the global economy. More recently, steel shipments to the Argentine domestic market stagnated starting in 2012, as economic growth in Argentina slowed down significantly.

The Argentine economy is currently facing significant challenges. Inflation is high, as further discussed below, leading to increasing labor unrest. In addition, the economy has been affected by supply constraints and capital investment in general has declined significantly due to, among other factors, political, economic and financial uncertainties and government actions, including price and foreign exchange controls, import restrictions, export taxes, an increased level of government intervention in, or limitations to, the conduct of business in the private sector, and other measures affecting investor confidence. For example, in February 2011, the Argentine government imposed controls on the price of steel products sold in Argentina, including products sold by Siderar, and required that sales of steel products be invoiced in Argentine pesos. Although Ternium believes that price controls are illegal under Argentine law and these measures were ultimately revoked, other price controls or similar measures could be imposed in the future. Inflation and declining capital investment may affect growth and, accordingly, cause demand for our local subsidiary s products in the domestic market to drop.

Furthermore, certain bondholders that did not participate in Argentina s restructurings of a substantial portion of its sovereign indebtedness following the Argentine default in 2002, which took place in 2005 and 2010, have sued Argentina for full payment. This litigation has effectively limited Argentina s access to international capital markets. A lack of financial alternatives could impair Argentina s ability to sustain the economy s activity level and foster economic growth.

Economic conditions in Argentina have deteriorated rapidly in the past and may deteriorate rapidly in the future. The Argentine economy may not continue to grow and economic instability may increase. Our business and results of operations in Argentina could be adversely affected by rapidly changing economic conditions in Argentina or by the Argentine government s policy response to such conditions.

Inflation may undermine economic growth in Argentina and impact our costs, thereby adversely affecting our results of operations and financial position.

In the past, inflation has undermined the Argentine economy and the government s ability to stimulate economic growth. Beginning in 2004, inflation indicators began showing significant year-over-year increases, signaling a trend characteristic of an inflationary economy. The pace of inflation has increased rapidly and significantly over the last few years. Since 2007 Argentina s official inflation data published by the *Instituto Nacional de Estadística y Censos*, or INDEC, Argentina s national statistics institute, have been subject to changes in calculation; following the implementation of such changes, the official inflation figures have been consistently disputed by independent economists. For example, the annual inflation rates based on consumer data published by INDEC (IPC GBA) during the period 2008-2013 were in all cases below 11%, while private estimates, on average, refer to annual rates of inflation significantly higher than those published by INDEC. On February 1, 2012, the International Monetary Fund s executive board approved a decision that called on Argentina to implement specific measures to address the quality of the official data reported to the International Monetary Fund. In February 2014, INDEC stopped issuing the IPC GBA index and replaced it with a new national consumer price index (IPCNu) based on a different methodology. Under the IPCNu, consumer price index rose 23.9% in 2014. As of the date of this annual report, the International Monetary Fund s executive board has not issued a final assessment regarding the compliance of the IPCNu index with the requirements imposed by its February 1, 2012 decision.

Sustained high inflation in Argentina could negatively impact our results of operations and financial position as peso-denominated costs (mainly labor-related costs) at Siderar increase, thereby affecting its cost-competitiveness and adversely affecting its margins. In addition, a high inflation economy could undermine Argentina s foreign competitiveness in international markets and negatively affect the economy s activity and employment levels. Argentine inflation rate volatility makes it impossible to estimate with reasonable certainty the extent to which activity levels and results of operations of Siderar could be affected by inflation in the future.

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The Argentine government has increased taxes on Argentine companies and could further increase the fiscal burden in the future, which could adversely affect our results of operations, net results and financial condition.

Since 1992, the Argentine government has not permitted the application of an inflation adjustment on the value of fixed assets for tax purposes. As a result of the substantial devaluation of the Argentine peso against the U.S. dollar and significant inflation over the last decade, the amounts that the Argentine tax authorities permit Siderar to deduct as depreciation for its past investments in plant, property and equipment have been substantially reduced in real terms, thus creating artificial gains for tax purposes which result in effective tax rates which are higher than statutory tax rates. In addition, provincial taxes on Siderar s sales have increased over the last few years. More recently, in October 2013 the Argentine government enacted a new 10% withholding tax on dividend distributions in Argentina. This measure resulted in a deferred tax loss of USD24.0 million in Ternium s 2013 results. If the Argentine government continues to increase the tax burden on Siderar s operations, Ternium s results of operations, net results and financial condition could be adversely affected.

Argentine exchange controls could prevent Ternium from paying dividends or other amounts from cash generated by Siderar s operations.

In the past, the Argentine government and the Argentine Central Bank introduced several rules and regulations to reduce volatility in the ARS/USD exchange rate, and implemented formal and informal restrictions on capital inflows into Argentina and capital outflows from Argentina. In addition, Siderar is currently required to repatriate U.S. dollars collected in connection with exports from Argentina (including U.S. dollars obtained through advance payment and pre-financing facilities) into Argentina and convert them into Argentine pesos at the relevant exchange rate applicable on the date of repatriation. Since the last quarter of 2011, the Argentine government tightened its controls on transactions that would represent capital outflows from Argentina, prohibiting the purchase of foreign currency for saving purposes and limiting formally or informally the ability of Argentine companies to transfer funds (including in connection with the purchase of goods or services, or the payment of interest, dividends or royalties) outside of Argentina. The existing controls, and any additional restrictions of this kind that may be imposed in the future, could expose Ternium to the risk of losses arising from fluctuations in the exchange rate or affect Ternium s ability to finance its investments and operations in Argentina or impair Ternium s ability to convert and transfer outside Argentina funds generated by Siderar, for example, to fund the payment of dividends or to undertake investments and other activities that require offshore payments. For additional information on Argentina s current exchange controls and restrictions, see Item 10. Additional Information D. Exchange Controls.

Restrictions on the imports of key steelmaking inputs for Siderar s operations in Argentina could adversely affect Siderar s production and, as a result, revenues and negatively impact Ternium s results of operations.

Some of Siderar s key steelmaking inputs, including iron ore and coking coal, are imported into Argentina. The Argentine government has implemented significant import restrictions, which may affect the availability of key steelmaking inputs for our operations in Argentina. All payments on imports of goods and services must be approved by the Argentine federal tax authority and other authorities, such as the Secretary of Commerce. The authorization criteria for such imports have not been determined in the applicable regulations. Among other factors, fluctuations in Siderar s export levels may impact our ability to obtain the necessary approvals. Such import restrictions could delay imports and, if sustained, adversely affect our business, operations and growth projects in Argentina. In addition, they could affect Siderar s exports from Argentina, considering that foreign countries may adopt and implement counter-measures. For additional information on current Argentina s current exchange controls and restrictions, see Item 10. Additional Information D. Exchange Controls.

Restrictions or an increase of the costs on the supply of energy to Siderar s operations in Argentina could curtail Siderar s production and negatively impact Ternium s results of operations.

In recent years, there has been an insufficient level of investment in natural gas and electricity supply and transport capacity in Argentina, coupled with a substantial increase in demand for natural gas and electricity. This in turn resulted in shortages of natural gas and electricity to residential and industrial users including Siderar during periods of high demand. Such shortages may, in the future, result in significant price increases for gas and electricity. Siderar s operations experienced constraints in their natural gas supply requirements and interruptions in their electricity supply at peak hours on many occasions. If demand for natural gas and electricity increases and a matching increase in natural gas and electricity supply and transport capacity fails to materialize on a timely basis, Siderar s production in Argentina (or that of its main customers and suppliers) could be curtailed, and Siderar s sales and revenues could decline. In addition, the Argentine government announced a cut-off in the government s subsidies to the price of the natural gas and electricity on several occasions. An increase in Siderar s energy costs may adversely affect Siderar s results of operations. See Risks Relating to the Steel Industry Price fluctuations or shortages in the supply of raw materials, slabs and energy could adversely affect Ternium s profitability above.

Colombia

Ternium has manufacturing operations and assets located in Colombia and some of its sales are made in Colombia. The majority of Ternium s revenues from its Colombian operations, therefore, are affected by market conditions in Colombia and to changes in Colombia s GDP, and per capita disposable income. In addition, Colombia has experienced internal security issues and political

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tensions with some of its neighboring countries, in particular Venezuela and Ecuador, which have had or could have a negative effect on the Colombian economy. Accordingly, Ternium s business could be adversely affected by economic, political and regulatory developments in Colombia.

Certain Regulatory Risks and Litigation Risks

International trade actions or regulations and trade-related legal proceedings could adversely affect Ternium s sales, revenues and overall business.

International trade-related legal actions and restrictions pose a constant risk for Ternium s international operations and sales throughout the world. We purchase steel products, including significant quantities of steel slabs, for our operations in Mexico (which we obtain from various suppliers in Mexico and overseas), and we also purchase steel products for our operations in Colombia (which we obtain from our subsidiaries overseas and from various suppliers in Colombia and overseas). Steel products are, subject to certain conditions, imported under zero or low import duties. In the future, the Mexican or Colombian governments may increase the applicable duties or impose restrictions in the quantities allowed to be imported.

Increased trade liberalization has reduced certain of Ternium s imported input costs and increased Ternium s access to many foreign markets. However, greater trade liberalization in its domestic markets is increasing competition for Ternium in such markets. In recent years, as a consequence of the global downturn and the economic slowdown in China, the number of antidumping and countervailing actions limiting trade has increased substantially. Accordingly, producers from certain countries find themselves excluded from certain markets and in need to find alternatives for their products. As a result, Ternium s domestic market share could be eroded in the face of foreign imports, and Ternium s increased exports to foreign markets where import barriers have been reduced may not completely offset domestic market share losses resulting from increased foreign competition.

Countries can impose restrictive import duties and other restrictions on imports under various national trade laws. The timing and nature of the imposition of trade-related restrictions potentially affecting Ternium s exports are unpredictable. Trade restrictions on Ternium s exports could adversely affect Ternium s ability to sell products abroad and, as a result, Ternium s profit margins, financial condition and overall business could suffer. One significant source of trade restrictions results from countries imposition of so-called antidumping and countervailing duties, as well as safeguard measures. These duties can severely limit or altogether impede an exporter s ability to export to relevant markets. In several of Ternium s export destinations, such as the United States or Europe, safeguard duties and other protective measures have been imposed against a broad array of steel imports in certain periods of excess global production capacity, as is currently the case. Furthermore, certain domestic producers have filed antidumping and/or countervailing duty actions against particular steel imports. Some of these actions have led to restrictions on Ternium s exports of certain types of steel products to certain steel markets. As domestic producers filing of such actions is largely unpredictable, additional antidumping duties, countervailing duties or other such import restrictions could be imposed in the future, limiting Ternium s export sales to and potential growth in those markets. See Item 4. Information on the Company B. Business Overview Regulations Trade regulations.

The cost of complying with environmental regulations and potential environmental and product liabilities may increase our operating costs and negatively impact our business, financial condition, results of operations and prospects.

Our steelmaking and mining activities are subject to a wide range of local, provincial and national laws, regulations, permit requirements and decrees relating to the protection of human health and the environment, including laws and regulations relating to hazardous materials and radioactive materials and environmental protection governing air emissions, water discharges and waste management due to the risks inherent in the industries in which we operate. Laws and regulations protecting the environment have become increasingly complex and more stringent in recent years, leading to higher costs of compliance.

Environmental laws and regulations may, in some cases, impose strict liability rendering a person liable for damages to natural resources or threats to public health and safety without regard to negligence or fault. Some environmental laws provide for joint and several strict liability for remediation of spills and releases of hazardous substances. These laws and regulations may expose us to liability for the conduct of, or conditions caused by others or for acts that were in compliance with all applicable laws at the time they were performed.

Compliance with applicable requirements and the adoption of new requirements could have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows. The ultimate impact of complying with environmental laws and regulations is not always clearly known or determinable since regulations under some of these laws have not yet been promulgated or are undergoing revision. The expenditures necessary to remain in compliance with these laws and regulations, including site or other remediation costs, or costs incurred from potential environmental liabilities, could have a material adverse effect on our financial condition and profitability. While we incur and will

continue to incur expenditures to comply with applicable laws and regulations, there always remains a risk that environmental incidents or accidents may occur that may negatively affect our reputation or our operations.

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Some of the activities for which Ternium supplies products, such as canning for consumption, construction and the automotive industry, are subject to inherent risks that could result in death, personal injury, property damage or environmental pollution, and subject us to potential product liability risks that could extend to being held liable for the damages produced by such products. Furthermore, Ternium s products are also sold to, and used in, certain safety-critical appliances. Actual or claimed defects in our products may give rise to claims against us for losses suffered by our customers and expose us to claims for damages. The insurance we maintain may not be adequate or available to protect us in the event of a claim, its coverage may be limited, canceled or otherwise terminated, or the amount of our insurance may be less than the related impact on enterprise value after a loss.

Risks Relating to our ADSs

The market price for our ADSs could be highly volatile.

Volatility in the price of our ADSs may be caused by factors within or outside of our control and may be unrelated or disproportionate to Ternium s operating results. In particular, announcements of potentially adverse developments, such as proposed regulatory changes, new government investigations or the commencement or threat of litigation against Ternium, as well as announcements of transactions, investments, or changes in strategies or business plans of Ternium or its competitors, could adversely affect the trading price of our ADSs, regardless of the likely outcome of those developments. Broad market and industry factors could adversely affect the market price of our ADSs, regardless of its actual operating performance. As an example of this volatility, the price of our ADSs closed at USD45.18 on June 2, 2008, and fell to a low of USD4.55 on November 20, 2008. In 2009 and 2010, the price of our ADSs generally recovered to a high closing price of USD43.26 on January 5, 2011, but then fell to a 2011 low of USD15.54 on November 29, 2011. The price of our ADSs was generally in the range of USD17.6 to USD24.9 in 2012, in the range of USD19.2 to USD31.3 in 2013 and in the range of USD16.2 to USD32.2 in 2014. See Item 9 The Offer and Listing A. Offer and Listing Details.

Furthermore, the trading price of our ADSs could suffer as a result of developments in emerging markets. Although the Company is organized as a Luxembourg corporation, almost all of its assets and operations are located in Latin America. Financial and securities markets for companies with a substantial portion of their assets and operations in Latin America are, to varying degrees, influenced by political, economic and market conditions in emerging market countries. Although market conditions are different in each country, investor reaction to developments in one country can have significant effects on the securities of issuers with assets or operations in other emerging markets, including Mexico, Argentina and Colombia. See Risks Relating to the Countries in Which We Operate.

In deciding whether to purchase, hold or sell our ADSs, you may not be able to access as much information about us as you would in the case of a U.S. company.

There may be less publicly available information about us than is regularly published by or about U.S. issuers. Also, Luxembourg regulations governing the securities of Luxembourg companies may not be as extensive as those in effect in the United States, and Luxembourg law and regulations in respect of corporate governance matters might not be as protective of minority shareholders as state corporation laws in the United States. Furthermore, IFRS differ in certain material aspects from the accounting standards used in the United States.

Holders of our ADSs may not be able to exercise, or may encounter difficulties in the exercise of, certain rights afforded to shareholders.

Certain shareholders rights under Luxembourg law, including the right to vote, to receive dividends and distributions, to bring actions, to examine the books and records and to exercise appraisal rights may not be available to holders of ADSs, or may be subject to restrictions and special procedures for their exercise, as holders of ADSs only have those rights that are expressly granted to them in the deposit agreement. The Bank of New York Mellon, or BNY Mellon, as depositary, through its custodian agent, is the registered shareholder of the deposited shares underlying the ADSs and therefore only the depositary can exercise the shareholders rights in connection with the deposited shares. For example, if we make a distribution in the form of securities, the depositary is allowed, at its discretion, to sell that right to acquire those securities on your behalf and to instead distribute the net proceeds to you. Also, under certain circumstances, such as our failure to provide the depositary with voting materials on a timely basis, you may not be able to vote by giving instructions to the depositary. In the circumstances specified in the deposit agreement, if the depositary does not receive voting instructions from the holder of ADSs or the instructions are not in proper form, then the depositary shall deem such holder to have instructed the depositary to give, and the depositary shall give, a proxy to a person designated by the Company with respect to that amount of shares underlying such ADSs to vote that amount of shares underlying such ADSs in favor of any proposals or recommendations of the Company (including any recommendation by the Company to vote that amount of shares underlying such

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ADSs on any issue in accordance with the majority shareholders vote on that issue) as determined by the appointed proxy. No instruction shall be deemed given and no proxy shall be given with respect to any matter as to which the Company informs the depositary that (x) it does not wish such proxy given, (y) substantial opposition exists, or (z) the matter materially and adversely affects the rights of the holders of ADSs.

Holders of our shares and ADSs in the United States may not be able to exercise preemptive rights in certain cases.

Pursuant to Luxembourg corporate law, existing shareholders of the Company are generally entitled to preemptive subscription rights in the event of capital increases and issues of shares against cash contributions. Under the Company s articles of association, the board of directors is authorized to waive, limit or suppress such preemptive subscription rights until July 15, 2015, and the renewal of such authorization will be submitted for consideration by the Company s general extraordinary meeting of shareholders to be held on May 6, 2015 or any adjournment thereof. The Company, however, may issue shares without preemptive rights only if the newly issued shares are issued:

- for, within, in conjunction with or related to, an initial public offering of the shares of the Company on one or more regulated markets (in one or more instances);
- for consideration other than cash;
- upon conversion of convertible bonds or other instruments convertible into shares of the Company; provided, however, that the preemptive subscription rights of the then existing shareholders shall apply in connection with any issuance of convertible bonds or other instruments convertible into shares of the Company for cash; or
- subject to a certain maximum percentage, as compensation to directors, officers, agents or employees of the Company, its direct or indirect subsidiaries or its affiliates, including without limitation the direct issuance of shares or the issuance of shares upon exercise of options, rights convertible into shares or similar instruments convertible or exchangeable into shares issued or created to provide compensation or incentives to directors, officers, agents or employees of the Company, its direct or indirect subsidiaries or its affiliates.

For further details, see Item 10. Additional Information B. Memorandum and Articles of Association.

Furthermore, holders of our shares and ADSs in the United States may, in any event, not be able to exercise any preemptive rights, if granted, for shares unless those shares are registered under the U.S. Securities Act of 1933, as amended (the Securities Act) with respect to those rights or an exemption from registration is available. We intend to evaluate, at the time of any rights offering, the costs and potential liabilities associated with the exercise by holders of shares and ADSs of the preemptive rights for shares, and any other factors we consider appropriate at the time, and then to make a decision as to whether to register additional shares. We may decide not to register any additional shares, requiring a sale by the depositary of the holders rights and a distribution of the proceeds thereof. Should the depositary not be permitted or otherwise be unable to sell preemptive rights, the rights may be allowed to lapse with no consideration to be received by the holders of the ADSs.

It may be difficult to obtain or enforce judgments against the Company in U.S. courts or courts outside of the United States.

The Company is a public limited liability company (*société anonyme*) organized under the laws of Luxembourg, and most of its assets are located outside of the United States. Furthermore, most of the Company s directors and officers named in this annual report reside outside the United States. As a result, investors may not be able to effect service of process within the United States upon the Company or its directors or officers or to enforce against the Company or them in U.S. courts judgments predicated upon the civil liability provisions of U.S. federal securities law. Likewise, it may be difficult for a U.S. investor to bring an original action in a Luxembourg court predicated upon the civil liability provisions of the U.S. federal securities laws against the Company, its directors or its officers. There is also uncertainty with regard to the enforceability of original actions in courts outside the United States of civil liabilities predicated upon the civil liability provisions of U.S. federal securities laws. Furthermore, the enforceability in courts outside the United States of judgments entered by U.S. courts predicated upon the civil liability provisions of U.S. federal securities law will be subject to compliance with procedural requirements under applicable local law, including the condition that the judgment does not violate the public policy of the applicable jurisdiction.

Item 4. Information on the Company

Overview

Ternium is a leading steel producer in Latin America. We manufacture and process a broad range of value-added steel products, including galvanized and electro-galvanized sheets, pre-painted sheets, tinplate, welded pipes, hot-rolled flat products, cold-rolled

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products, bars and wire rods as well as slitted and cut-to-length offerings through our service centers. Our customers range from large global companies to small businesses operating in the construction, automotive, home appliances, capital goods, container, food and energy industries.

With approximately 16,900 employees and an annual production capacity of 11.0 million tons of finished steel products and 4.0 million tons of iron ore pellets (most of which are used in our steelmaking activities) as of December 31, 2014, Ternium has production facilities located in Mexico, Argentina, Colombia, the southern United States and Guatemala, iron ore mines in Mexico, and a network of service and distribution centers throughout Latin America that provide it with a strong position from which to serve its core markets. In addition, Ternium participates in the control group of Usiminas, a leading steel company in the Brazilian steel market. Our proximity to local steel consuming markets enable us to differentiate from our competitors by offering valuable services to our customer base across Latin America. Our favorable access to iron ore sources and proprietary iron ore mines in Mexico provide reduced logistics costs, and our diversified steel production technology enables us to adapt to fluctuating input-cost conditions.

Ternium primarily sells its steel products in the regional markets of the Americas. Ternium provides specialized products and delivery services, mainly to customers in Mexico, Argentina, Colombia and various Central American countries, through its network of manufacturing facilities and service centers. We believe that Ternium is the leading supplier of flat steel products in Mexico and Argentina, a significant supplier of steel products in Colombia and in various other countries in Latin America, and a competitive player in the international steel market for steel products. Through its network of commercial offices in several countries in Latin America, the United States and Spain, Ternium maintains an international presence that allows it to reach customers outside its local markets, achieve improved effectiveness in the supply of its products and in the procurement of semi-finished steel, and maintain a fluid commercial relationship with its customers by providing continuous services and assistance.

In 2014, 56.1% of Ternium s net sales of steel products were made to Mexico, 30.5% to the Southern Region (which is comprised of sales to customers in Argentina, Bolivia, Chile, Paraguay and Uruguay), and 13.4% to other markets (including major shipment destinations, such as Colombia, the United States and Central America, as well as other international destinations). In 2014, Ternium s net sales were USD8.7 billion, operating income was USD1.1 billion, and net income attributable to equity holders was USD452.4 million.

A. History and Development of the Company

The Company

Our legal and commercial name is Ternium S.A. The Company was organized as a public limited liability company (*société anonyme*) under the laws of the Grand-Duchy of Luxembourg on December 22, 2003. Our Luxembourg office is located at 29, Avenue de la Porte-Neuve 3rd floor, L-2227 Luxembourg, telephone number +352 2668 3152. Our agent for U.S. federal securities law purposes is Ternium International U.S.A. Corporation, located at 2200 West Loop South, Suite 945, Houston, TX 77027, United States.

Ternium

Ternium s origins began in September 1961 with the founding of Propulsora Siderúrgica, or Propulsora, by San Faustin s predecessor in Argentina. Propulsora began its operations as a producer of cold-rolled coils in December 1969 and in the early 1990s began to evolve through a series of strategic investments aimed at transforming Propulsora into an integrated steel producer. In 1993, Propulsora merged with Aceros Paraná S.A. (a company formed by the Argentine government in connection with the privatization of Somisa, at that time the main integrated producer of flat steel in Argentina) and three other affiliated steel industry companies. After the merger, Propulsora changed its name to Siderar S.A.I.C. San Faustin held a controlling interest in Siderar, with the remainder being held mainly by Usiminas, certain former employees of Somisa, and the public.

In December 1997, a consortium formed by San Faustin, Siderar, Usiminas, Hylsamex and Sivensa won the bid in the privatization of a controlling interest in Sidor, the largest steel company in Venezuela.

As part of a multiple-step corporate reorganization in 2005, San Faustin reorganized its investments in steel manufacturing, processing and distribution businesses by contributing its controlling interests in Siderar, Sidor and Ternium Internacional to the Company, and Usiminas and Sivensa exchanged their interests in Siderar and Sidor for shares of the Company. In 2005, we acquired, together with Siderar, an indirect 99.3% interest in the Mexican company Hylsamex and its subsidiaries.

On January 11, 2006, the Company launched an initial public offering of 24,844,720 ADSs, each representing 10 shares of the Company, in the United States, and subsequently granted the underwriters of the Company s initial public offering an option to purchase up to 3,726,708

additional ADSs to cover over-allotments in the sale of the ADSs.

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On December 28, 2006, we acquired an additional 4.85% interest in Siderar from CVRD Internacional S.A, thereby increasing our ownership in Siderar to 60.93%.

On April 29, 2007, the Company entered into an agreement with Grupo Imsa and Grupo Imsa s controlling shareholders pursuant to which Grupo Imsa came under our control on July 26, 2007. Under the agreement, the Company, through a wholly owned subsidiary, made a cash tender offer under applicable Mexican law for all of the issued and outstanding share capital of Grupo Imsa, which resulted in the acquisition of 25,133,856 shares, representing 9.3% of the issued and outstanding capital of Grupo Imsa. 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. Following this capital reduction, we became the sole shareholder of Grupo Imsa.

In 2007, Grupo Imsa was renamed Ternium Mexico and, effective March 31, 2008, Hylsamex merged with and into Ternium Mexico. In connection with this merger, Siderar became a shareholder of Ternium Mexico with a 28.7% interest.

On April 29, 2008, the National Assembly of Venezuela passed a resolution declaring that the shares of Sidor, together with all of its assets, were of public and social interest, and authorizing the Venezuelan government to take any action it deemed appropriate in connection with any such assets, including expropriation. On May 11, 2008, the President of Venezuela issued Decree Law 6058 ordering that Sidor and its subsidiaries and associated companies were transformed into state-owned enterprises (*empresas del Estado*), with Venezuela owning not less than 60% of their share capital. On May 7, 2009, Ternium completed the transfer of its entire 59.7% interest in Sidor to Corporación Venezolana de Guayana, or CVG, a Venezuelan state-owned entity.

On August 25, 2010, Ternium completed the acquisition of a 54% ownership interest in Ferrasa and, on April 7, 2015, Ternium acquired the remaining 46% minority interest. Ferrasa has a 100% ownership interest in Siderúrgica de Caldas S.A.S., Figuraciones S.A.S. and Perfilamos del Cauca S.A.S., all of which are also Colombian companies. Through this investment, Ternium expanded its business and commercial presence in Colombia.

In November 2010, Ternium and NSSMC established Tenigal, with each company holding 51% and 49% participations, respectively. Tenigal completed the construction of a hot dip galvanizing plant in the vicinity of Monterrey City, Mexico, which commenced production in the third quarter of 2013. Tenigal was designed to produce high grade and high quality galvanized and galvannealed automotive steel sheets, including outer panel and high strength qualities.

On January 16, 2012, the Company s wholly-owned Luxembourg subsidiary Ternium Investments S.à r.l., or Ternium Investments , Siderar and its wholly-owned subsidiary Prosid Investments S.A. or Prosid , and Confab Industrial S.A., a subsidiary of Tenaris, or TenarisConfab, joined the existing control group of Usiminas, a leading steel company in the Brazilian flat steel market, through the acquisition of 84.7, 30.0, and 25.0 million ordinary shares, respectively, and formed the so called Ternium/Tenaris (T/T) Group. Ternium Investments, Siderar (and Prosid) and TenarisConfab entered into an amended and restated Usiminas shareholders agreement with NSSMC, Mitsubishi and Metal One (comprising the so-called Nippon Group) and *Previdência Usiminas* or CEU , Usiminas employee pension fund. The shareholders agreement governs the rights and obligations of Ternium Investments, Siderar (and Prosid) and TenarisConfab within the Usiminas control group.

On October 30, 2014, Ternium Investments acquired 51.4 million additional ordinary shares of Usiminas from *Caixa de Previdência dos Funcionários do Banco do Brasil* - PREVI. Following this transaction, Ternium, through its subsidiaries Ternium Investments, Siderar and Prosid, owns 166.1 million ordinary shares of Usiminas, representing 32.9% of Usiminas ordinary shares (and a 16.8% participation in Usiminas results). Of these, 114.7 million ordinary shares are subject to the shareholders agreement that governs the rights and obligations of the members of Usiminas control group (representing a 35.6% interest within that group), while the 51.4 million shares acquired in October 2014 as described above are not subject to the shareholders agreement, although during the term of that agreement Ternium is required to vote such shares in accordance with the control group s decisions. For further information on the Usiminas investment, see note 3 to our consolidated financial statements included elsewhere in this annual report.

For information on Ternium s capital expenditures, see B. Business Overview Capital Expenditure Program.

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B. Business Overview

Our Business Strategy

Our main strategic objective is to enhance shareholder value by strengthening Ternium s position as a competitive producer of steel products, in a manner consistent with minority shareholders rights, while further consolidating Ternium s position as a leading steel producer in Latin America and a strong competitor in the Americas. The main elements of this strategy are:

Focus on higher margin value-added products. We intend to continue to shift Ternium s sales mix towards higher margin value-added products, such as cold-rolled sheets and coated and tailor-made products, and services, such as just-in-time delivery and inventory management;

Pursue strategic growth opportunities. We have a history of strategically growing our businesses through acquisitions and joint ventures. In addition to strongly pursuing organic growth, we intend to identify and actively pursue growth-enhancing strategic opportunities to consolidate Ternium s presence in its main markets and expand it to the rest of Latin America, increase its upstream integration, expand its offerings of value-added products, increase its steel production, and increase its distribution capabilities. For a description of some of the risks associated with Ternium s growth strategy, see Item 3. Key Information D. Risk Factors Risks Relating to our Business Future acquisitions or other significant investments could have an adverse impact on Ternium s operations or profits, and Ternium may not realize the benefits it expects from these business decisions.

Implement Ternium s best practices. We believe that the implementation of Ternium s managerial, commercial and production best practices in acquired and new businesses should generate benefits and savings;

Maximize the benefits arising from Ternium s broad distribution network. We intend to maximize the benefits arising from Ternium s broad network of distribution, sales and marketing services to reach customers in major steel markets with a comprehensive range of value-added products and services and to continue to expand its customer base and improve its product mix; and

Enhance Ternium s position as a competitive steel producer. We are focused on improving utilization levels of our plants, increasing efficiency and further reducing production costs from levels that we already consider to be among the most competitive in the steel industry through, among other measures, capital investments and further integration of our facilities.

Our Products

The Ternium companies produce mainly finished and semi-finished steel products and iron ore, which are sold either directly to steel manufacturers, steel processors or end-users, after different value-adding processes.

In the steel segment, steel products include slabs, billets and round bars (steel in its basic, semi-finished state), hot-rolled coils and sheets, bars and stirrups, wire rods, cold-rolled coils and sheets, tin plate, hot dipped galvanized and electrogalvanized sheets and pre-painted sheets, steel pipes and tubular products, beams, roll formed products, and other products. Galvanized and pre-painted sheets can be further processed into a variety of corrugated sheets, trapezoidal sheets and other tailor-made products to serve Ternium s customer requirements.

In the mining segment, iron ore is sold as concentrates (fines) and pellets.

Steel products

Slabs, billets and round bars: these products are semi-finished steel forms with dimensions suitable for its processing into specific product types. Slabs are processed into hot-rolled flat products. The use of slabs is determined by their dimensions and by their chemical and metallurgical characteristics. Billets are processed into long steel products, such as wire rods, bars and other shapes. Round bars are processed into seamless tubes.

Hot-rolled products: hot-rolled flat products are used by a variety of industrial consumers in applications such as the manufacturing of wheels, auto parts, pipes, gas cylinders and containers. They are also directly used for the construction of buildings, bridges and railroad cars, and for the chassis of trucks and automobiles. Hot-rolled flat products can be supplied as coils or as sheets cut to a specific length. These products also serve as inputs for the production of cold-rolled products. Merchant bars include specific shape features, such as rounds, flats, angles, squares and channels, which are used by customers to manufacture a wide variety of products such as furniture, stair railings and farm equipment. Reinforcing bars (rebars) and stirrups, obtained from the mechanical transformation of rebars, are used to strengthen concrete highways, bridges and buildings. Rods are commonly drawn into wire products or used to make bolts and nails. Wire rod can be produced in different qualities according to customers demands.

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Cold-rolled products: cold-rolled products are applied mainly to the automotive, home appliance and capital goods industries, as well as to galvanizers, drummers, distributors and service centers. Cold-rolled coils are sold as coils or cut into sheets or blanks to meet customers needs. These products also serve as inputs for the production of coated products.

Coated products: galvanized sheets are produced by adding a layer of zinc to cold-rolled coils, which are afterwards cut into sheets. Galvanized sheets are used in the automotive, construction and home appliances industries. Galvanized coils can also be further processed with a color coating to produce pre-painted sheets, resulting in a product that is mainly sold for building coverings, manufacturing of ceiling systems, panels, air conditioning ducts, refrigerators, air conditioners, washing machines and several other uses. Ternium also offers, under the trademark Zintroalum in Mexico and Cincalum in Argentina, a distinctive type of galvanized product with coating composition that contains approximately 55% aluminum and 44% zinc to improve product performance for the construction industry, including rural, industrial and marine sites. Tinplate, given its resistance to corrosion and its mechanical and chemical characteristics, is mainly sold to the packaging industry for food canning, sprays and paint containers. Tinplate is produced by coating cold-rolled coils with a layer of tin.

Roll-formed and tubular products: these products include tubes for general use, structural tubes, tubes for mechanical applications, conduction tubes, conduction electrical tubes and oil tubes. Tubular products, uncoated or galvanized, have applications in several sectors including home accessories, furniture, scaffolding, automotive, bicycles, hospital equipment, posts for wire mesh garden and poultry tools, handrails, guard-rails, agricultural machinery, industrial equipment, conduction of water, air, gas, oil, high-pressure liquids and special fluids and internal building electrical installations. Beams, including C and Z section steel profiles (purlings) and tubular section beams, are obtained by roll-forming of steel strips and have applications in window frames, stilts, mainstays, crossbeams, building structures, supports, guides and crossbars for installing windows, doors, frames and boards. Other products include insulated panels, roofing and cladding, roof tiles and steel decks. Obtained from the mechanical transformation of flat steel, uncoated, galvanized or pre-painted, these products are used mainly in the construction industry in warehouses, commercial and industrial refrigeration installations, grain storage, poultry and porcine confinement facilities, roofing and side walls for buildings, and terraces and mezzanine floorings.

Other steel products: these products include pre-engineered metal building systems, which are steel construction systems designed for use in low-rise non-residential buildings, and are constructed from the mechanical transformation of flat steel such as frames, secondary steel members, roofs and walls panels, as well as finishing and accessories; and pig iron, a semifinished product obtained in the blast furnace that is mostly used as metallic charge in the steel shop for the production of crude steel, and also marketed to other steel producers and to manufacturers of iron-based cast products.

Within each of the basic product categories, there is a range of different items of varying qualities and prices that are produced either to meet the particular requirements of end users or sold as commodity items.

Iron ore products

Concentrates (fines) and pellets: these products are raw materials used for the production of steel. Iron ore concentrates are iron ore fines with high iron content. Iron ore pellets are produced from iron ore concentrates. Ternium ships most of the pellets to its own steel manufacturing operations and it also markets the surplus portion of its iron ore pellets and concentrates, if any, to other steel manufacturers.

Production Facilities and Processes

Ternium has steel production facilities, service centers, distribution centers, or DCs, and mining operations in Mexico, steel production facilities and service centers in the Southern Region, and steel production facilities, service centers and DCs in other markets, specifically Colombia, the United States and Central America.

Ternium s aggregate production capacity of finished steel products as of December 31, 2014 calculated based on management estimates of standard productivity, product mix allocations, the maximum number of possible working shifts and a continued flow of supplies to the production process, was approximately 11.0 million tons, of which 7.2 million tons correspond to facilities located in Mexico, 2.9 million tons correspond to facilities located in the Southern Region and 0.9 million tons correspond to facilities located in other markets. Ternium s aggregate production capacity of iron ore pellets as of December 31, 2014, was 4.0 million tons. Such iron ore products are mainly sold inter-company for the production of steel products by our steel segment.

[1] The capacity information as of December 31, 2014, excludes our service center in Panama, sold on January 20, 2015, and our service center in Honduras, permanently closed in the first quarter of 2015. Our customers in Honduras are now served from other facilities. For more

information related to the sale of our service center in Panama, see Item 5 Operating and Financial Review and Prospects G. Recent Developments .

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Steel production facilities, service centers and distribution centers

The assets described in this section are owned by Ternium s operating subsidiaries. The following table provides an overview, by type of asset, of Ternium s production capacity as of December 31, 2014[1]

		Capacity (thousand tons per year)[2]			
Production asset	Quantity	Mexico	Argentina	Other	Total
Coke Plant	4		1,100		1,100
Sinter Plant	1		1,480		1,480
Direct Reduced Iron Plant	3	2,710			2,710
Blast Furnace	2		3,220		3,220
Electric Arc Furnace	5	4,010		190	4,200
Basic Oxygen Furnace	3		3,500		3,500
Vacuum Degassing	2	840	1,200		2,040
Thin Slab Continuous Caster	1	2,330			2,330
Slab Continuous Caster	2		5,630		5,630
Billet Continuous Caster	3	1,600		190	1,790
Hot-rolling Mill (flat products)	4	5,990	2,850		8,840
Skin Pass Mill	4	2,630	990		3,620
Hot-rolling Mill (long products)	4	1,110		200	1,310
Pickling Line	9	5,150	1,910		7,060
Cold-Rolling Mill (Tandem or Reversing)	10	3,620	1,840		5,460
Electrolytic Cleaning	5	1,940	230		2,170
Annealing Line	5	1,590	1,330		2,920
Temper Mill	7	2,040	2,020		4,060
Tension-Leveling / Inspection Line	9	1,130	1,150		2,280
Electro-Tinplating line	1		160		160
Hot Dip Galvanizing Line	13	1,810	600	380	2,790
Electro-Galvanizing Line	1		110		110
Color-Coating Line	8	620	120	190	930
Slitter	33	1,990	420	310	2,720
Cut to length	36	570	1,000	190	1,760
Roll forming Line	35	510	460	230	1,200
Panel Line	4	80			80
Profile Line	16	180		110	290
Tube Line	21	540	190	60	790
Wire drawing Lines	14			100	100
Wire Mesh Lines	2			40	40
Rebar Processing Lines[3]	41			180	180

[1] The capacity information as of December 31, 2014, excludes our service center in Panama, sold on January 20, 2015, and our service center in Honduras, permanently closed in the first quarter of 2015. Our customers in Honduras are now served from other facilities. For more information related to the sale of our service center in Panama, see Item 5 Operating and Financial Review and Prospects G. Recent Developments .

[2] In this annual report annual production capacity is calculated based on management estimates of standard productivity, product mix allocations, the maximum number of possible working shifts and a continued flow of supplies to the production process.

[3] Includes shears, straighteners, stirrup benders and shaping centers.

Mexico. Ternium has twelve steel production and/or processing units in Mexico, consisting of three integrated steel-making plants (two of which produce long steel products and one of which produces flat steel products and includes two steel service centers), five downstream flat steel processing plants, combining hot-rolling, cold-rolling and/or coating facilities (two of which include steel service centers), and four steel service centers. In addition, Ternium has ten distribution centers in this region, aimed at serving customers mainly in the construction sector.

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The following table sets forth key items of information regarding Ternium s principal production locations and production units:

Unit	Country	Type of Plant				Location
				Service	Distribution	
		Integrated	Downstream	Center	Center	
Guerrero	Mexico	X		X		San Nicolás d.l.G., Nuevo León
Norte	Mexico	X				Apodaca, Nuevo León
Puebla	Mexico	X				Puebla, Puebla
Juventud	Mexico		X	X		San Nicolás d.l.G., Nuevo León
Churubusco	Mexico		X	X		Monterrey, Nuevo León
Monclova	Mexico		X			Monclova, Coahuila
Universidad	Mexico		X			San Nicolás d.l.G., Nuevo León
Pesquería	Mexico		X			Pesquería, Nuevo León
Apodaca Industrial	Mexico			X		Apodaca, Nuevo León
Apodaca Comercial	Mexico			X		Apodaca, Nuevo León
Varco-Pruden	Mexico			X		Ciénaga de Flores, Nuevo León
San Luis	Mexico			X		San Luis, San Luis Potosí
DC Chihuahua	Mexico				X	Chihuahua, Chihuahua
DC BC	Mexico				X	Tijuana, Baja California
DC Norte	Mexico				X	Escobedo, Nuevo León
DC Puebla	Mexico				X	Puebla, Puebla
DC Guadalajara	Mexico				X	Guadalajara, Jalisco
DC Mexico	Mexico				X	Tultitlán, Estado De México
DC Culiacán	Mexico				X	Culiacán, Sinaloa
DC Veracruz	Mexico				X	Veracruz, Veracruz
DC Mérida	Mexico				X	Mérida, Yucatán
DC Tuxtla	Mexico				X	Tuxtla Gtz, Chiapas

Guerrero unit: located in the metropolitan area of Monterrey, Nuevo León, Mexico, the Guerrero unit produces hot-rolled and cold-rolled coils for the industrial, construction and home appliance sectors and for further processing in other Ternium Mexico s units. It also produces slitted and cut-to-length products for the industrial sector, and profiles and tubes for the industrial and construction sectors. This unit includes two steel service centers, a slab-rolling mill, and an integrated facility based on direct reduced iron, or DRI, mini-mill steelmaking and thin-slab casting/rolling mill technologies that uses iron ore pellets and steel scrap as main raw materials. The facility sources all of the iron ore from Ternium Mexico s mining operations and the electricity and natural gas from the Mexican grid. In addition, the facility sources its net requirements of slabs from Mexican and international producers. Ternium s procurement policy for these products is described in greater depth in Item 4. Information on the Company B. Business Overview Raw Materials, Slabs, Energy and Other Inputs.

Ternium made progress in several projects under the Guerrero investment plan launched in 2013 encompassing industrial safety, environmental sustainability, maintenance and facility overhaul. During 2014, civil works started in a number of projects in the iron ore reduction facilities, the steel shop and the cold-rolling mills, and engineering studies started for additional projects in the mentioned facilities. These capital expenditure programs aim at implementing the world s most stringent environmental and safety norms at Ternium s Guerrero unit in Mexico. For more information on Ternium s environmental and safety projects see B. Business Overview Capital Expenditure Program.

Norte unit: located in Nuevo León, Mexico, the Norte unit produces billets and rebar for the construction industry. It is an integrated facility based on mini-mill steelmaking technology that uses steel scrap as its main raw material. The facility sources electricity from the Mexican grid. Ternium s procurement policy for these products is described in greater depth in Item 4. Information on the Company B. Business Overview Raw Materials, Slabs, Energy and Other Inputs.

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Puebla unit: located in Puebla, Mexico, the Puebla unit produces rebar, wire rod and round bar mainly for the construction and industrial sectors, including high-carbon, low-carbon and micro-alloyed wire rod. It is an integrated facility based on DRI and mini-mill steelmaking technologies that uses iron ore pellets and steel scrap as main raw materials. The facility sources all of the iron ore from Ternium Mexico s mining operations and the electricity and natural gas from the Mexican grid. Ternium s procurement policy for these products is described in greater depth in Item 4. Information on the Company B. Business Overview Raw Materials, Slabs, Energy and Other Inputs.

Juventud unit: located in Nuevo León, Mexico, the Juventud unit produces galvanized and color coated coils for the construction, home appliance and other industries and has a steel service center that produces slitted and roll-formed products, panels and tubes for the construction and industrial sectors. This plant processes hot-rolled and cold-rolled coils received from Ternium Mexico s units in Nuevo León.

Churubusco unit: located in Nuevo León, Mexico, the Churubusco unit produces hot-rolled and cold-rolled coils for the industrial, construction and home appliance sectors and for further processing in other Ternium Mexico s units. It also produces slitted and cut-to-length products for the industrial sector. The facility sources its requirements of slabs from other Mexican producers and from the international markets. Ternium s procurement policy for slabs is described in greater depth in Item 4. Information on the Company B. Business Overview Raw Materials, Slabs, Energy and Other Inputs.

Monclova unit: located in Coahuila, Mexico, the Monclova unit produces galvanized and color coated sheets for the home appliance industry. This plant processes cold-rolled coils mainly received from Ternium Mexico s units in Nuevo León.

Universidad unit: located in Nuevo León, Mexico, and across the street from the Guerrero unit, the Universidad unit produces galvanized and color coated coils for the construction, home appliance and industrial sectors. This plant, which also has a cold-rolling mill, processes hot-rolled coils received from Ternium Mexico s units in Nuevo León.

Pesquería industrial center: located in Nuevo León, Mexico, the Pesquería industrial center produces cold-rolled and galvanized coils for the automotive industry, among other industrial sectors. The cold-rolling mill processes hot-rolled coils sourced from Ternium Mexico s Churubusco and Guerrero units, and third parties. Tenigal purchases hot-rolled coils mainly from NSSMC; hot-rolled coils are processed at the Pesquería cold-rolling mill and then used in the production of galvanized products.

Apodaca Industrial unit: located in Nuevo León, Mexico, the Apodaca Industrial unit is a steel service center that produces slitted and cut-to-length products for industrial customers. This plant processes coated coils mainly received from Ternium Mexico s units in Nuevo León.

Apodaca Comercial unit: located in Nuevo León, Mexico, the Apodaca Comercial unit is a steel service center that produces slitted and roll-formed products, profiles and tubes for the construction industry. This plant processes coated coils mainly received from Ternium Mexico s units in Nuevo León.

Varco-Pruden unit: located in Nuevo León, Mexico, the Varco-Pruden unit produces metal building systems for commercial construction. This plant processes heavy plates procured from the local and international markets and coils received from Ternium Mexico s units in Nuevo León.

San Luis unit: located in San Luis Potosí, Mexico, the San Luis unit is a steel service center that produces slitted and cut-to-length products for the home appliance and other industries. This plant processes coated coils received from Ternium Mexico s units in Nuevo León.

Southern Region. Ternium has eight steel production and/or processing units in this region, located in Argentina, consisting of one integrated flat steel-making plant, four downstream flat steel processing plants, comprising cold-rolling, coating or tube making facilities (three of which include steel service centers), and three steel service centers.

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The following table set forth key items of information regarding Ternium s principal production locations and production units:

Unit	Country	Type of Plant				Location
		Integrated	Downstream	Service Center	Distribution Center	
San Nicolás	Argentina	X				Ramallo, Buenos Aires
Canning	Argentina		X	X		Canning, Buenos Aires
Haedo	Argentina		X	X		Haedo, Buenos Aires
Florencio Varela	Argentina		X	X		Florencio Varela, Buenos Aires
Ensenada	Argentina		X			Ensenada, Buenos Aires
Rosario	Argentina			X		Rosario, Santa Fe
Serviacero III	Argentina			X		Ramallo, Buenos Aires
Sidercrom	Argentina			X		Ramallo, Buenos Aires

San Nicolás unit: located in the Province of Buenos Aires, Argentina, the San Nicolás unit produces hot-rolled, cold-rolled and tinplate coils for the construction, industrial and packaging sectors and for further processing in other Siderar units. The San Nicolás unit includes an integrated facility based on blast furnace and basic oxygen furnace technologies, supplemented with a sinter plant, coking batteries, a by-product plant and a power plant. It uses metallurgical coal and iron ore lumps, pellets and fines as main raw materials. The facility sources all of its coal and iron ore needs from the international markets, shipped to its own port on the banks of the Paraná river. It sources the natural gas from the Argentine grid, produces most of its electricity needs in its own power plant and sources its net requirements of electricity from the Argentine grid. Ternium s procurement policy for these products is described in greater depth in Item 4. Information on the Company B. Business Overview Raw Materials, Slabs, Energy and Other Inputs.

Canning and Haedo units: located in the Province of Buenos Aires, Argentina, the Canning and Haedo units produce galvanized sheets, slitted and roll-formed products and profiles for the construction and home appliance sectors. In addition, the Canning facility produces color coated sheets for such markets. Both plants process cold-rolled coils received from Siderar s San Nicolás and Ensenada units.

Florencio Varela unit: located in the Province of Buenos Aires, Argentina, the Florencio Varela unit produces electrogalvanized sheets, blanks and slitted products for the automotive, construction and other industries. This plant processes cold-rolled coils received from Siderar s San Nicolás and Ensenada units.

Ensenada unit: located in the Province of Buenos Aires, Argentina, the Ensenada unit produces cold-rolled coils for the construction and industrial sectors and for further processing in Siderar s own facilities. This plant processes hot-rolled coils received from Siderar s San Nicolás unit.

Rosario unit: located in the Province of Santa Fe, Argentina, the Rosario unit is a steel service center that produces tubes for the construction industry. This plant processes hot-rolled coils received from Siderar s San Nicolás unit.

Serviacero III unit: located in the Province of Buenos Aires, Argentina, the Serviacero III unit is a steel service center that produces cut-to-length products for the construction and industrial sectors. This plant processes hot-rolled coils received from Siderar s San Nicolás unit.

Sidercrom unit: located in the Province of Buenos Aires, Argentina, the Sidercrom unit is a steel service center that produces cut-to-length and slitted products for the packaging sector. This plant processes tinplate coils received from Siderar s San Nicolás unit.

Other Markets. Ternium has thirteen steel production and/or processing units in Colombia, Central America and the United States, consisting of one integrated long steel-making plant, two downstream flat steel processing plants, comprising coating facilities (one of which includes a steel service center), and ten steel service centers. In addition, Ternium has four steel retail distribution centers aimed at serving customers mainly in the construction sector.

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The following table set forth key items of information regarding Ternium s principal production locations and production units:

Unit	Country	Type of Plant				Location
		Integrated	Downstream	Service Center	Distribution Center	
Shreveport	USA		X			Shreveport, Louisiana
Manizales Acasa	Colombia	X				Manizales, Caldas
Barranquilla	Colombia			X		Malambo, Atlántico
Itagüí	Colombia			X		Itaguí, Antioquía
Cali Perfilamos	Colombia			X		Puerto Tejada, Cauca
Bogotá	Colombia			X		Bogotá, Cundinamarca
Cali Ferrasa	Colombia			X		Cali, Valle del Cauca
Montería	Colombia			X		Montería, Córdoba
Manizales Ferrasa	Colombia			X		Manizales, Caldas
DC Medellín	Colombia				X	Medellín, Antioquía
Villa Nueva	Guatemala		X	X		Villa Nueva, Guatemala
DC Norte	Guatemala				X	Guatemala, Guatemala
DC Occidente	Guatemala				X	Mazatenango, Suchitepéquez
San Salvador	El Salvador			X		San Salvador, San Salvador
DC San Miguel	El Salvador				X	San Miguel, San Miguel
Managua	Nicaragua			X		Managua, Managua
Heredia	Costa Rica			X		Heredia, Heredia

Shreveport unit: located in Louisiana, United States, the Shreveport unit produces galvanized and color coated sheets. It processes cold-rolled coils procured in the international markets.

Manizales Acasa unit: located in Caldas, Colombia, the Manizales Acasa unit produces billets and rebar for the construction industry. It is an integrated facility based on mini-mill steelmaking technology that uses steel scrap as its main raw material. The facility sources all of its scrap and electricity needs from local suppliers. Ternium s procurement policy for these products is described in greater depth in Item 4. Information on the Company B. Business Overview Raw Materials, Slabs, Energy and Other Inputs.

Barranquilla unit: located in Atlántico, Colombia, the Barranquilla unit is a steel service center that produces slitted, cut-to-length, drawn wire, wire mesh and customized rebar-based products for the construction industry. This plant processes wire rod purchased in the international market and rebar received from Ferrasa s Manizales unit and rebar purchased in the international markets. Hot-rolled and cold-rolled coils are received mainly from Ternium Mexico s units in Nuevo León.

Itagüí unit: located in Antioquía, Colombia, the Itagüí unit is a steel service center that produces drawn wire, wire mesh and *customized* rebar-based products for the construction industry. This plant processes wire rod purchased in the international markets and rebar received from Ferrasa s Manizales unit and rebar purchased in the international markets.

Cali Perfilamos unit: located in Cauca, Colombia, the Cali Perfilamos unit is a steel service center that produces profiles, tubes and structural beams for the construction industry. This plant processes hot-rolled and cold-rolled coils received mainly from Ternium Mexico s units in Nuevo León and purchased in the international markets.

Bogotá, Cali Ferrasa, Montería and Manizales Ferrasa: the Bogotá unit in Cundinamarca, Colombia, the Cali Ferrasa unit in Valle del Cauca, Colombia, the Montería unit in Córdoba, Colombia and the Manizales Ferrasa unit in Caldas, Colombia, are steel service centers that produce customized rebar-based products for the construction industry. These plants process rebar received from Ferrasa s Manizales unit and rebar purchased in the international markets.

Villa Nueva unit: located in Guatemala, Guatemala, the Villa Nueva unit produces galvanized sheets for the construction industry and for further processing in other Ternium Mexico s units in Central America. It also has a steel service center that produces slitted, roll-formed and cut-to-length products, and profiles for the construction industry. This plant processes hot-rolled, cold-rolled and coated coils received from Ternium Mexico s units in the Nuevo León area and from the international markets.

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San Salvador and Managua units: the San Salvador unit in San Salvador, El Salvador, and the Managua unit in Managua, Nicaragua, are steel service centers that produce roll-formed products for the construction industry. These plants process coated coils received mainly from Ternium Mexico s Villa Nueva unit.

Heredia unit: located in Heredia, Costa Rica, the Heredia unit is a steel service center that produces roll-formed products and profiles for the construction industry. This plant processes hot-rolled, cold-rolled and coated coils received from Ternium Mexico s units in Nuevo León and from the Villa Nueva unit.

Mining Production Facilities

Ternium has iron ore production facilities in Mexico. We have a 100% interest in Las Encinas, and a 50% interest in Consorcio Peña Colorada, and conduct our mining activities through these companies. Most of our iron ore production is consumed internally and small quantities are sold to third parties. The following table provides an overview of Ternium s active mining operations:

Company	Location	Type of Mine
Las Encinas	Aquila, Michoacán	Open pit
Las Encinas	El Chilillo, Jalisco	Open pit
Consorcio Peña Colorada	Minatitlán, Colima	Open pit

In addition, Las Encinas owns two other mines, El Encino and Cerro Nahuatl, which are substantially exhausted.

The following table provides an overview, by type of facility, of Ternium s production capacity as of December 31, 2014:

	Las Encinas		Consorcio Peña Colorada (1)	
Production facility	**Quantity**	**Capacity (2)**	**Quantity**	**Capacity (2)**
Crushing Plant	2	5,300	1	11,000
Concentration Plant (3)	1	3,500	1	10,000
Pelletizing Line	1	1,900	2	4,100

(1) Figures correspond to total capacity. Ternium has a 50% interest in Consorcio Peña Colorada.
(2) In thousands of tons per year. Crushing capacity for Las Encinas includes crushing lines located in Aquila and in El Encino.
(3) The concentration plant capacity figures refer to the plants iron ore processing capacity. The plants actual iron ore concentrate production depends on the iron ore grade of the processed material.

Las Encinas

Las Encinas produces iron ore pellets and magnetite concentrate in Mexico. At present, Las Encinas operates the Aquila open pit mine located in Michoacán and the El Chilillo open pit mine located in Jalisco.

The Las Encinas facilities include two crushing plants (located close to each of the Aquila and El Encino mines), and a concentration and pelletizing plant located in Alzada, Colima, approximately 160 kilometers from Aquila. Its major processing facilities (crushing, concentration and pelletizing facilities) include two primary crushers and a dry cobbing plant in Aquila, and horizontal and vertical ball mills and several stages of magnetic separation in Alzada. The iron ore pre-concentrate is transported from Aquila to a transfer station at Tecoman, Colima, by truck and from Tecoman to Alzada by rail and truck for processing in the concentration plant. The iron ore extracted from El Chilillo is transported by truck to El Encino to be processed in our crushing facility. The crushed iron ore is transported from El Encino to Alzada by cableway or by truck for processing in the concentration plant. In addition, El Encino may receive, from time to time, magnetite iron ore purchased by Las Encinas from other local concessionaires. The iron ore pellets produced in Alzada are transported by rail to Ternium Mexico s integrated facilities in Monterrey and Puebla. The Aquila and El Encino operations and the Alzada facilities receive electrical power from the *Comisión Federal de Electricidad*, or CFE, the Mexican state-owned electric utility.

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Active mines

At the Aquila site, Las Encinas holds mining rights for the extraction of iron ore over 73 hectares. The Aquila operations (including an open pit mine and crushing facilities) stand on 383 hectares, which are leased to Las Encinas by the local community of San Miguel de Aquila. The lease agreement allows Las Encinas to perform all mining activities, including the extraction of iron ore, necessary to exploit the ore located in the 73 hectares granted to Las Encinas by the Mexican federal authorities until the permanent closure of the mine. Las Encinas has operated this mine since 1998.

Aquila is a mine composed predominantly of magnetite with a hematite roof and sulphides and silicates gangue. The form of mineralization is massive and disseminated (mineralized hornfels, endoeskarn), with mineralized gaps. The mine site is hosted along a large failure line and between the contact of an intrusive diorite and limestone, and the shape of the deposit is slightly amorphous crossed by a countless number of dams and mainly controlled by geological structures.

At the El Chilillo site, Las Encinas holds mining rights over 63 hectares. Las Encinas operations at that site comprise 25 hectares under a lease agreement expiring in December 2015, which is consistent with our mining plan for that mine. El Chilillo is located in Jalisco, approximately 35 kilometers away from El Encino. Las Encinas began operating this mine in 2013.

El Chilillo mine is a magmatic injection deposit. It is a north-south oriented body with average 400 meters length, 150 meters width and 25 meters thick, with a lens-shaped body of massive magnetic ore, partially oxidized in and close to surfacing areas. Gang ores associated with the iron ore are pyrite, quartz and apatite. It is surrounded mainly by andesite and andesitic rocks above and below the body, and to a lower proportion by limestone that is also founded at lens-shaped internal bodies. The entire mineralized zone is crossed by monzonitic-composed dykes.

Mines under exploration

Las Encinas holds mining rights over other areas scattered throughout Michoacán, Jalisco and Colima, Mexico. In recent years, Las Encinas has conducted exploration activities mainly in Michoacán and Jalisco and identified certain additional iron ore resources in Sierra del Alo, Jalisco. However, exploration activities have decreased significantly as a result of the current price and the expected medium-term price of iron ore.

Las Encinas is pursuing the environmental permits required to conduct mining activities at the Las Palomas iron ore deposit in Jalisco. Permits required for the mine s first-stage operations are expected to be obtained during 2015. Upon obtaining of the full set of permits, Las Encinas iron ore reserves are expected to increase by approximately 15 million tons on a run-of-mine basis. In the future, Las Encinas may continue pursuing the development of small to mid-sized mining operations similar to El Chilillo and Las Palomas, as a way to diversify its sources of iron ore and to make effective use of its mining rights in the region.

Exhausted mines

The El Encino open pit and underground mine was operated until 2011. The El Encino core reserves were exhausted and the mine s operations have been suspended. Ternium is currently evaluating the steps required to proceed with its permanent closure, but no date for such closure has been scheduled. The crushing and transfer facilities at El Encino are still in operation and will remain active to receive, process and transfer to the Alzada pelletizing plant iron ore from El Chilillo s operations and iron ore that Las Encinas buys from time to time from other local concessionaires.

The Cerro Nahuatl open pit mine located in Colima, Mexico, operated until 2008. The Cerro Nahuatl core reserves were exhausted in 2011 and the mine s operation has been suspended. Ternium is currently evaluating the steps required to proceed with its permanent closure.

Consorcio Peña Colorada

Consorcio Peña Colorada produces iron ore pellets and magnetite concentrate in Mexico, and Consorcio Peña Colorada is a company owned 50% by Ternium and 50% by ArcelorMittal. Consorcio Peña Colorada operates the Peña Colorada open pit mine as well as a concentrating facility and a two-line pelletizing facility. Consorcio Peña Colorada owns part of the property where its mine and processing facilities stand, and leases 1,202 hectares adjacent to mine that are used to deposit material removed as part of the regular short term and long term life of mine plan.

Consorcio Peña Colorada has operated since 1974 and holds mining rights over 39,813 hectares. The Peña Colorada mine is a complex polyphase iron ore deposit. Several magmatic and hydrothermal events produced iron mineralization, garnet-rich rocks (granatites) as skarns or skarnoids, and late dikes and faults that crosscut the mineralized bodies. The main mineralization events are a massive ore body, a disseminated

ore body, a layered barren exoskarn/skarnoid, a polymictic breccia, mineralized conglomerates and late andesitic dikes.

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The concentration plant is located at the mine in Minatitlán, Colima, and the pelletizing plant is located near the Manzanillo seaport on the Pacific coast in Colima, 50 kilometers from Minatitlán. Consorcio Peña Colorada s major processing facilities include a primary crusher, a dry cobbing plant, one autogenous mill, horizontal and vertical ball mills, several stages of magnetic separation and two pelletizing lines. The concentrate is sent as a pulp through a pipeline from the mine and mineral processing plant in Minatitlán to the pelletizing plant in Manzanillo. The Peña Colorada mine and the pelletizing plant receive electrical power from the CFE.

Effective as of January 2013, Ternium and Consorcio Peña Colorada entered into an amendment to the agreement for the allocation of its production. As a result of such amendment, Ternium is required to buy from Consorcio Peña Colorada half of the mine s production. See Item 4. Information on the Company B. Business Overview Raw Materials, Slabs, Energy and Other Inputs Mexico Iron Ore. Iron ore concentrate and pellets sold to Ternium are shipped by rail from the mine to Ternium s facilities in Mexico or exported.

As the iron grade of Peña Colorada s ore deposits is diminishing over time (and, as a result, the facility s concentrate production is diminishing accordingly), during 2014 Consorcio Peña Colorada s shareholders approved certain investments required to increase the processing capacity of its crushing, grinding and concentration facilities to restore iron ore concentrate production to the previous 4.5 million tons per year level at an estimated total cost of USD320 million. The project, expected to be completed during 2016, requires Consorcio Peña Colorada to obtain environmental and other permits as well as additional electrical power from CFE.

Iron ore reserves

The table below details Ternium s estimated proven and probable iron ore reserves as of December 31, 2014. The classification of the iron ore reserve estimates as proven or probable is based on drill hole spacing and reflects the variability in the mineralization at the selected cut-off grade, the mining selectivity and the production rate and ability of the operation to blend the different ore types that may occur within each deposit. Reserves are reported as Run of Mine (ROM). Tonnage is reported on a wet metric ton basis.

Iron ore reserves as of	December 31, 2014 (1)						December 31, 2013 (1)	
	Proven		Probable		Total		Total	
	Million tons	% Fe	Million tons	% Fe	Million tons	% Fe	Million tons	% Fe
Las Encinas (2)	23	41			23	41	28	41
Peña Colorada (3)	111	23	130	23	241	23	251	23

(1) In Peña Colorada, proven iron ore reserve estimates are based on drill hole spacing ranging from 25m x 25m to 100m x 100m, and probable iron ore reserve estimates are based on drill hole spacing ranging from 50m x 50m to 300m x 300m. In Las Encinas, drill hole spacing may be more distanced.
(2) Includes exclusively the Aquila and the El Chililllo mines.
(3) Reported figures represent the total reserves at the Peña Colorada mine. Ternium has a 50% interest in Consorcio Peña Colorada.

The table below provides additional information on iron ore production and average estimated mine life.

Operations/Projects	% Ownership	In Operation Since	2014 Run of Mine Production (Million tons)	2014 Saleable Production (Million tons) (1)	Estimated Mine Life (Years) (2)
Las Encinas (3)	100	1970	4.9	2.1	6
Consorcio Peña Colorada (4)	50	1974	10.6	3.6	17

(1) Saleable production is constituted of a mix of direct shipped ore (DSO), concentrate, pellet feed and pellet products which have an iron content of approximately 65% to 66%.
(2) Mine life is derived from the life of mine plans and corresponds to the duration of the mine production scheduled from ore reserve estimates only. The production varies for each operation during the mine life and as a result the mine life is not necessarily the total reserve

tonnage divided by the 2014 production.

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(3) Includes exclusively the Aquila and the El Chililllo mines.
(4) Reported figures represent the total production of Consorcio Peña Colorada, in which Ternium has a 50% interest.

Changes in iron ore reserve estimates (2014 versus 2013)

Las Encinas s iron ore reserve estimates as of December 31, 2014 were 23 million tons on a run-of-mine basis (with a 41% average iron grade), decreasing by 5 million tons compared to those recorded as of the end of 2013. This decrease in tonnage was due mainly to the depletion of reserves during the year.

Peña Colorada s iron ore reserve estimates as of December 31, 2014 were 241 million tons on a run-of-mine basis (with a 23% average iron grade), decreasing by 10 million tons compared to those recorded as of the end of 2013. This decrease in tonnage was due mainly to the depletion of reserves during the year.

The estimates of proven and probable ore reserves at our mines and the estimates of the mine life included in this annual report have been prepared by Ternium s experienced engineers and geologists. Ternium has not commissioned an independent verification of the methods and procedures used to determine reserves, nor has it commissioned independent audits on iron ore reserve estimates.

The reserve calculations were prepared in compliance with the requirements of SEC Industry Guide 7, under which:

Reserves are the part of a mineral deposit that could be economically and legally extracted or produced at the time of the reserve determination.

Proven reserves are reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, working or drill holes; grade and/or quality are computed from the results of detailed sampling; and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.

Probable reserves are reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

The demonstration of economic viability is established through the application of a life of mine plan for each operation or project providing a positive net present value on a cash-forward looking basis. Economic viability is demonstrated using forecasts of operating and capital costs based on historical performance, with forward adjustments based on planned process improvements, changes in production volumes and in fixed and variable proportions of costs, and forecasted fluctuations in costs of raw material, supplies, energy and wages. Ore reserve estimates are updated annually in order to reflect new geological information and current mine plan and business strategies. Our reserve estimates are of in-place material after adjustments for mining depletion and mining losses and recoveries, with no adjustments made for metal losses due to processing. For a description of risks relating to reserves and reserve estimates, see Item 3D Risk Factors Risks Relating to our Mining Activities Our reserve estimates may differ materially from mineral quantities that we may be able to actually recover, or our estimates of mine life may prove inaccurate; and market price fluctuations and changes in operating and capital costs may render certain ore reserves uneconomical to mine in the future or cause us to revise our reserve estimates.

Our mineral leases are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all ore reserves on the leased properties to be mined in accordance with current production schedules. Our ore reserves may include areas where some additional approvals remain outstanding but where, based on the technical investigations we carry out as part of our mine planning process and our knowledge and experience of the approvals process, we expect that such approvals will be obtained as part of the normal course of business and within the timeframe required by the current life of mine schedule.

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Property, Plants and Equipment

The table below details Ternium s mining segment property, plant and equipment value as of December 31, 2014.

In millions of U.S. dollars	Property, Plant and Equipment (PPE)
Las Encinas	136.5
Consorcio Peña Colorada	120.0

Production process

Ternium specializes in manufacturing and processing finished steel products. In addition, Ternium extracts and processes iron ore.

Ternium s facilities use different technologies and have different levels of integration. The basic inputs for steel production are iron ore and energy. Iron ore is used in three different formats: fines and lumps, which are purchased in the marketplace, and pellets, which are partly purchased in the marketplace and partly produced by Ternium. Ternium s steel production processes consume energy mainly in the form of natural gas, coal and electricity.

Iron ore extraction and processing. The iron ore pellet production process begins with the sourcing of iron ore from Ternium s own mines in Mexico. The ore is extracted from open pit mines. Extraction consists of removing waste and ore from the surface with explosives and loading and transporting it by truck to the crushing facilities where it is resized to a specified size.

After crushing, the ore goes through several grinding and concentration stages. Grinding reduces the size and changes the shape of the ore while concentration, through magnetic drums, separates the iron from the sterile material to obtain an iron ore concentrate with high iron content. This process is carried out using water as an auxiliary element. Excess water is afterwards eliminated through a filtering process, leaving only the necessary humidity for the formation of pellets using pelletizing disks. Pellets are separated according to their size and are then hardened in ovens and shipped to the steel producing facilities.

Steel production. Ternium produces semi-finished steel in the form of thin slabs, slabs, billets and round bars through the electric arc furnace and the blast furnace methods.

Under the electric arc furnace method, which is used in Mexico and Colombia, the iron metal charge is heated with other elements to obtain molten steel. The molten steel is then cast, using the continuous casting method, into billets and thin slabs. The iron metal charge in the Norte and Manizales plants is steel scrap, and the iron metal charge in the Monterrey and Puebla plants is a mix of DRI and steel scrap. The DRI results from the conversion of pellets in the DRI modules. One of Monterrey s DRI plants includes Hytemp® technology, which permits the hot discharge of the DRI to the electric arc furnace, generating significant energy savings and improving productivity.

Under the blast furnace method, which is used in Argentina, iron ore pellets, lumps, sinter (a mixture of iron ore fines and limestone produced in our sinter plant) and coke (a solid residue obtained from the distillation of coal produced in our coking batteries) are mixed in the blast furnaces in a process that melts and reduces the iron ore, obtaining pig iron. The molten pig iron is then mixed with steel scrap and other products in a basic oxygen furnace through a process that removes impurities from the pig iron by injecting pure oxygen at high pressure into the molten metal, burning-off carbon and other elements. The molten steel is then cast using the continuous casting method, into slabs.

Steel processing. Semi-finished steel is then processed into finished products using hot-rolling, cold-rolling, coating, tubing, paneling, slitting and cut-to-length facilities among other processes. Ternium purchases semi-finished steel in the marketplace in the form of slabs, as its steel processing capacity in Mexico is higher than its steel-making capacity in the country. It may purchase hot-rolled and cold-rolled coils as well for further processing in its lines.

Thin-slabs, slabs and billets are processed in the hot-rolling mills in Mexico, Argentina and Colombia to obtain hot-rolled products using different technologies. In the case of flat products, hot-rolled coils are obtained from thin or conventional slabs. Thin slab hot-rolling, a technology Ternium uses only in Mexico, requires less energy than conventional slab hot-rolling, as it does not require a roughing section at the mill and does not need to be reheated from room temperature to reach rolling temperature. In the production of long products, which is carried out in Mexico and Colombia, billets are reheated and taken to rolling temperature. The softened steel is processed in the rolling trains to obtain wire rods and rebars as finished long products and, depending on its final use, rebars can be further processed into stirrups and other customized shapes in our service centers in Colombia and Panama.

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Depending on its final use, the hot-rolled coils are then tempered and/or pickled, both in Mexico and Argentina, before being sent for sale as coils or cut into steel sheets. Alternatively, the hot-rolled coils may be sent to a cold-rolling mill where they are put under a deformation process at room temperature to reduce their thickness and obtain cold-rolled coils. Cold-rolled coils can be sold in crude form to the market (full hard) or processed in the reheating ovens, annealing bays and temper lines to modify their metallurgic and physical characteristics. The tempered products can be sold as coils or sheets or further processed by adding coatings.

Cold-rolled coils can be further processed into tin plate at Siderar s facility in Argentina (by adding a thin layer of tin), into galvanized or electrogalvanized sheets at several of Ternium s facilities in Mexico, the United States and Guatemala and at Siderar s facility in Argentina (by adding a thin layer of zinc to the products through different processes) or into pre-painted products. Some of these products can be further processed into slitted, cut-to-length and tailor-made products according to customers needs at Ternium s service centers, which are located in several countries. In addition, coated, cold-rolled and hot-rolled coils can be further processed into tubular products, such as welded pipes, insulated panels and architectural panels, among other products.

Sales

Net Sales

Ternium is organized into two reportable segments: Steel and Mining. The Steel segment includes the sales of steel products and the Mining segment includes the sales of iron ore products, which are primarily inter-company. The Steel segment comprises three operating segments: Mexico, the Southern Region and Other Markets. For further information on our reportable operating segments, see note 5 to our consolidated financial statements included elsewhere in this annual report. Ternium primarily sells its steel products in Latin America and the United States, where it can leverage its strategically located manufacturing facilities to provide specialized products, delivery services to its customers and reduced freight costs. In addition, it sells small quantities of iron ore to third parties, as it consumes internally most of the iron ore it produces.

Our total consolidated net sales of steel and mining products amounted to USD8.7 billion in 2014, USD8.5 billion in 2013 and USD8.6 billion in 2012. For further information on our net sales of steel and mining products, see Item 5. Operating and Financial Review and Prospects A. Results of Operations.

The prices of our steel products generally reflect international market prices for similar products. We adjust prices for our products periodically in response to changes in the import prices of foreign steel, export prices, and supply and demand. See Item 5. Operating and Financial Review and Prospects Overview. The actual sales prices that we obtain for our products are also subject to the specifications, sizes and quantity of the products ordered.

The following table shows Ternium s net sales by reportable operating segment, Steel and Mining, for the years indicated:

	For the year ended December 31,		
In millions of U.S. dollars	**2014**	**2013**	**2012**
Mexico	4,863.9	4,230.1	4,457.3
Southern Region	2,641.5	2,944.7	2,737.4
Other Markets	1,159.3	1,251.2	1,377.2
Total steel products net sales	8,664.8	8,426.0	8,572.0
Other products (1)	35.8	33.9	29.2
Total steel segment net sales	8,700.5	8,459.9	8,601.1
Total mining segment net sales (2)	313.2	386.5	190.7
Intersegment eliminations	(287.6)	(316.4)	(183.8)
Total Net Sales	8,726.1	8,530.0	8,608.1

(1) The item Other products primarily includes pig iron and pre-engineered metal building systems.
(2) For the year ended December 31, 2012, sales from Consorcio Peña Colorada are not included in Total mining segment net sales . Comparative amounts for 2012 show Consorcio Peña Colorada as an investment in non-consolidated companies and its results are included within Equity in (losses) earnings of non-consolidated companies in the consolidated income statement.

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The following table shows, where applicable, Ternium s shipment volumes by reportable operating segment, Steel and Mining, for the years indicated:

In thousands of tons	For the year ended December 31,		
	2014	2013	2012
Mexico	5,632.2	4,984.9	4,952.4
Southern Region	2,510.9	2,633.1	2,444.5
Other Markets	1,238.5	1,370.3	1,371.2
Total steel products sales volumes	9,381.5	8,988.4	8,768.2
Total mining segment sales volumes (1)	3,857.3	4,243.0	1,862.6

(1) For the year ended December 31, 2012, sales from Consorcio Peña Colorada are not included in Total mining segment net sales . Comparative amounts for 2012 show Consorcio Peña Colorada as an investment in non-consolidated companies and its results are included within Equity in (losses) earnings of non-consolidated companies in the consolidated income statement.

Steel

Mexico.

Sales to customers in Mexico accounted for 56.1% of Ternium s net sales of steel products during 2014, 50.2% during 2013 and 52.0% during 2012. See Item 5. Operating and Financial Review and Prospects A. Results of Operations Fiscal Year Ended December 31, 2014 compared to Fiscal Year Ended December 31, 2013 Net Sales and Fiscal Year Ended December 31, 2013 compared to Fiscal Year Ended December 31, 2012 Net Sales.

Most of Ternium s Mexican customers are located near its plants. Flat steel non-coated products are mainly sold in Mexico to construction companies, industrial customers in the automotive, packaging, electric motors and service center industries, as well as distributors. The principal segments in the Mexican coated steel market are construction, automotive, home appliances and manufacturing (air conditioning, lamps and furniture). Ternium serves industrial customers, who require high-quality specifications, as well as commercial customers through service centers and warehouses. Rebar and wire rod markets in Mexico are characterized by a large number of orders of small volume, and competition is largely based on price. The customer base for bar and rod products in Mexico consists primarily of independent dealers and distributors, who in turn retail the products to their customers in the construction industry. Ternium markets its tubular products mainly through Mexican independent distributors, and the balance is sold directly to industrial customers.

Southern Region.

Sales to customers in the Southern Region, which encompasses sales in Argentina, Bolivia, Chile, Paraguay and Uruguay, accounted for 30.5% of Ternium s net sales of steel products during 2014, 34.9% during 2013 and 31.9% during 2012. See Item 5. Operating and Financial Review and Prospects A. Results of Operations Fiscal Year Ended December 31, 2014 compared to Fiscal Year Ended December 31, 2013 Net Sales and Fiscal Year Ended December 31, 2013 compared to Fiscal Year Ended December 31, 2012 Net Sales.

Ternium s sales are oriented toward the construction and agriculture sectors, the automotive industry, the packaging sector (for food, paints, sprays and petrochemicals), the tube and pipe sector (related to liquids and gas transportation and distribution networks), the capital goods sector and the home appliances sector.

The customer base in the Southern Region consists primarily of independent small and medium-sized companies and distributors, which in turn process or retail products to their customers in different market sectors. In addition, Ternium serves large industrial customers, such as customers in the automotive industry, that require customized products that Ternium can produce through its service centers and finishing facilities.

Ternium s principal customers in the region are located near Siderar s production facilities in Argentina. Ternium s net sales in Argentina represent approximately 28.2% of Ternium s total net sales. We also sell a small portion of our production to customers in Bolivia, Chile, Paraguay and Uruguay.

Other Markets.

Sales to customers in other markets, which include mainly shipments to Colombia, the United States and Central America, accounted for 13.4% of Ternium s consolidated net sales of steel products during 2014, 14.9% during 2013 and 16.1% during

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2012. See Item 5. Operating and Financial Review and Prospects A. Results of Operations-Fiscal Year Ended December 31, 2014 compared to Fiscal Year Ended December 31, 2013 Net Sales and Fiscal Year Ended December 31, 2013 compared to Fiscal Year Ended December 31, 2012 Net Sales.

Customers in Colombia are served directly through Ferrasa s facilities and through Ternium Internacional s Bogotá commercial office. Our main markets in Colombia are the construction industry and the energy related sectors. Ternium offers a variety of customized products through its various service centers in the country.

Customers in the United States are served directly through the Shreveport plant and through Ternium Internacional s Houston commercial office. The Gulf Coast and a large portion of the West Coast, in particular, are regions for which our Mexican facilities have distribution advantages. Our main markets in the United States are the construction industry and the energy related sectors.

Customers in Central America are served directly through Ternium Internacional Guatemala s facilities in Guatemala, El Salvador, Nicaragua and Costa Rica. Our main market in Central America is the construction industry. Ternium offers a variety of customized products through its various service and distribution centers in the region.

Mining

Ternium s shipments of iron ore mainly include those made by Las Encinas and 50% of those made by Consorcio Peña Colorada. Comparative amounts for 2012 show Consorcio Peña Colorada as an investment in non-consolidated companies and its results are included within Equity in (losses) earnings of non-consolidated companies in the consolidated income statement. Iron ore shipments are destined mainly for internal consumption within Ternium s Steel segment and surpluses, if any, are destined for the export market. See Item 5. Operating and Financial Review and Prospects A. Results of Operations Fiscal Year Ended December 31, 2014 compared to Fiscal Year Ended December 31, 2013 Net Sales and Fiscal Year Ended December 31, 2013 compared to Fiscal Year Ended December 31, 2012 Net Sales .

Marketing

Steel

Our marketing strategy in our steel segment is to continue increasing higher margin value-added products and services in Ternium s sales mix. We expect to increase Ternium s offerings of value-added products, such as cold-rolled sheets and coated and tailor-made products, and services, such as just-in-time deliveries and inventory management. In order to do so, Ternium will increase processing capacity, will continue to work with its customers to anticipate their needs and develop customized products for particular applications, and will maintain a strategic presence in several steel markets through its network of commercial offices. A principal component of Ternium s marketing strategy is establishing lasting and close relationships with customers. This allows Ternium to provide assistance to its customers in their use of steel products and to obtain downstream information that can be applied to future product development.

Ternium adapts its marketing strategy according to the different regions it serves. Its sales force specializes in different regional requirements, ranging from product specifications to transport logistics.

In order to increase Ternium s participation in regional markets and improve services provided to customers, Ternium manages its exports from countries where it has manufacturing facilities through Ternium Internacional s network of commercial offices. Ternium Internacional operates through strategically located subsidiaries, providing customers with support and services. Ternium Internacional has extensive experience promoting steel products. Its marketing expertise helps Ternium to expand its position in current markets and to develop new ones.

Mexico.

Several local and foreign steel producers direct part of their sales efforts to the Mexican market. Ternium s steel customers in Mexico are in the construction industry, the automotive industry, the energy sector and the home appliances sector, among other industries. In Mexico, we offer customized services through our network of service and distribution centers.

Through our service centers, located in northern and central Mexico, Ternium can cut, paint or roll-form its products to specific client requirements. Customized products include metallic roofing, auto parts and cut-to-length products used in the home appliance and construction industries. Ternium has several commercial offices in the country, which provide services such as logistics, stock management and customer assistance, as well as analysis of businesses opportunities in their respective markets.

Ternium Mexico has a department focused on the development of small- and medium-sized companies in Mexico under a program created by the Techint group for the development of its local customers and suppliers (Propymes). The objective of

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the program is to improve their competitiveness, to increase their exports and to allow them to substitute imports with local products. Approximately 260 companies are part of this program in Mexico, which provides support for industrial, training, and institutional requirements of the participating companies.

Ternium s experienced sales force specializes in the needs of each market sector and focuses on value-added products and services. In this competitive and end-user oriented market, the extensive use of well-known commercial brands allows customers to clearly recognize Ternium s products. Ternium seeks to increase its competitive advantage by providing value-added services, including the technical assistance related to steel use and production, and developing new steel products.

Southern Region.

Ternium s sales force in this region is oriented toward serving the specific needs of different market sectors, such as the construction industry, the automotive industry, the home appliances sector, the packaging sector (for food, paints, sprays and petrochemicals), the agricultural equipment and capital goods sector, the tube and pipe sector (related to liquids and gas transportation and distribution), and steel processors.

Through Siderar s service centers in Argentina, Ternium can cut, paint or roll-form its products to specific client requirements. Customized products include metallic roofing, auto parts, steel for agricultural machinery, different types of tin used to produce sprays and food containers and cut-to-length products used in the home appliance and construction industries.

Ternium has commercial offices in Argentina and Uruguay. These offices provide services such as market development, analysis of businesses opportunities, and customer support in their respective countries. Propymes was implemented in Argentina in 2002, with the objective of promoting the local industry. Approximately 680 companies are part of this program, which provides support for industrial, training, commercial, financial and institutional requirements of the participating companies.

Other Markets.

Ternium s steel customers in Other Markets are mainly in the construction and energy-related industries in Colombia, the United States and Central America. Several steel producers participate in these markets. In Colombia and Central America, we offer customized services through our network of service and distribution centers.

Through Ternium s facilities and service centers located in Colombia, Costa Rica, El Salvador, Guatemala, Nicaragua and southern United States, Ternium can cut, paint or roll-form its products to specific client requirements mainly in the construction industry.

Ternium has commercial offices in Colombia, Houston, Costa Rica, Ecuador, El Salvador, Guatemala, Nicaragua and Panama. These offices provide services that enable Ternium to offer differentiated services in their respective countries.

A small share of Ternium s shipments is destined for steel markets outside the Americas. Sales to Europe, Asia and Africa are carried out mainly through Ternium Internacional s office in Spain. Ternium Internacional is focused on trading activities, including the development of commercial and marketing activities.

Mining

Ternium s mining activities are mainly aimed at securing the supply of iron ore for our steel-making facilities in Mexico. Surplus production of iron ore, if any, is commercialized to partially hedge the iron ore procurement requirements of Ternium s facilities in Argentina. We export iron ore through the Manzanillo port that is located on Mexico s Pacific coast, mainly to customers in the Chinese iron ore market.

Competition

Steel

The steel industry operates predominantly on a regional basis, with large industry participants selling the bulk of their steel production in their home countries or regions, where they have natural advantages and are able to more effectively market value-added products and provide additional customized services. Despite the limitations associated with transportation costs, as well as the restrictive effects of protective tariffs and other trade restrictions, international trade of steel has increased in the last decade with production shifting towards low-cost production regions. In addition, since 2002, several large steel manufacturers have merged with each other or acquired steel companies in other parts of the

world. This wave of consolidation has resulted in a number of large, global producers with significant operations in several regions and/or continents, contributing to the increasing globalization of the steel industry. Considered as a whole, however, the steel industry still remains considerably fragmented, compared with market conditions characterizing certain of our suppliers and customers, e.g. iron ore suppliers and the automotive industry.

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Steel consumption has historically been centered in developed economies, such as the United States, Western Europe and Japan. However, in the last decade steel consumption in Asia, and in particular China, has increased significantly.

There has been a trend in the last decade toward steel industry consolidation among Ternium s competitors. Below is a summary of the most significant transactions:

June 2006: Mittal Steel and Arcelor merge to create ArcelorMittal, the world s largest steel company.

March 2007: Votorantim acquires Colombia s Aceria Paz del Rio.

April 2007: Tata Steel completes the acquisition of Corus.

July 2007: Gerdau acquires Chaparral Steel.

August 2007: US Steel acquires Stelco.

March 2008 to May 2008: Severstal acquires Sparrows Point, WCI Steel and Esmark (subsequently, during 2011, it divests Sparrows Point, Warren and Wheeling).

October 2012: Nippon Steel and Sumitomo merge to form NSSMC, the world s second largest steel company.

February 2014: ArcelorMittal and NSSMC acquires ThyssenKrupp Steel USA, a steel processor based in Alabama, through a 50/50 joint venture.

September 2014: AK Steel Corporation and Steel Dynamics Incorporated acquired OAO Severstal s U.S. Dearborn and Columbus operations, respectively.

Despite this trend, the global steel market remains highly fragmented. In 2013, the five largest steel producers, ArcelorMittal, NSSMC, Hebei Group, Baosteel Group and Wuhan Steel Group, accounted for 17% of total worldwide steel production, compared to 15% for the five largest steel producers in 2000.

Steel prices in general have exhibited significant volatility in the last decade. From 2000 to 2002, the industry, especially in North America, experienced fluctuating capacity utilization, low demand growth levels and other adverse conditions, which led to depressed steel prices, adversely impacting many steel producers profitability. Since 2003 steel prices strengthened worldwide, due to higher economic growth in most regions, particularly China and other developing countries, as well as higher raw material prices (for iron ore, ferroalloys and energy). During the first quarter of 2008, steel prices went up significantly due to higher demand for steel products and higher input costs resulting from constraints in the availability of raw materials. However, this trend reversed beginning in the second half of 2008 due to a global economic downturn, with prices and costs declining steeply. Since 2009, a number of events have contributed to continuously volatile steel price cycles, such as spikes and depressions in raw material prices, new steelmaking capacity additions (at a pace higher than steel demand growth), the idling and restart of steelmaking capacity, adverse economic conditions in Europe and a slowdown in China s economic growth.

Mexico.

Ternium competes in the Mexican steel market with domestic and international steel producers. According to Canacero, the Mexican chamber of the iron and steel industry, imports of hot-rolled, cold-rolled and galvanized steel products into Mexico accounted for approximately 39%, 38% and 40% of the Mexican market for those products in 2014, 2013 and 2012, respectively, as steel consumption in Mexico is higher than the installed steel capacity in the country.

Our largest Mexican competitor in the flat products market is AHMSA, an integrated steel producer located in Monclova, Coahuila, which produces a wide variety of steel products. AHMSA focuses on low value added products such as plate and commercial quality hot-rolled and cold-rolled coils. Other significant competitors with facilities in the country are Lámina y Placa Comercial S.A. de C.V. (Grupo Villacero), a producer of galvanized coils and a distributor of steel products, and POSCO, a Korean steel company with steel galvanizing facilities in Altamira, Tamaulipas.

In the rebar market, Ternium s largest competitor is ArcelorMittal. To a lesser extent, Ternium also faces competition from Aceros San Luis and Deacero. In the low-carbon wire rod market, Ternium s main competitors are Deacero, ArcelorMittal and, to a lesser extent, Talleres y Aceros and Aceros San Luis.

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In the small diameter welded pipe market, Ternium s main competitors are Tubería Laguna, Maquilacero and imports. Orders in this market are usually small and cover a wide range of product specifications.

Southern Region.

Ternium s most significant market in the Southern Region is Argentina. Siderar is the main producer of flat rolled steel products in Argentina. Its main competition in the Argentine flat steel market are imports, particularly from Brazil. The main Brazilian producers of flat steel value-added products are Usiminas, Companhia Siderúrgica Nacional and ArcelorMittal. Ternium maintains a leading position in the flat steel markets of Paraguay and Uruguay and is present in the flat steel markets of Chile and Bolivia, where the location of Ternium s facilities in neighboring Argentina provides a logistical advantage to supply these markets *vis a vis* its foreign competitors.

Other Markets.

In addition to its sales in Mexico and the Southern Region, Ternium sells its products in other markets, of which the most significant are Colombia, the southern United States and Central America.

Our subsidiary Ferrasa is the main flat steel processor in Colombia and is also a long steel producer. Its main competitors in the Colombian steel market are Acerías Paz del Río, Gerdau Diaco, Acerías de Colombia, Siderúrgica Nacional and Siderúrgica del Occidente, and it also faces competition from imports.

Ternium has a very small participation in the U.S. steel market in comparison with U.S. domestic steel manufacturers and importers. It successfully competes in the Gulf Coast and a large portion of the West Coast where its facilities have logistical advantages.

Ternium maintains a leading position in the coated flat steel market of Central America, benefiting from the logistical advantages of its facilities located in Costa Rica, El Salvador, Guatemala, Nicaragua and Mexico.

In addition, Ternium keeps an active presence in other regions in the Americas, including Ecuador and Peru, although it usually faces strong competition in these markets from steel producers located in Brazil.

Mining

The majority of iron ore supplies to the international seaborne market come from Australia and Brazil, from the major global miners Vale, Rio Tinto and BHP Billiton, as well as from iron ore junior companies in these countries. In Mexico, the main iron ore producers are AHMSA, ArcelorMittal and Ternium, which are, at the same time, major steel-making companies and iron ore consumers. Only a small portion of the iron ore obtained by these three players is made available for sale in the Mexican or export market. There are also other small iron ore mining concessionaries that sell their production mostly to local steel-making operations.

Capital Expenditure Program

The main objectives of Ternium s current capital expenditure program are to:

- increase steel production and processing capacity;
- increase product range;
- reduce production costs;
- replace equipment;

improve product quality, equipment reliability and productivity;

comply with applicable environmental standards; and

provide enhanced customer services.

Capital expenditures in Ternium s facilities during 2014 amounted to USD443 million. The current status of the most significant projects is described below.

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Steel

Mexico. During 2014, Ternium s capital expenditures in the country amounted to USD201 million and were mostly related to the following projects:

Completion of the Pesquería project. In 2014, Ternium completed the construction of additional finishing lines at the cold-rolling facilities, consisting mainly in an electrolytic cleaning line, batch annealing furnaces, a temper mill and a tension-leveling line.

Environmental and safety projects. During 2014, Ternium made progress on several projects aimed at further improving environmental and safety conditions throughout our main facilities, particularly at the Guerrero unit in Nuevo León, Mexico. Advanced projects at the Guerrero unit included a technological upgrade of the iron ore feeding systems of the direct reduction modules, expected to be completed during the second half of 2015, aiming at improving the facilities process control conditions. Other main ongoing projects include a new hydrochloric acid regeneration plant that stores and process acid consumed by the pickling lines of the cold-rolling mills; the construction of a briquetting plant to process metallic fines produced in the direct reduction modules; the installation of a secondary de-dusting system in the steel shop to enhance control over emissions; and several improvements in the processing and handling of steel slag in the steel shop. These projects, expected to be concluded during the second half of 2016, aim at further improving environmental conditions throughout the unit. Furthermore, the program includes complementary investments such as the replacement of pickling tanks, improvements in the treatment of sludge and raw material storage yards, and safety improvements in vehicular traffic. In addition, at the Puebla unit in Puebla, Mexico, Ternium has started the replacement of obsolete equipment in the direct reduced iron plant in order to improve safety and operational reliability.

Expansion of service center processing capacity. The project involves the installation of eight slitting lines and two cut-to-length lines. The installation of the first slitting line was completed during 2013 in the Churubusco unit. During 2014 Ternium began the construction of a second slitting line in the same unit. Upon completion of this project, Ternium s annual processing capacity of slitted and cut-to-length steel products is expected to increase by approximately 900,000 tons.

Expansion of slab processing capacity. During 2014, Ternium started the first stage of a project aimed at upgrading the Churubusco unit s hot rolling mill, in order to increase its production capacity and to expand its product range with high-quality steel products for the automotive industry. Once the first stage is completed, including changes in the sheet cooling system, repairs at one furnace, installation of a new furnace and logistical improvements, the annual processing capacity of the mill is expected to increase by 230,000 tons.

Southern Region. During 2014, Ternium s capital expenditures in Argentina amounted to USD189 million. Ternium carried out a capital expenditure plan to maintain its equipment s operating performance, continued with some projects and started new ones, the most significant of which involved Siderar s San Nicolás unit, as follows:

Expansion of coke production capacity. During 2014 Siderar made progress in the revamping and expansion of the coke by-products processing plant, and performed repair works in the coking batteries. The revamping and expansion of the coke by-products processing plant is expected to be completed during the first half of 2015. Upon completion of this project, Siderar s coke annual production capacity is expected to increase by approximately 250,000 tons to reach 1.3 million tons.

Expansion, improvements and repairs in the steel shop. Siderar completed the construction of a second slab continuous caster during the first quarter of 2014, now in the ramp up stage. Once fully ramped-up, it is expected to enable an increase in the San Nicolas unit s annual slab production capacity of approximately half a million tons, to a total of approximately 3.3 million tons. In addition, Siderar made progress in the expansion of the industrial area, the incorporation and replacement of equipment, and improvement works to the slab continuous caster #1.

Expansion of hot rolling mill capacity. In 2014 Siderar made progress in the revamping of its hot rolling mill; upon completion of this project, which includes the replacement of the main motors and the construction of a new electric power substation, hot-rolled annual production capacity is expected to increase by approximately 400,000 tons to reach 3.3 million tons.

Extension of blast furnace #1 production campaign. Upon completion of this project launched during 2014, Siderar expects to achieve several improvements in safety and environmental conditions, and to extend the blast furnace production campaign to 2018.

Expansion of service center processing capacity. During 2014, Siderar made progress in the installation of a new profile line in the Canning unit, and launched the installation of a new profile line and a slitting line in the Haedo unit, aimed at expanding customized annual production capacity by approximately 150,000 tons, to reach 2.2 million tons.

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In addition, Air Liquide Argentina S.A. (ALASA), made progress in the installation of a new oxygen plant located in our San Nicolás unit. This facility, which is owned and will be operated by ALASA, will increase current supply of gases to fulfill our steel shop projected requirements.

Other Markets. During 2014, Ternium s capital expenditures in facilities located in countries other than Mexico or Argentina amounted to USD8 million, and mainly included projects related to the replacement of equipment, product quality and equipment reliability improvements, and overall processing capacity increases.

Mining

During 2014, Ternium s capital expenditures in its mining segment were USD45 million. Las Encinas capital expenditures amounted to USD13 million in the year, and mainly included projects related to the maintenance and upgrade of equipment, and exploration activities. Ternium s share in Consorcio Peña Colorada s capital expenditures amounted to USD33 million, mainly related to maintenance and upgrade of equipment, and exploration activities. During 2014, Consorcio Peña Colorada s shareholders approved the investments required to increase the processing capacity of its crushing, grinding and concentration facilities to raise iron ore concentrate production levels back to 4.5 million tons per year. The project is expected to be completed in 2016.

2015 Capital Expenditures

Ternium s capital expenditures for 2015 are expected to range between USD500 and USD600 million. The main capital expenditure projects will relate to the following:

- Projects aimed at further improving environmental and safety conditions throughout our main facilities, particularly at the Guerrero unit in Nuevo León, Mexico;
- The enhancement and expansion of the capacity of the Churubusco and San Nicolás units hot rolling mills;
- The expansion of service center capacity in Mexico and Argentina of slitted, cut-to-length and profile processing facilities;
- The completion of the expansion of coke production capacity at the San Nicolás unit in Buenos Aires, Argentina; and
- The project, aimed at increasing the processing capacity of Consorcio Peña Colorada iron ore crushing, grinding and concentration facilities.

Raw Materials, Slabs, Energy and Other Inputs

The main inputs for Ternium s steelmaking facilities in Mexico are slabs, iron ore, steel scrap, electricity and natural gas; the main inputs for Siderar s integrated steel facilities in Argentina are iron ore and coal; and the main inputs for Ternium s facilities in Colombia are steel products, steel scrap and electricity. Below is a more complete description of the supply conditions for raw materials, slabs, energy and other inputs at Ternium s facilities in these countries. For a description of some of the risks associated with Ternium s access to raw materials, energy and other inputs, see Item 3. Key Information D. Risk Factors Risks Relating to the Steel Industry Price fluctuations or shortages in the supply of raw materials, slabs and energy could adversely affect Ternium s profitability.

Mexico

In Mexico, Ternium s manufacturing of finished steel products relies on the supply of crude steel from its steelmaking facilities, which are based on the mini-mill technology, and on the purchase of crude steel slabs from third parties. The mini-mill technology melts a variable combination of DRI and steel scrap to produce thin slabs, billets and round bars. Ternium s production process in Mexico requires extensive use of natural gas and electricity. Third-party slabs are the largest component of production costs; iron ore, scrap, electricity and natural gas costs are also significant.

Slabs. Ternium s Mexican subsidiaries have some non-integrated facilities that consume large quantities of slabs purchased from third-party steel suppliers. Currently, slabs are purchased both in Mexico (primarily from ArcelorMittal) and in the international markets. In addition, in the past Siderar supplied slabs from time to time to our Mexican operations, and upon completion of the new continuous caster in Siderar s San Nicolás unit, it will be able to supply slabs to our Mexican facilities. Slab consumption varies significantly from year to year in accordance with market conditions. Our Mexican subsidiaries purchased 3.3 million, 2.5 million and 2.8 million tons of slabs in 2014, 2013 and 2012, respectively. Slab purchase prices are market-based.

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Iron ore. As described under Production Facilities and Processes Iron ore mining facilities above, Ternium s subsidiaries own interests in two mining companies in Mexico: 100% of the equity of Las Encinas and a 50% equity stake in Consorcio Peña Colorada. In 2014, Ternium s Mexican facilities sourced 100% of their iron ore requirements from these two companies. Under our arrangement with Consorcio Peña Colorada, effective January 1, 2013, we are committed to off-take 50% of the annual production of the Peña Colorada mine. In 2014, approximately 94% of the iron ore production available to Ternium went to our own direct reduction plants and the remaining 6% was sold in the market to third parties. All of our iron ore shipments during 2014 were made on a spot basis. On average, we consume approximately 1.2 tons of iron ore to produce one ton of crude steel at our mini-mill facilities in Mexico.

Steel scrap. In 2014, approximately 79% of Ternium s scrap requirements was obtained in the Mexican market through its own steel scrap collecting and processing operations and approximately 21% was purchased in the United States. Scrap is purchased at market prices. On average, we consume approximately 0.4 tons of scrap to produce one ton of crude steel at our mini-mill facilities in Mexico.

Electricity. Electric arc furnaces consume large quantities of electricity. During 2014, 64% of Ternium Mexico s total consumption was supplied by the CFE, Mexico s state-owned electricity company. The remainder was mostly purchased under a supply agreement with Tractebel Energía de Monterrey, S. de R.L. de C.V. and a supply contract with Iberdrola Energía Monterrey, S.A. de C.V. (Iberdrola), with electricity purchases under these contracts being made at prices linked to certain energy production input costs and at market prices less certain agreed discounts, respectively. For more information on Ternium s commitments with Iberdrola and Tractebel, see note 24(ii) (e) and (f) to our consolidated financial statements included elsewhere in this annual report. On average, we consume approximately 0.7MWH of electricity to produce one ton of crude steel at our mini-mill facilities in Mexico.

In addition, Ternium is participating in Techgen S.A. de C.V. (Techgen), a joint venture company that is building a power plant in the Pesquería area of the State of Nuevo León, Mexico. The plant is expected to be operational in the fourth quarter of 2016. Ternium agreed to enter into power supply and transportation agreements with Techgen, pursuant to which Ternium will contract 78% of Techgen s power capacity of approximately 900 megawatts. As a result, Ternium will secure the supply of electricity to its facilities in Mexico and is expected to improve its cost competitiveness. For more information on the Techgen investment, see Item 4. Organizational Structure Other investments Techgen .

Natural gas. Natural gas is mainly used as a reducing agent for the production of DRI and for the reheating of slabs and billets before the hot-rolling process. In Mexico, Ternium purchases natural gas from Pemex, the Mexican state-owned oil and gas company that is Mexico s sole producer of natural gas, and from three distributors: Gas Industrial de Monterrey S.A. de C.V., or GIMSA, Compañía Mexicana de Gas S.A. de C.V., or CMG, and Gas Natural Mexico S.A. de C.V., or GNM. Natural gas prices for Ternium Mexico are determined pursuant to the methodology approved by the Comisión Reguladora de Energía or Energy Regulatory Commission, or CRE. Those prices are related to the market prices of natural gas in south Texas, plus transportation, distribution and service costs depending on the location of the delivery points in Mexico. In addition, effective April 1, 2013, extraordinary charges were authorized by CRE to account for the incremental transportation costs derived from higher liquefied natural gas imports into Mexico. Such extraordinary charges will remain in place for a maximum period of three years and could be eliminated in a shorter period of time if CRE declares that the current bottlenecks in Mexico s natural gas grid transportation capacity are resolved. The extraordinary charge set for March 2015 was USD0.2863 per million btu. On average, we consume approximately 9.1 million btu of natural gas to produce one ton of crude steel at our mini-mill facilities in Mexico.

For additional information regarding inputs affecting our operations in Mexico, see Item 3. Key Information D. Risk Factors Risks Relating to the Countries in Which We Operate Mexico and Risks Relating to our Mining Activities .

Argentina

In Argentina, Siderar produces crude steel through the use of blast furnace technology. The principal raw materials used to produce steel are iron ore and coal. The manufacturing process also requires significant quantities of electricity and natural gas.

Iron ore. Iron ore is purchased under long-term agreements from suppliers in neighboring Brazil. Prices under these contracts are determined in accordance with market conditions. Our main suppliers of iron ore, in the form of lumps, pellets and sinter feed fines, are Vale S.A. and Samarco (a joint venture between Vale and BHP Billiton). Our geographic location provides favorable access to high quality iron ore lump and fines produced in Brazil s iron ore mines in the Pantanal Region (Mato Grosso do Sul state), where we are in the process of developing additional iron ore suppliers, resulting in a cost advantage for Siderar. In addition, Siderar s steelmaking facility in Argentina receives iron ore pellets and fines from ports located on Brazil s ocean coast. We consume approximately 1.3 tons of iron ore to produce one ton of crude steel in Argentina.

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Coking coal and related materials. Siderar obtains its coke through the distillation of coking coal and petroleum coke in its coke ovens. Siderar requires different types of coal to produce coke. Coking coal is purchased under short-term contracts and on the spot market from several major international suppliers based mainly in Australia and the United States. Prices under contracts are determined in accordance with market conditions. Petroleum coke is sourced domestically from oil companies such as Exxon Mobil and YPF. The volume purchased from each supplier mainly depends on the technical quality requirements of the blast furnace operations. We consume approximately 0.5 tons of a mixture of coking coal and petroleum coke to produce one ton of crude steel in Argentina.

Electricity. Siderar consumes large quantities of electricity for its manufacturing activities, particularly in its San Nicolás and Ensenada facilities. Most of the electricity required by our San Nicolás facility is self-generated on site by a wholly-owned thermoelectric plant with an installed power capacity of 110 MW. This thermoelectric plant uses steam primarily generated from by-product gases obtained in the steelmaking process (blast furnace and coke oven gases) and also steam purchased under a long-term steam sales agreement, from a power plant located within the San Nicolás facility owned by Siderca S.A.I.C., a subsidiary of Tenaris. Additional fuel requirements for steam production are covered with natural gas purchased from different market vendors, and/or fuel oil bought at market prices. Siderar covers electricity shortfalls or sells surpluses, as the case may be, at spot prices in the wholesale market. Over the course of the last several years, demand for electricity in Argentina increased substantially, outpacing supply and resulting in shortages of electricity to residential and industrial users during periods of high demand. During these periods, Siderar s energy purchases to cover its energy shortfalls suffered restrictions. We consume approximately 0.1 MWH of electricity to produce one ton of crude steel in Argentina.

Natural gas. Siderar also consumes substantial volumes of natural gas, particularly to operate its blast furnace and power generation facilities in San Nicolás. Siderar purchases natural gas at market prices mainly from Pan American Energy, Pluspetrol, Pampa Energía, Tecpetrol, a company controlled by San Faustin, and natural gas traders, including MetroEnergía, Albanesi, Energy Traders, Gas Patagonia, Alternativas Energéticas and Energy Consulting Services S.A., a company in which San Faustin holds significant but non-controlling interest. In recent years, natural gas demand in Argentina increased significantly, outpacing supply and thus, as is the case with electricity, the provision of natural gas to industrial users (including Siderar) suffered restrictions during periods of high demand.

For its San Nicolás facility, Siderar has separate transportation and distribution agreements with Transportadora de Gas del Norte S.A., or TGN, and Litoral Gas, companies in which San Faustin holds significant but non-controlling interests. Siderar s firm transportation contracts with TGN expire in April 2028, whereas its distribution agreement with Litoral Gas expires in December 2015. For its other facilities Siderar s transportation and distribution needs are covered by the corresponding regional distributors Camuzzi Gas Pampeana S.A., Gas Natural Ban S.A. and Metrogas S.A. We consume approximately 1.7 million btu of purchased natural gas to produce one ton of crude steel in Argentina.

Other inputs. Siderar has on-site oxygen, nitrogen and argon separation plants in order to extract these gases for use in the steelmaking process. Siderar s separation plants are being managed by ALASA. Siderar is party to a long-term contract with ALASA for the supply of oxygen, nitrogen and argon. For further information on the contract with ALASA, see note 24 (ii) (d) to our consolidated financial statements included elsewhere in this annual report.

Colombia

In Colombia, Ternium s manufacturing of finished steel products relies on two sources: (a) the production of steel in its steelmaking facilities, which are based on the electric arc furnace (EAF) technology; and (b) on the purchase of steel products, both from our overseas subsidiaries and from third parties. The EAF technology melts steel scrap to produce steel billets, which are then rolled into various long products. Ternium s production process requires extensive use of electricity. Steel products are the largest component of production costs; scrap and electricity costs are also significant.

Steel products. Ternium s operations in Colombia include non-integrated facilities that process steel supplied by Ternium s overseas subsidiaries and steel purchased from third-party suppliers procured in the domestic and international markets. We purchased from third parties approximately 374,000 tons of steel products in 2014, 288,000 tons of steel products in 2013 and 345,000 tons of steel products in 2012.

Steel scrap. Scrap is the main raw material for producing steel in our steelmaking facilities in Colombia. Ternium sources 100% of its steel scrap needs from the local scrap market. We consume approximately 1.1 tons of scrap to produce one ton of crude steel in Colombia.

Electricity. Manizales is our main electricity consuming unit in Colombia, mainly due to its electric arc furnace-based steel production operations. Manizales purchases electricity from ISAGEN S.A. E.S.P., a Colombian power company, under a three-year supply contract expiring in April 2016. 70% of the electricity price is based on a fixed rate adjusted with the wholesale price index and 30% is based on prevailing prices. We consume approximately 0.7 MWH of electricity to produce one ton of crude steel in Colombia.

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Product Quality Standards

Ternium develops its products and services with a philosophy of continuous improvement and seeks to excel in its internal quality control of its products and processes. Ternium s products are manufactured in accordance with proprietary standards and the requirements of customers, and within the specifications of recognized international standardization entities including the International Organization for Standardization, or ISO, the American Society for Testing and Materials, or ASTM, the European Standards, or EN, the Japanese Industrial Standards, or JIS, the Society of Automotive Engineers, or SAE, and the standards of the American Petroleum Institute, or API. Ternium also has product certifications based on international or local standards depending on the markets served.

Ternium established and implemented a Quality Management System, or QMS, and continuously improves its effectiveness in compliance with the requirements of the applicable ISO 9001:2008 and ISO / TS 16949:2009, intended for production of automotive supplies, and other specific requirements. Ternium s QMS operates with aligned strategies, objectives and criteria throughout Ternium s subsidiaries. To keep its ISO multisite certification, the QMS is audited annually by Lloyd s Register Quality Assurance.

Ternium Mexico s and Siderar s metallurgical testing laboratories are accredited for the performance of various technical tests in accordance with ISO/IEC 17025:2005 General Requirements for the Competence of Testing and Calibration Laboratories or equivalent standards.

Research and Development; Product Development

Product research and development activities at Ternium are conducted through a central Product Development Department in coordination with local teams that operate in several of our facilities. Applied research efforts are carried out in-house and in conjunction with universities and research centers, as well as through participation in international consortia. Ternium also develops new products and processes in cooperation with its industrial customers, prioritizing an early involvement scheme.

In 2014, Ternium s product research and development activities focused mainly on the development of high-end flat steel products to gain market share in the automotive, home appliance, electric motors and oil and gas sectors. To this end, during the year Ternium furthered the development, certification and production of advanced steel with high quality standards from its industrial center in Pesquería, currently the most modern of its kind in Latin America, with the aim of increasing its share of the Mexican automotive steel market and increasing the value added to its product sales mix.

In addition, Ternium is in the process of developing a new range of interstitial-free ultra-low carbon steel grades with high silicon content and very low core loss for automotive, home appliance and electric motor applications, in order to consolidate Ternium s competitiveness in certain industrial steel market segments in Mexico and Argentina. Some of these new developments were made possible by the commissioning of a new steel vacuum degassing station and a new continuous caster in Argentina.

During 2014, Ternium continued the development and certification of products and manufacturing processes with its customers in the automotive industry in Mexico and Argentina. These efforts were aimed at increasing Ternium s share in the high-end steel market, especially for products involving the utilization of its new Pesquería facilities. In addition, Ternium developed new manufacturing processes for steels with complex micro-structures, which are suitable for rugged performance such as in bodyworks and rims, as well as new manufacturing processes for steel with special qualities suited for hydroforming and steel with special qualities suited for hot-stamping, the latter of which is currently at the approval stage. These new developments were also made possible by the commissioning of the new facilities in Argentina.

For the oil and gas industry, during 2014, Ternium participated in the development of metallurgic studies for certain steel grades. This project was aimed at improving Ternium s product portfolio for tube and pipe manufacturers serving that industry. The project is being conducted in conjunction with the Tenaris Research Center and the University of Pittsburgh, and entails the evaluation and assessment of certain steel grades intended for use in sour service conditions. In addition, during 2014, Ternium launched the development of hot-rolled steel products suitable for the manufacture of high-pressure welded pipes, given the new expected demand for these products stemming from the extension of natural gas pipelines in Mexico and Argentina.

In order to increase its participation in the electrical steel markets in Mexico, during 2014 Ternium launched the development of ultra-low carbon steel grades with high silicon content, which enhances the magnetic properties of the steel. Early tests showed that the new products yielded significant improvements in terms of electric motor energy efficiency. The project has advanced to the customer certification stage.

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For the home appliance industry, Ternium developed an early involvement strategy with the main home appliance manufacturers in Mexico and Argentina, a strategy that has proved decisive in gaining market share in this segment. Under these arrangements, Ternium developed customized products and services, and provided technical assistance related to the processes of shaping the new product parts.

During the year, Siderar continued to provide technical assistance to customers and to foster new technologies that enable the introduction of higher quality steels aimed at the improvement of the performance and the competitiveness of its products. Under this program, Siderar, together with can manufacturers, developed new processes that helped them increase market share through the introduction of new varnished products.

Ternium s medium-term product research and development plans are based on a continuing assessment of steel product performance and the emerging requirements of the industry, carried out in close collaboration with leading steel customers and institutions. Based on customer needs, we improve, adapt and create new applications and define future technology requirements at our facilities.

During 2014, Ternium continued participating in leading research and development projects through international consortia and together with universities and research centers to further expand the required know-how for the development of new products. Consortia projects included the development of high-strength steel for applications in the pipe manufacturing and automotive industries, in collaboration with the Colorado School of Mines, and the development of new coating technologies for applications in the automotive industry and of improvements in the galvanizing bath to optimize processes, in collaboration with the International Zinc Association.

Projects jointly conducted with university and research centers included basic research on the mechanical and chemical performance of steel and steel coatings in collaboration with the Mexican *Universidad Autónoma de Nuevo León* (Nuevo León Autonomous University), research on the performance of hot-stamped steel coatings and electric steel efficiency in collaboration with the Mexican *Centro de Investigación en Materiales Avanzados* (Advanced Materials Research Center), and the development of high-strength steel casting and hot rolling processing in collaboration with *Instituto Argentino de Siderurgia* (Argentine Steel Institute).

During 2015, Ternium will focus on the optimization of its current product range design and on the development of new advanced hot-rolled steel products such as dual phase, complex phase and martensitic steel products. These new developments will be possible as a result of the enhancement project for the hot rolling mill of our Monterrey unit, and are aimed at gaining share in Mexico s automotive steel market segment.

During the year, Ternium will consolidate ongoing developments, such as the above mentioned certification of new products and processes related to its Pesquería facilities and its new steel vacuum degassing station and continuous caster. In addition, Siderar is expected to complete the development of special steel grades to fulfill the requirements of Mexican industrial customers. Ternium also expects to complete, in 2015, the above mentioned development of metallurgic studies for oil and gas steel grades, aimed at improving its product portfolio for tube and pipe manufacturers.

Regulations

Environmental Regulation

Ternium s operations (including mining activities in Mexico) are subject to a broad range of environmental laws, regulations, permit requirements and decrees relating to the protection of human health and the environment, including laws and regulations relating to land use; air emissions; wastewater treatment and discharges; the use, handling and disposal of hazardous or toxic materials and the handling and disposal of solid wastes. Laws and regulations protecting the environment have become increasingly complex and more stringent and expensive to implement in recent years. International environmental requirements may vary. Ternium s corporate environmental policy commits each of its business units to comply with all applicable environmental laws and regulations and aims to achieve the highest standards of environmental performance as a basis to enhance sustainable development. Compliance with environmental laws and regulations, and monitoring regulatory changes, is addressed primarily at the regional level.

Ternium reports to the World Steel Association eleven sustainability indicators, among which carbon dioxide emissions data is being reported on an annual basis as part of the association s initiative to collect emissions data from member companies. We support the steel industry s ongoing effort to develop innovative solutions to reduce greenhouse gas (GHG) emissions over the life cycle of steel products. According to the Intergovernmental Panel on Climate Change (IPCC), the steel industry accounts for approximately 6% to 7% of total world GHG emissions. Our steel production facilities in Mexico have achieved GHG-specific emission levels that are close to the theoretical minimum. In Argentina, Siderar s GHG-specific emission levels are close to the industry average for blast furnace technology.

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The ultimate impact of complying with existing laws and regulations is not always clearly known or determinable since regulations under some of these laws have not yet been promulgated or are undergoing revision. In addition, new laws and regulations could emerge as a result of ongoing negotiations for new commitments on GHG emissions related to the second phase of Kyoto Protocol, which expires in 2020. The expenditures necessary to remain in compliance with these laws and regulations, including site or other remediation costs, or costs incurred from potential environmental liabilities, could have a material adverse effect on our financial condition and profitability. While we incur and will continue to incur expenditures to comply with applicable laws and regulations, there always remains a risk that environmental incidents or accidents may occur that may negatively affect our reputation or our operations.

Ternium has not been subject to any material penalty for any environmental violations in 2014, and we are not aware of any current material legal or administrative proceedings pending against Ternium with respect to environmental matters which could have an adverse material impact on Ternium s financial condition or results of operations.

Mining regulations in Mexico

Because our operations in Mexico include mining, we are also subject to Mexican regulations relating to mining and mining concessions. Under Mexican law, mineral resources belong to the Mexican nation and a concession from the Mexican federal government is required to explore for or exploit mineral reserves. Pursuant to the Ley Minera, or Mining Law, mining concessions may only be granted to Mexican individuals and to legal entities incorporated under Mexican law. Foreign investors may hold up to 100% of the shares of such entities.

A mining concession allows its holder to perform both exploration works (including identifying mineral deposits and quantifying and evaluating economically minable reserves) and exploitation works (including detaching and extracting mineral products from such deposits). Mining concessions are granted for a 50-year period from the date of their recording in the Public Mining Registry; following the expiration of the initial concession term, the concessions are renewable for an additional 50-year term in accordance with, and subject to, the procedures set forth in the Mining Law.

Mining concessions grant several specified rights to the concessionaire, including:

- the right to dispose freely of mineral products obtained as a result of the exploitation of the concession;
- the right to obtain the expropriation of, or an easement with respect to, the land where the exploration or exploitation will be conducted; and
- the use of water in the mine to facilitate extraction.

In addition, a holder of a mining concession is obligated, among other things, to explore or exploit the relevant concession (including the achievement of minimum investment targets), to pay for any relevant mining rights, to comply with all environmental and safety standards, and to provide information to and permit inspections by the Secretariat of Economy. Mining concessions may be terminated if the obligations of the concessionaire are not satisfied.

A company that holds a concession must be registered with the Public Mining Registry. In addition, mining concessions and permits, assignments, transfers and encumbrances must be recorded with the Public Mining Registry to be enforceable. We believe that our material mining concessions are duly registered in the Public Mining Registry.

For information regarding amendments to the Mining Law and regulations in Mexico, see Item 3. Key Information D. Risk Factors Risks Relating to our Mining Activities Our mining activities depend on Mexican laws and regulations, governmental concessions and on our ability to reach and maintain lease agreements (or other agreements for the use of land) with the owner of the real estate where the mines are located.

Trade regulations

Intense global competition in the steel industry can lead many countries to increase duties or impose restrictions on steel product imports to protect their domestic industries from trades that are not made under market conditions or that are otherwise unfair. Such measures protect domestic producers from increased imports sold at dumped or subsidized prices.

During a period of intense competition in 2001, some regions to which Ternium exports its products, such as the United States and Europe, implemented these measures as well as other general measures known as safeguards. While safeguards were lifted in December 2003, antidumping and countervailing duties remain in place. More recently, a new wave of protective measures has emerged due to increased steel imports from China. The ongoing slowdown of the Chinese economy has resulted in substantial overcapacity and intensified competitive pressures throughout the steel industry worldwide. At the same time, bilateral or regional free trade agreements have liberalized trade among some countries, providing for reduced or zero tariffs for many goods, including steel products.

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The entry into force of various free trade agreements and certain countries imposition of trade remedy measures can and have both benefited and adversely affected Ternium s home markets and export sales of steel products, as described below. See also Item 3. Key Information D. Risk Factors Certain Regulatory Risks and Litigation Risks International trade actions or regulations and trade-related legal proceedings could adversely affect Ternium s sales, revenues and overall business. Relevant free trade agreements and trade remedy measures, by country, are described below:

Mexico.

Imports of steel products to Mexico:

The Mexican government has imposed certain antidumping measures on imports of steel products that are similar to the ones produced by Ternium Mexico. The following antidumping measures are currently in effect:

Hot-rolled products: On March 28, 2000, the Mexican government imposed antidumping duties on the Russian Federation and Ukraine of 30.31% and 46.66%, respectively, on hot-rolled products. On March 25, 2005, the first sunset review was initiated by the Mexican authorities, and on March 17, 2006 a final resolution was issued, extending the antidumping duties for an additional five-year period. On March 16, 2010, a second sunset review was initiated; and on September 8, 2011, the final resolution was published by which new antidumping duties of 21% and 25% were set for Russia and Ukraine, respectively. On July 19, 2013, the Mexican government initiated an anti-circumvention investigation on imports of boron-alloyed hot-rolled products from Russia. On March 21, 2014, Mexico s Secretariat of Economy published the final resolution on the investigation, by which boron-alloyed hot-rolled products from Russia are now subject to a 21% antidumping duty. Furthermore, on September 26, 2014, the Mexican government initiated an antidumping investigation on hot-rolled coils from China, Germany and France. A preliminary determination is expected by June 2015.

Plate in coil: Since June 1996, an antidumping duty of 29.3% on imports from Russia has been imposed. In June 2003, the first sunset review resolution concluded that the application of the antidumping duty should continue. In June 2007, the Secretariat of Economy issued the final resolution of the second sunset review, determining the continuation of the antidumping duties for an additional five-year period. On November 22, 2012, the Secretariat of Economy issued the final resolution of the third sunset review, determining the continuation of the antidumping duties for an additional five-year period. On July 5, 2013, the Mexican government initiated an anti-circumvention investigation on imports of boron-alloyed plate in coil imports from Russia. On February 19, 2014, Mexico s Secretariat of Economy published the final resolution on the investigation, by which boron-alloyed plate in coil imports are now subject to a 29.3% antidumping duty. Such resolution has been appealed and judicial procedures are ongoing in Mexican courts.

Cold-rolled products: In June 1999, Mexico imposed antidumping duties on cold-rolled steel sheets from the Russian Federation and Kazakhstan. On December 12, 2005, as a result of the first sunset review, the Mexican authorities extended the antidumping duties for an additional five-year period until June 2009. On December 28, 2010, following the completion of the second sunset review procedure, the Mexican government published the final resolution setting antidumping duties on cold-rolled steel sheets from the Russian Federation at 15% and from Kazakhstan at 22%. A new sunset review commenced in March, 2015. In addition, on October 1, 2012, the Mexican government initiated a dumping investigation on cold-rolled steel imports from South Korea. On December 26, 2013, Mexico s Secretariat of Economy published a suspension agreement under which Korean exporters, POSCO and Hyundai, voluntarily undertook to limit their cold-rolled products exports to the Mexican market. This agreement suspended the original dumping investigation. Furthermore, on April 24, 2014, the Mexican government initiated an antidumping investigation on cold-rolled products from China and issued a preliminary determination with an affirmative threat of injury on December 8, 2014. No duties were imposed, and a final determination is expected by August 2015.

Reinforcing bars: Since 1995, imports of reinforcing bars from Brazil are currently subject to an antidumping duty of 57.69%. In June 2006, the second sunset review resolution determined the continuation of antidumping duties. On August 9, 2010, a third sunset review was initiated, and on January 12, 2012, the Mexican authority determined the continuation of the 57.69% antidumping duty until August 2015.

Wire rod: Since September 2000, imports of wire rod from Ukraine are subject to an antidumping duty. The initial antidumping margin was 30.52%. In June 2006, the first sunset review resolution determined the continuation of the antidumping duty for five more years. On

September 7, 2010, a second sunset review was initiated, and on March 7, 2012, the Mexican government increased the antidumping duty to 41% until September 2015.

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On February 9, 2010, the Mexican Government issued a decree reducing the import tariffs on several steel product groups. The tariff for finished products was set at 0% starting in 2012 (from 3% in 2011, 5% in 2010 and 7% in 2009). The tariff for semi-finished products was set at 0% starting in 2012 (from 3% in 2011 and 2010, and 5% in 2009) and the tariff for welded pipe products was set in a range from 0% to 5% starting in 2012 (from 7% in 2011 and 2010, and 10% in 2009). Three companies (including Ternium) and an industry related labor union sought an injunction (*acción de amparo*) against these government decisions in early 2012 when the tariffs went to 0%. The legal action taken by the companies was rejected by the courts, but the legal action taken by the labor union had a positive preliminary outcome. As a result, the government reestablished on August 1, 2012, a 3% tariff on some semi-finished, flat, long and pipe and tube steel products. A final decision is expected in the coming months.

Exports of steel products from Mexico:

U.S. authorities have imposed a number of measures on steel import products from Mexico, thereby restricting Ternium s exports to that country. Below is a description of measures currently in effect:

Carbon and alloy steel wire rod: Mexican wire rod exports are subject to an antidumping duty of 17.94% pursuant to an antidumping duty order on carbon and certain alloy steel wire rod. On May 30, 2014, as a result of the most recent sunset review, such duty was extended for five more years, until June 2018.

Pipe and tube: During 2007, U.S. authorities initiated an antidumping investigation of light-walled rectangular pipe and tube, or LWRPT, from, among other countries, Mexico. On June 13, 2008, the authorities made a final determination of sales at less than fair value in the investigation of LWRPT from Mexico and, consequently, imposed antidumping duties. On February 18, 2011, the authorities published the final results of the first administrative review by which Mexican LWRPT exports were subject to an antidumping duty of 6.13% until May 23, 2014, when U.S. authorities made a final affirmative sunset review of 2.40% for Maquilacero S.A. de C.V. and 3.76% for certain other companies subject to the review, including Ternium Mexico.

Welded pipes: Since 1992, pursuant to an antidumping duty order on circular welded non-alloy steel pipe or standard pipe from various countries, including Mexico, standard pipes manufactured by Hylsamex and Grupo Imsa were subject to antidumping duties. In 2007, such measures were extended for five more years. In August 2009, U.S. authorities published the final results of a changed circumstances review, concluding that Ternium Mexico is the successor-in-interest to Hylsamex for purposes of determining antidumping duty liability. In accordance with the latest administrative review, the applicable duty for Ternium Mexico is 48.33%.

Reinforced bars: On November 6, 2014, U.S. authorities made a final determination on reinforced bar imports from Mexico, imposing antidumping duties between 20.58% and 66.70%. The antidumping duty applicable to Ternium s products is 20.58%.

On April 30, 2014, the Colombian government made a final safeguard determination on steel wire rod imports, imposing a duty of 21.29% on imports from all WTO members except Argentina, Chile, Ecuador, Costa Rica, the United States and Canada. See Item 4. Information on the Company B. Business Overview Regulations Trade Regulations Colombia.

Trade agreements:

Mexico has signed trade agreements with several countries or trade blocs aimed at liberalizing trade between them:

NAFTA was signed among Canada, Mexico and the United States and came into effect on January 1, 1994. NAFTA provided for the progressive elimination over a ten-year period of duties on, among other things, steel products traded between or among Mexico, the United States and Canada. As a result, zero tariffs currently apply to steel products traded within NAFTA countries. Accordingly, Ternium has greater access to the U.S. and Canadian markets through Ternium Mexico, but also faces increased competition in Mexico from U.S. and Canadian steel imports. NAFTA provides that NAFTA member companies (including Mexican steel producers such as Ternium Mexico) can challenge trade restrictions imposed by other NAFTA countries before a binational dispute resolution panel.

The Mexican-European Free Trade Agreement, or MEFTA, became effective on July 1, 2000. MEFTA provides for the phase-out and eventual elimination of Mexican and European duties on all industrial goods, including finished steel products. The European Union, or EU, eliminated

all import duties on Mexican industrial goods, including finished steel products, as of January 1, 2003, while Mexico eliminated all import duties on European industrial goods, including finished steel products, as of January 1, 2007. Accordingly, Ternium has increased access to EU markets under MEFTA through Ternium Mexico, but also could face increased competition in Mexico from EU steel imports.

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The Economic Partnership Agreement between Japan and Mexico came into force on April 1, 2015. The new agreement provides for a phase-out and eventual elimination of Mexican and Japanese duties on all industrial goods within a ten-year period. Beginning in April 1, 2015, all duties on steel products were eliminated. Until March 31, 2015, an import duty of 3% was applicable to Japanese steel imports.

In November 2003, Mexico and Argentina signed an Economic Complementation Agreement, or ACE 6, whereby reciprocal tariff preferences were granted. In 2006, Mexico and Argentina modified the ACE 6 Agreement, reducing to zero import duties on imports of certain steel products from the other country. Zero import duties included exports from Mexico to Argentina and from Argentina to Mexico for up to 90,000 tons per year of slabs, 60,000 tons per year of cold rolled coils and 30,000 tons per year of corrosion resistant coils, including hot dip galvanized and pre-painted sheets.

The Mexican government is also a party to trade agreements with Colombia, the European Free Trade Association an intergovernmental organization set up by Liechtenstein, Norway, Iceland and Switzerland Japan, Chile, Bolivia, Nicaragua, Costa Rica and Uruguay, among others. In addition, in 2012, Mexico joined the Trans-Pacific Partnership (TPP) negotiations, an initiative that includes Australia, Brunei Darussalam, Canada, Chile, United States, Malaysia, New Zealand, Peru, Singapore, Japan, and Vietnam. Negotiations under the TPP are expected to conclude during 2015.

Argentina.

Imports of steel products to Argentina:

In the past, the Argentine government imposed various antidumping measures on imports of certain steel products that compete directly with Ternium s sales in Argentina. After several subsequent revisions of such cases, there are currently no measures in place.

Trade agreements:

Argentina has signed free trade agreements with several countries or trade blocs aimed at liberalizing trade between them, including the following:

In early 1991, Argentina entered, together with Brazil, Uruguay and Paraguay, into the Treaty of Asunción, creating the Mercado Común del Sur (Common Market of the South), or Mercosur, a common market organization that aimed to bring about the free movement of goods, capital, services and people among its member states. In 2004, the Mercosur members entered into the Treaty of Ouro Preto, creating a customs union among them. On January 1, 2013, Venezuela became a full member of Mercosur. Over time, Mercosur has eliminated or significantly reduced import duties, tariffs and other trade barriers among member states. Since January 1, 2000, zero tariffs apply to steel products traded among them; however, in the case of Venezuela, steel import tariffs currently range from 0% to 3.8%, and are expected to be zero by 2018.

Applicable steel import tariffs to Mercosur member countries from non-member countries currently range between 2% and 16%. However, every six months, Mercosur members may exempt from tariffs a limited number of products imported from non-member countries. Uruguay has elected to exempt certain steel products, including cold-rolled sheets and galvanized flat steel products. This exemption regime is expected to be in force until December 31, 2017, but has been extended in the past and, if agreed by Mercosur member countries, could again be extended in the future.

In 2004, Mercosur and the Comunidad Andina de Naciones (Andean Community), or CAN, currently including Bolivia, Colombia, Ecuador and Peru, signed a free trade agreement aimed at reducing and eventually eliminating tariffs on steel products traded among member countries. While all tariffs on steel products traded between Argentina and Bolivia and between Argentina and Peru have been eliminated, the elimination of tariffs on steel products traded between Argentina and Ecuador and Argentina and Colombia are subject to a pending agreement on local content specifications. Mercosur entered into a trade agreement with Chile in 2005. As a result, all tariffs on steel products traded between Mercosur and Chile have been eliminated. In addition, Mercosur is negotiating a free trade agreement with the European Union.

In November 1993, Argentina and Mexico signed the ACE 6. See Item 4. Information on the Company B. Business Overview Regulations Trade Regulations Mexico.

Colombia.

Imports of steel products to Colombia:

The Colombian government has imposed certain antidumping measures on imports of steel products. The following antidumping measures are currently in effect:

Rebars and low-carbon wire rods: On October 8, 2013, Colombia imposed provisional safeguard duties of 25.60% on imports of rebars and of 21.29% on low-carbon wire rods from countries belonging to the World Trade Organization (WTO), with the exception of Cuba, Ecuador, the United States and Venezuela. The provisional safeguard measure on rebars was lifted on March 31, 2014. On April 30, 2014, Colombia imposed final safeguard duties of 21.29% on imports of low-carbon wire rod from WTO members with the exception of Argentina, Chile, Ecuador, Costa Rica, the United States and Canada, to remain in force for a period of one year. Under the conditions of this safeguard measure, a total of 174,452 tons of the subject products are exempted from these safeguard duties.

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Galvanized flat steel products: On March 5, 2014, Colombia imposed final antidumping measures on imports of galvanized flat steel products from China, to remain in force for a period of three years, consisting on a duty calculated based on a price of USD824.57 per ton less the actual FOB import price for such product.

Trade agreements:

Colombia has signed free trade agreements with several countries or trade blocs aimed at liberalizing trade between them.

CAN is a trading bloc, currently including Bolivia, Colombia, Ecuador and Peru, established during 1993 and approved during 1994 for the purpose of promoting trade relations among its members and between CAN and the rest of the world. The treaty formalized a customs union among CAN s member states. Over time, CAN has eliminated or significantly reduced import duties, tariffs and other trade barriers among member states. In particular, zero tariffs have applied to steel products imported from other member states since January 1, 2000. The current tariff applicable to steel products imported from outside CAN is between 5% and 10% and, if such products are not produced in Colombia, the tariff was reduced to 0% until August 31, 2013. CAN and Mercosur have signed a free trade agreement. See Item 4. Information on the Company B. Business Overview Regulations Trade Regulations Argentina.

During June 1994, Colombia and Mexico signed a free trade agreement. See Item 4. Information on the Company B. Business Overview Regulations Trade Regulations Mexico.

On August 9, 2007, Colombia, El Salvador, Guatemala and Honduras established the *Triángulo Norte* (North Triangle), or TN, free trade agreement. Members of the TN signed multilateral agreements related to funds transfers and local and most favored nation statuses, and signed bilateral agreements aimed at reducing trade duties. Colombia s free trade agreement with Guatemala started on November 12, 2009; with El Salvador on February 1, 2010; and with Honduras on March 27, 2010. Under TN, zero tariffs apply to several steel products imported from other member states.

Colombia s free trade agreement with the United States became effective in October 2011. Under this agreement, steel import tariffs from Colombia to the United States will remain at 0% and steel import tariffs from the United States to Colombia will decrease from a range of 5-10% in 2011 to 0% in one, five or ten years according to the product category. In particular, wire rods import tariffs became zero beginning in 2012 and rebar import tariffs will decrease gradually, reaching zero in 2021.

In addition, Colombia has also signed free trade agreements with Chile, Canada and the European Union, in effect since May 2009, August 2011 and August 2013, respectively, and has signed free trade agreements with Costa Rica, Israel, Panama and South Korea, which are not yet effective. Colombia is currently negotiating a free trade agreement with Japan.

United States.

Imports of steel products to the U.S.:

During February 2014, the U.S. government imposed antidumping and countervailing duties on certain hot-rolled carbon steel flat products from China, India, Taiwan, Thailand, Russia, Indonesia and Ukraine. Current antidumping duties range between 12.34% and 90.83% for China, 36.53% and 44.40% for India, 20.28% and 29.14% for Taiwan, 4.41% and 20.30% for Thailand and 73.59% and 184.56% for Russia; antidumping and countervailing duties are set at 47.86% for Indonesia and 90.33% for Ukraine. Current countervailing duties range between 540.78% and 563.50% for India and are set at 10.21% for Indonesia and 2.38% for Thailand. These measures are set to remain in force until March 2018.

Insurance

Our subsidiaries carry insurance policies covering property damage (including machinery breakdown and business interruption), general liability and other insurance such as, among others, automobile, marine cargo and life and workers compensation insurance. These insurance policies include coverage and contract amounts which are customary in the steel products industry and in line with legal and domestic market requirements. General liability coverage typically includes third party, employer, sudden and accidental seepage and pollution and product liabilities within limits up to USD100 million per occurrence.

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Disclosure Pursuant to Section 13(r) of the Exchange Act

The Iran Threat Reduction and Syria Human Rights Act of 2012, or ITRA, created a new subsection (r) in Section 13 of the Exchange Act, which requires a reporting issuer to provide disclosure if the issuer or any of its affiliates engaged in certain enumerated activities relating to Iran, including activities involving the Government of Iran. Ternium is providing the following disclosure pursuant to Section 13(r).

Tenaris

Tenaris is indirectly controlled by San Faustin and, accordingly, is deemed an affiliate of Ternium, as that term is defined in Exchange Act Rule 12b-2. In response to our inquiry, Tenaris provided the disclosure included below.

In January 2010, Tenaris Global Services S.A., or TGS, a Tenaris subsidiary, entered into an agreement with the National Iranian Drilling Company, or NIDC, a company controlled by the Government of Iran, for a total value of EUR9.4 million (approximately USD10.1 million). TGS made all deliveries and collected most of its account receivables under the NIDC agreement prior to 2012. In 2012, TGS collected an amount of EUR750 thousand (approximately USD810 thousand) for products delivered to NIDC in prior years. As of December 31, 2014 an outstanding balance of EUR172 thousand (approximately USD185 thousand) is still due to TGS. In addition, as of December 31, 2014 TGS has not yet fully performed its obligation to allow technical visits to Tenaris s mills by fifteen NIDC experts at TGS s cost. Tenaris expects to fulfill these pending obligations and collect outstanding payments during 2015.

TGS is also a party to an April 2011 agreement with Global Procurement General Trading FZE, or Global FZE, a company incorporated in United Arab Emirates, for the provision of OCTG for an amount of AED16.5 million (approximately USD4.5 million). TGS has been informed by Global FZE that the end users of the products delivered under this agreement are Oil Industries Engineering and Construction Group and Pars Oil and Gas Company which are controlled by the Government of Iran. In 2012, TGS delivered products under the Global FZE agreement for a total value of AED16.3 million (approximately USD4.4 million), and collected a total amount of AED15.4 million (approximately USD4.2 million). All sales of goods and services to Iran under the agreement with Global FZE have ceased. As of December 31, 2014, a balance of AED862 thousand (approximately USD200 thousand) was owing to Tenaris, and Global FZE has advised Tenaris of its inability to process payment to Tenaris of the outstanding balance as a result of the current sanctions relating to Iran.

In March 2011, TGS entered into an agreement for the provision of technical field service assistance to ENI Iran B.V., or ENI Iran, for its project in Darquain, Iran, for a value of EUR246 thousand (approximately USD264 thousand). Tenaris has been informed that ENI Iran operates the Darquain project pursuant to a service contract with the National Iranian Oil Company. All services required to be performed by Tenaris for the benefit of ENI Iran were completed and ceased prior to the end of 2012. In December 2013, Tenaris was informed by ENI Iran that it would seek approval to make payment of the contract amount in compliance with applicable laws. In June 2014, Tenaris collected all outstanding amounts under the aforementioned agreement.

Tenaris did not record any profit in 2014 in connection with the agreements described above.

Except as otherwise stated above, there are no pending obligations of Tenaris or its subsidiaries under the agreements described above. While the Tenaris s subsidiaries identified above intend to perform their pending obligations under such pre-existing agreements, Tenaris and its subsidiaries ceased prior to the end of 2012 all sales and deliveries of goods and services to Iran. Tenaris s current policy, based on the sanctions against Iran, is not to engage in future sales or deliveries.

Tenaris believes that its activities concerning Iran do not violate any U.S. or foreign law, and has procedures in place to ensure that such activities comply with all applicable U.S. and foreign laws.

Tenova

Tenova S.p.A., or Tenova, an Italian supplier of equipment for the mining and the steel-making industry, is indirectly controlled by San Faustin and, accordingly, is deemed an affiliate of Ternium, as that term is defined in Exchange Act Rule 12b-2. In response to our inquiry, Tenova informed us that:

During 2014, Tenova or its subsidiaries supplied equipment and performed engineering services for the steel-making and raw material industries to companies believed by Tenova to be subsidiaries of development agencies of the Government of Iran.

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None of the activities performed is connected to the activities described in Sections 5(a) or (b) of the Iran Sanctions Act of 1996, Section 105A(b)(2) of the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 or was performed in favor of persons whose property and interests in property are blocked pursuant to Executive Order 13224 (terrorists and terrorist supporters) or 13382 (weapons of mass destruction proliferators and supporters).

All of these sales and activities were authorized by the Comitato di Sicurezza Finanziaria CSF, an Italian governmental committee established pursuant to Italian Decree n. 369 of October 12, 2001 (as amended by Italian Law n. 431 of December 14, 2001) under the supervision of the Italian Ministry of Economy.

Since several of Tenova s Iran-related contracts are still currently being executed, Tenova is required to perform all outstanding obligations under such contracts.

Any future contract between Tenova or its subsidiaries and customers controlled by the Government of Iran will continue to be made in compliance with all laws applicable to Tenova or its relevant subsidiaries.

Tenova informed us that its total sales revenue for 2014 with regard to the foregoing transactions amounted to USD34 million, which represents 2.3% of its total sales revenue for 2014.

Tenova also estimated that its net profits from such transactions, after internal cost allocation and taxes, were in the range of USD5.1 million.

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C. Organizational Structure

Below is a simplified diagram of Ternium s corporate structure as of March 31, 2015

(*) On April 7, 2015, Ternium acquired the remaining 46% interest in Ferrasa. For more information related to this transaction, see Item 5 Operating and Financial Review and Prospects G. Recent Developments Acquisition of the remaining 46% minority interest in Ternium s Colombian subsidiary Ferrasa.

Subsidiaries

Ternium operates entirely through subsidiaries. For a complete list of its subsidiaries and a description of its investments in other companies, see note 2 to our consolidated financial statements included elsewhere in this annual report.

Ternium Mexico. Ternium Mexico is a leading flat and long steel manufacturer in Mexico, with total annual finished steel production capacity of approximately 7.2 million tons. Ternium Mexico s subsidiaries operate all of Ternium s mining and steel production facilities in Mexico, except for Tenigal s facilities. Ternium Mexico and its subsidiaries produce steel products mainly for the construction and industrial sectors.

Siderar. Siderar is the main integrated manufacturer of flat steel products in Argentina with total annual finished steel production capacity of approximately 2.9 million tons. The shareholders of Siderar as of March 31, 2015 are set out in the following table, together with the share percentage owned by each such shareholder as of that date:

Siderar Shareholders	Number	Percent
Ternium	2,752,808,188	60.94%
ANSeS	1,175,806,541	26.03%
Inversora Siderurgia Argentina S.A. (employees)	60,735,869	1.34%
Public	527,743,425	11.68%
Total shares issued and outstanding	4,517,094,023	100.00%

Ferrasa. Ferrasa is a leading long and flat steel products processor and distributor in Colombia and a scrap-based long steel manufacturer, with total annual finished steel production capacity of approximately 540,000 tons and annual sales of close to 600,000 tons, of which approximately 70% are long products and 30% are flat and tubular products, used mainly in the construction sector. We own 100% of Ferrasa (54% acquired on August 25, 2010, and 46% acquired on April 7, 2015).

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Tenigal. Tenigal is a hot-dip galvanized and galvannealed steel sheets manufacturer serving the Mexican automobile market with total annual finished steel production capacity of approximately 400,000 tons. Ternium and NSSMC hold 51% and 49% participations in Tenigal, respectively.

Ternium Guatemala. Ternium Guatemala and its subsidiaries operate all of Ternium s steel processing facilities in Guatemala, El Salvador, Nicaragua and Costa Rica. Ternium Guatemala and its subsidiaries produce hot-dip galvanized steel sheets and other value-added finished steel products mainly for the construction and industrial sectors. Ternium Guatemala has total annual finished steel production capacity of 180,000 tons.

Ternium Internacional. Ternium Internacional comprises a network of companies in Uruguay, Colombia, the Netherlands and the United States that, together with our offices in Panama and Spain, market and provide services in relation to the sales of Ternium s products to several markets other than Mexico and Argentina. The headquarters of the network are located in Uruguay. Office staff is dedicated to export sales and trading, technical assistance, commercial back office and credit analysis.

Ternium USA. Ternium USA operates Ternium s steel processing activities in the United States and produces galvanized and color coated sheets in its Shreveport unit in Louisiana, United States. Ternium USA has total annual finished steel production capacity of 200,000 tons.

Exiros. Exiros, which we own 50%/50% with Tenaris, has offices located in various countries and is in charge of the procurement of a majority of our purchases of raw materials and other products or services. Exiros s objectives are to procure better purchase conditions and prices by exercising the improved bargaining power that results from combining the demand of products and services by both Ternium and Tenaris.

Other Investments

Usiminas. Usiminas is the largest flat steel producer in Brazil, with total annual crude steel production capacity of 9.5 million tons. Usiminas produces steel products mainly for the automobile, line pipe, civil construction, and electrical equipment manufacturing industries. Usiminas has iron ore mines in the Serra Azul region and industrial facilities in Ipatinga, Minas Gerais and in Cubatão, São Paulo, strategically located near the main consumers of steel in Brazil. In 2014, Usiminas shipped 5.5 million tons of steel products and 5.6 million tons of iron ore, and had net sales of BRL11.7 billion. Usiminas is a publicly-traded company listed on the São Paulo stock exchange, BM&FBOVESPA S.A *Bolsa de Valores, Mercadorias e Futuros*.

On January 16, 2012, the Company s wholly-owned Luxembourg subsidiary Ternium Investments, together with Siderar (and Siderar s wholly-owned Uruguayan subsidiary Prosid), and TenarisConfab, joined Usiminas existing control group through the acquisition of a total of 139.7 million ordinary shares of Usiminas, representing 27.7% of Usiminas voting capital (22.7% corresponding to Ternium and the other 5% corresponding to TenarisConfab). As a result, Usiminas control group, which holds, in the aggregate, 322.7 million ordinary shares representing approximately 63.9% of Usiminas voting capital, is now formed as follows: Nippon Group, which holds approximately 46.1% of the total shares held by the control group; T/T Group, which holds approximately 43.3% of the total shares held by the control group (35.6% corresponding to Ternium and the other 7.7% corresponding to TenarisConfab); and CEU, which holds the remaining 10.64% of the total shares held by the control group. As described below, after the completion of a share acquisition in October 2014, Ternium now owns additional shares of Usiminas in addition to those described in the preceding sentence.

The rights and obligations of the members of Usiminas control group are governed by a shareholders agreement. Under such agreement, so long as the Nippon Group and the T/T Group each hold at least 25% of the total shares held by the control group, the Nippon Group and the T/T Group shall, in the aggregate, nominate a majority of the members of Usiminas board of directors, with each such group nominating an equal number of directors. Usiminas shareholders agreement further provides that the Nippon Group and the T/T Group shall nominate, by consensus, the chairman of Usiminas board of directors and Usiminas chief executive officer. In addition, the Nippon Group and the T/T Group have the right to nominate one member of Usiminas executive board (*diretoria executiva)* each. Any remaining Usiminas executive board seats are filled with candidates nominated by Usiminas chief executive officer, which nominations shall require the approval of both the Nippon Group and the T/T Group. Under the Usiminas shareholders agreement, the Nippon Group, the T/T Group and CEU are required to vote, and cause the Usiminas directors nominated by them to vote, as a single, unified block. Any and all decisions to be adopted by the members of the control group at Usiminas shareholders meetings, or by the directors nominated by them at any Usiminas board or directors meetings, shall require the consensus of both the Nippon Group and the T/T Group, with decisions on certain extraordinary matters requiring the unanimous consent of the Nippon Group, the T/T Group and CEU. The rights and obligations of Ternium Investments, Siderar (and Prosid) and TenarisConfab within the T/T Group are governed under a separate shareholders agreement.

On October 30, 2014, Ternium acquired from PREVI 51.4 million additional ordinary shares of Usiminas for a total purchase price of BRL616.7 million. Following this transaction, Ternium, through its subsidiaries Ternium Investments, Siderar and

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Prosid, owns 166.1 million ordinary shares of Usiminas, representing 32.9% of Usiminas ordinary shares. Of these, 114.7 million ordinary shares are subject to the Usiminas shareholders agreement; the remaining 51.4 million shares (acquired in October 2014 as described above) are not subject to the shareholders agreement, although during the term of the shareholders agreement, Ternium is required to vote such shares in accordance with the control group s decisions.

In 2014, a controversy arose within the Usiminas control group with respect to the governance of Usiminas and the rules applicable to the appointment of senior managers. As part of that controversy, on September 25, 2014, the board of directors of Usiminas passed a resolution dismissing the company s chief executive officer and two other executives from their respective positions on the Usiminas board of officers. The board resolution dismissing the officers was passed with a 5 to 5 vote, including the positive vote of the Nippon Group-appointed members and the negative vote of the T/T Group and CEU-appointed members, and the tie was resolved by the chairman of the board through his casting vote. Ternium believes that the votes cast by the Nippon Group-appointed members were computed in violation of the Usiminas shareholders agreement. Following the dismissal of the officers, a temporary CEO was elected with the same votes that decided the dismissal, until a new executive board is agreed between the T/T Group and the Nippon Group. As a result of these circumstances, Ternium took several actions to protect its rights and investment in Usiminas, which include requesting an injunction before the Belo Horizonte courts and making several complaints to the Brazilian securities regulator. Similarly, Usiminas Supervisory Board challenged the chairman s actions. As of the date of this annual report, these proceedings and complaints are ongoing (as is the controversy within the control group).

For a discussion of other legal proceedings associated with Ternium s investment in Usiminas, see Item 8 Financial Information A. Consolidated Statements and Other Financial Information Legal Proceedings.

Techgen. Techgen is a joint venture company owned 48% by Ternium, 30% by Tecpetrol and 22% by Tenaris. Techgen is building a natural gas-fired combined cycle electric power plant in the Pesquería area of the State of Nuevo León, Mexico. The plant is expected to be operational in the fourth quarter of 2016 with an estimated total investment of USD1.1 billion. Ternium and Tenaris agreed to enter into power supply and transportation agreements with Techgen, pursuant to which Ternium and Tenaris will contract 78% and 22%, respectively, of Techgen s power capacity of approximately 900 megawatts. As a result, Ternium will secure the supply of electricity to its facilities in Mexico and is expected to improve its cost competitiveness. For more information on the Company s commitments under the Techgen project, see Item 5 Operating and Financial Review and Prospects E. Off-Balance Sheet Arrangements and note 24 (ii) (h), (i) and (j) to our consolidated financial statements included elsewhere in this annual report.

D. Property, Plants and Equipment

See B. Business Overview Production Facilities and Processes and B. Business Overview Capital Expenditure Program .

Item 4A. Unresolved Staff Comments

As part of its regular reviews of Ternium s filings of financial statements, the Staff of the SEC has issued comments regarding the carrying value of Ternium s investment in Usiminas, including seeking explanations on Ternium s value in use calculations and on the differences between value in use and certain fair value indicators.

After receiving the Staff s comments, Ternium provided additional information to the Staff supporting the Company s accounting treatment of the Usiminas investment under IFRS as of September 2014, and Ternium had further discussions with members of the Staff.

Discussions with the Staff continue. Ternium believes that its accounting of the Usiminas investment is in accordance with IFRS; however, if it is determined after the conclusion of this process that an additional impairment of the investment in Usiminas should be recorded in 2014, Ternium could be required to restate its financial statements for the year ended December 31, 2014. A restatement of the 2014 financial statements could also result in a restatement of the financial statements for the first quarter of 2015.

The value of Ternium s investment in Usiminas, which was determined by the application of IFRS and tested for impairment using the value in use calculation as per IAS 36, amounted to USD 1,301.5 million as of September 30, 2014, USD 1,390.7 million as of December 31, 2014 and USD 1,020.0 million as of March 31, 2015. The increase in the carrying value from September 30, 2014 to December 31, 2014 was related with the acquisition of additional Usiminas shares from PREVI at BRL12.0 (approximately USD 4.8) per ordinary share pursuant to an October 2, 2014 agreement.

The table below sets out certain information, expressed in U.S. dollars, regarding Ternium s carrying value for its investment in Usiminas (expressed on a per share basis) at each of September 30, 2014, December 31, 2014 and March 31, 2015, as well as other potentially relevant

indicators of the value of Usiminas ordinary shares.

	Amounts in USD per share		
	Ternium reported carrying value	Usiminas book value	Quoted market value
September 30. 2014	11.3	7.0	2.7
December 30, 2014	8.4	6.4	4.6
March 31, 2014	6.1	5.2	6.7

At September 30, 2014 and December 31, 2014 the Company owns 114.7 million ordinary shares and 166.1 million ordinary shares of Usiminas, respectively.

The carrying value of Ternium s investment in Usiminas as of September 30, 2014, was equivalent to USD 11.3 per ordinary share. If a further impairment charge is required to be recorded as of that date, for each USD 1.00 per share of impairment recorded, the aggregate carrying value would decrease by approximately USD 115 million and pretax profit for the nine months as of September 30, 2014, would decrease by the same amount.

As for the full year 2014, if the reported carrying value at September 30, 2014 was adjusted to a level between USD 11.3 and USD 9.2 per ordinary share, there would be no significant impact on Ternium s profit or other comprehensive income, assuming no changes in the assumptions used for the value in use calculation at December 31, 2014. For each additional USD 1.00 reduction in adjusted carrying value per ordinary share at a level lower than USD 9.2, the effect on pretax profit and other comprehensive income for the full year 2014 would be a loss of USD 164 million and a gain of USD 11 million, respectively, and the aggregate carrying value would decrease by USD 153 million at December 31, 2014.

Item 5. Operating and Financial Review and Prospects

The following discussion and analysis of our financial condition and results of operations is based on, and should be read in conjunction with, our consolidated financial statements and the related notes included elsewhere in this annual report. This discussion and analysis presents our financial condition and results of operations on a consolidated basis.

Certain information contained in this discussion and analysis is presented elsewhere in this annual report, including information with respect to our plans and strategies for our business, and includes forward-looking statements that involve risks and uncertainties. See Cautionary Statement Concerning Forward-Looking Statements. In evaluating this discussion and analysis, you should specifically consider the various risk factors identified in this annual report and others that could cause results to differ materially from those expressed in such forward-looking statements.

Overview

Ternium is a leading steel producer in Latin America. We manufacture and process a broad range of value-added steel products, including galvanized and electro-galvanized sheets, pre-painted sheets, tinplate, welded pipes, hot-rolled products, cold-rolled products, bars and wire rods as well as slitted and cut-to-length offerings through our service centers. Our customers range from large global companies to small businesses operating in the construction, automotive, home appliances, capital goods, container, food and energy industries. Ternium has production facilities located in Mexico, Argentina, Colombia, the southern United States and Guatemala, as well as a network of service and distribution centers throughout Latin America that provide it with a strong position from which to serve its core markets. In addition, Ternium participates in the control group of Usiminas, a leading steel company in the Brazilian steel market.

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Ternium primarily sells its steel products in the regional markets of the Americas. Ternium provides specialized products and delivery services through its network of manufacturing facilities and service centers. We believe that Ternium is a leading supplier of flat steel products in Mexico and Argentina, a significant supplier of steel products in Colombia and in various other countries in South and Central America, and a competitive player in the international steel market for steel products. Through its network of commercial offices in several countries in Latin America, the United States and Spain, Ternium maintains an international presence that allows it to reach customers outside its local markets, achieve improved effectiveness in the supply of its products and in the procurement of semi-finished steel, and maintain a fluid commercial relationship with its customers by providing continuous services and assistance.

Ternium s revenues are affected by general global trends in the steel industry and more specifically by the economic conditions in the countries in which it has manufacturing operations and where its customers are located. Ternium s revenues are also impacted by events that affect the price and availability of raw materials, energy and other inputs needed for its operations. Furthermore, due to the highly cyclical nature of the steel industry, recent results may not be indicative of future performance, and historical results may not be comparable to future results. Investors should not rely on the results of a single period, particularly a period of peak prices, as an indication of Ternium s annual results or future performance. The variables and trends mentioned below could also affect the results of its investments in steel related companies. See Item 4. Information on the Company B. Business Overview Our Business Strategy.

Ternium s primary source of revenue is the sale of steel products. Management expects sales of steel products to continue to be Ternium s primary source of revenue. The global market for such steel products is highly competitive, with the primary competitive factors being price, cost, product s quality and customer service. The majority of Ternium s sales are concentrated in the Americas. Specifically, Ternium s largest markets are Mexico, Argentina and Colombia, where its main manufacturing facilities are located.

Ternium s results are sensitive to economic activity and steel consumption. Ternium s results of operations, which primarily depend on economic conditions in Mexico and Argentina, are also influenced by economic conditions in international and regional markets such as NAFTA, Mercosur and the Andean Community. Historically, annual steel consumption in the countries where Ternium operates has varied at a rate that is linked to the annual change in each country s gross domestic product and per capita disposable income. The 2008 2009 global economic downturn resulted in an overall decreased demand for Ternium s products. For example, apparent consumption of finished steel products decreased in 2009 by 15% in Mexico and 33% in Argentina. This economic downturn had a pronounced negative effect on Ternium s business and results of operations in 2009. Subsequently, in 2010 2014, apparent steel consumption increased by 52% in Mexico, due mainly to the recovery of the industrial sector, and by 56% in Argentina, due to a broad recovery of economic activity. A protracted global recession or a depression would have a material adverse effect on the steel industry and Ternium.

Ternium s results are also sensitive to prices in the international steel markets. Steel prices are volatile and are sensitive to trends in cyclical industries, such as the construction, automotive, appliance and machinery industries, which are significant markets for Ternium s products. For example, steel prices in the international markets, which had been rising quickly during the first half of 2008, fell sharply beginning in the second half of 2008 as a result of collapsing apparent demand and the resulting excess capacity in the industry. The fall in prices during this period adversely affected the results of steel producers generally, including Ternium, as a result of lower revenues and writedowns of finished steel products and raw material inventories. In this regard, in the second half of 2008 Ternium recorded a valuation allowance in an amount of USD200 million and in the first half of 2009 it recorded an additional valuation allowance in an amount of USD127.6 million. Beginning in the second half of 2009, steel prices in the international markets rebounded mainly as a result of the increase in the demand for steel in China and other emerging markets, and the subsidence of the worldwide de-stocking process. A protracted fall in steel prices would have a material adverse effect on Ternium s results, as could price volatility.

Trends in the steel industry may also have an impact on Ternium s results. In addition to economic conditions and prices, the steel industry is affected by other factors such as worldwide production capacity and fluctuations in steel imports/exports and tariffs. Historically, the steel industry has suffered, especially on downturn cycles, from substantial overcapacity. Currently, as a result of the 2008 2009 global downturn, the adverse economic conditions in Europe, a slowdown in China s economic growth and the increase in steel production capacity in recent years, there is excess capacity in the global steel market that negatively affects the industry s margins. Furthermore, there has been a trend in recent years toward steel industry consolidation among Ternium s competitors, and current smaller competitors in the steel market could become larger competitors in the future. Intense competition could impact on Ternium s share in certain markets and adversely affect its sales and revenue.

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Ternium s production costs are sensitive to prices of raw materials, slabs and energy, which reflect supply and demand factors in the global steel industry. Ternium purchases substantial quantities of raw materials (including iron ore, coal, ferroalloys and scrap) and slabs for use in the production of its steel products. The availability and price of these and other inputs vary, sometimes significantly, according to general market and economic conditions. In addition to raw materials and slabs, natural gas and electricity are both important components of Ternium s cost structure. Ternium generally purchases these inputs at market or market based prices; accordingly, price fluctuations in these inputs, which may also vary according to general market and economic conditions, necessarily impact Ternium s production costs.

Ternium s export revenues could be affected by trade restrictions and its domestic revenues could be affected by unfair competition from imports. During the second half of the 1990s, a period of strong oversupply, several antidumping measures were imposed in several countries in which Ternium operates (including Mexico and Argentina) to prevent foreign steel producers from dumping certain steel products in local markets. The recovery in global economic conditions during the 2003 2008 period helped normalize international steel trade conditions and, eventually, several countries reduced or eliminated protective measures established in prior years. However, a number of trade restrictions, both in Ternium s local and export markets, remain in place. In the face of a protracted period of oversupply, countries may reestablish antidumping duties and/or other safeguards to protect their domestic markets. Ternium s ability to profitably access the export markets may be adversely affected by trade restrictions, including antidumping duties and countervailing measures, in those markets. In addition, Ternium s ability to sell some steel products in its principal markets could be affected by unfair competition from imports of those steel products from certain countries, if applicable trade regulations were not in force.

Changes in prevailing exchange rates could impact results from subsidiaries with net short or long position in currencies other than its functional currency. The functional currency of our Mexican and Colombian subsidiaries is the U.S. dollar, and the functional currency of our Argentine subsidiary Siderar is the Argentine peso. Ternium subsidiaries record foreign exchange results on their net non-functional currency positions when the functional currencies appreciate or depreciate with respect to other currencies. For example, Ternium s net foreign exchange result was a gain of USD26.7 million in 2014, a gain of USD0.3 million in 2013 and a gain USD7.1 million in 2012. The 2014 net foreign exchange gain was primarily associated with the effect of a depreciation of the Mexican peso against the U.S. dollar on a net short local currency position in Ternium s Mexican subsidiaries. In addition, Ternium Mexican and Colombian subsidiaries record deferred tax results when the U.S. dollar (their functional currency) revaluates or devaluates in relation to the Mexican peso or the Colombian peso, respectively, as such fluctuations change, in U.S. dollar terms, the tax base used to calculate deferred tax at such subsidiaries. Fluctuations in the value of such functional currencies against other currencies have had, and may also have in the future, an impact on Ternium s results.

Changes in prevailing exchange rates have had an impact on Ternium s comprehensive results in the past and could impact comprehensive results from subsidiaries and investments with a functional currency other than the U.S. dollar in the future. In accordance with IFRS, Ternium records currency translation adjustments in its consolidated statements of comprehensive income. These adjustments do not affect results but, instead, have an impact on net worth. Fluctuations in the Brazilian real (as our participation in Usiminas is denominated in Brazilian reais) and the Argentine peso (as it is the functional currency of Siderar) against the U.S. dollar have had, and may also have in the future, an impact on Ternium s comprehensive results. Ternium s currency translation adjustments resulted in losses of USD459.8 million in 2014, USD503.3 million in 2013 and USD425.4 million in 2012. These adjustments were mainly related to the effect of the devaluation of the Brazilian real on the value of Ternium s investment in Usiminas as measured in U.S. dollars, amounting to USD188.1 million in 2014, USD200.2 million in 2013 and USD282.1 million in 2012, and the effect of the devaluation of the Argentine peso on the value of Siderar s net assets as measured in U.S. dollars.

Ternium s cash flows in 2012 include non-recurring payments received in connection with the transfer of our interest in Sidor to Venezuela. On May 7, 2009, we completed the transfer of our entire 59.7% interest in Sidor to CVG. Ternium agreed to receive an aggregate amount of USD1.97 billion as compensation for its Sidor shares. Ternium received payments from CVG, including interest, totaling USD953.6 million, USD767.4 million, USD133.1 million and USD136.7 million in 2009, 2010, 2011 and 2012, respectively. With the last payment in October 2012, the pending dispute relating to the nationalization of Sidor was resolved. For more information on the Sidor nationalization process, see Item 4. Information on the Company A.History and Development of the Company.

Critical accounting estimates. This discussion of our operating and financial review and prospects is based on our consolidated financial statements included elsewhere in this annual report, which have been prepared in accordance with IFRS. The use of IFRS has an impact on our critical accounting policies and estimates.

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

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

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

Also, when assessing the recoverability of tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. Although we believe our estimates are appropriate, significant differences in actual performance of the asset or group of assets may materially affect our asset values and results of operations.

Loss contingencies. Ternium is subject to various claims, lawsuits and other legal proceedings that arise in the ordinary course of business, including customer claims in which a third party is seeking reimbursement or indemnity. The Company s liability with respect to such claims, lawsuits and other legal proceedings cannot be estimated with certainty. Periodically, management reviews the status of each significant matter and assesses potential financial exposure. If the potential loss from the claim or proceeding is considered probable and the amount can be reasonably estimated, a liability is recorded. Management estimates the amount of such liability based on the information available and the assumptions and methods it has concluded are appropriate, in accordance with the provisions of IFRS. Accruals for such contingencies reflect a reasonable estimate of the losses to be incurred based on information available, including the relevant litigation or settlement strategy, as of the date of preparation of these financial statements. As additional information becomes available, management will reassess its evaluation of the pending claims, lawsuits and other proceedings and revise its estimates. The loss contingencies provision amounts to USD9.1 million and USD14.0 million as of December 31, 2014 and 2013, respectively.

Allowance for obsolescence of supplies and spare parts and slow-moving inventory. Management assesses the recoverability of its inventories considering their selling prices or whether they are damaged or have become wholly or partly obsolete.

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

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

As of December 31, 2014 and 2013, the Company recorded no allowance for net realizable value and USD48.0 million and USD47.8 million, respectively, as allowance for obsolescence.

Historically, losses due to obsolescence and scrapping of inventory have been within expectations and the provisions established. If, however, circumstances were to materially change (e.g. significant changes in market conditions or in the technology used in the mills), management s estimates of the recoverability of these inventories could be materially reduced and our results of operations, financial condition and net worth could be materially and adversely affected.

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

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.

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

- whether significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;
- whether market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset s value in use and decrease the asset s recoverable amount materially;
- whether the carrying amount of the net assets of the entity is more than its market capitalization;
- whether evidence is available of obsolescence or physical damage of an asset;
- whether significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite;
- whether evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected;
- whether it is becoming probable that the investee will enter bankruptcy or other financial reorganization, or is experiencing other financial difficulty;
- whether observable data indicates that there is a measurable decrease in the estimated future cash flows of the investee since the initial recognition; and
- whether the lender of the investee, for economic or legal reasons relating to the investee s financial difficulty, has granted a concession that the lender would not otherwise consider.

Except as described below with respect to the impairment of our investment in Usiminas in 2014, none of the Company s cash generating units (CGUs) were tested for impairment in 2014, 2013 or 2012 (other than on goodwill as described below), as no impairment indicators were identified. On March 31, 2015, Ternium performed an additional impairment test of its investment in Usiminas and subsequently wrote down such investment. Based on the information currently available to us, except in relation to the SEC s review process in connection with the impairment of our investment in Usiminas, as of the date of this annual report, the Company is not aware of any factors that would lead to the recognition of future impairment charges. Any such impairment charges could have a material adverse effect on Ternium s results of operations, financial condition and net worth. For further information on the Usiminas impairment test performed on March 31, 2015 see Item 5 Operating and Financial Review and Prospects G. Recent Developments March 31, 2015 Impairment of Usiminas Investment and for a discussion of the SEC s review process in connection with the impairment of our investment in Usiminas, see Item 4A. Unresolved Staff Comments .

In connection with its investment in Usiminas, the Company performed an impairment test over such investment as of December 31, 2012, and subsequently wrote down the investment by USD275.3 million, to USD1.6 billion as of year-end 2012. Furthermore, as of December 31, 2014 and March 31, 2015, the Company further wrote down its investment in Usiminas by USD196.4 million and USD109.7 million, respectively, to USD1.4 billion as of year-end 2014 and USD1.0 billion as of March 31, 2015. The impairment performed on December 31, 2014 was mainly due to expectations of a weaker industrial environment in Brazil, and consequently lower steel demand, as a result of worsening economic

activity, as well as a significant additional downturn in international prices of iron ore and steel, leading to diminished cash flow expectations. For further information on the Usiminas investment, see note 3 to our consolidated financial statements included elsewhere in this annual report and for further information on the Usiminas impairment test performed on March 31, 2015, see Item 5 Operating and Financial Review and Prospects G. Recent Developments March 31, 2015 Impairment of Usiminas Investment . Any further write down to Ternium s investment in Usiminas could have a material adverse effect on Ternium s net worth and results.

Goodwill impairment test. Assessment of the recoverability of the carrying value of goodwill requires significant judgment. Management evaluates goodwill allocated to the operating units for impairment on an annual basis or whenever there is an impairment indicator. Goodwill is tested at the level of the CGUs. Impairment testing of the CGUs is carried out and the value in use determined in accordance with the following accounting policy:

Assets that have an indefinite useful life (including goodwill) are not subject to amortization and are tested annually for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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.

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

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

Ternium uses cash flow projections for the next five years based on past performance and expectations of market development; thereafter, it uses a perpetuity rate. Application of the discounted cash flow (DCF) method to determine the value in use of a CGU begins with a forecast of all expected future net cash flows. Variables considered in forecasts include the gross domestic product (GDP) growth rates of the country under study and their correlation with steel demand, level of steel prices and estimated raw material costs as observed in industry reports.

Cash flows are discounted at rates that reflect specific country and currency risks associated with the cash flow projections. The discount rates used are based on Ternium s weighted average cost of capital (WACC), which is considered to be a good indicator of cost of capital. As of December 31, 2014 the discount rate used to test goodwill allocated to the Mexico CGUs (of Steel and Mining) for impairment was 9.44%.

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

The discount rates used for these tests are based on Ternium s weighted average cost of capital adjusted for specific country and currency risks associated with the cash flow projections. The discount rate used as of December 31, 2014, was 9.44% and no impairment charge resulted from the impairment test performed.

At December 31, 2014, 2013 and 2012, no impairment charges resulted from the impairment tests performed. Any future impairment charge could have a material adverse effect on Ternium s results of operations, financial condition and net worth. For a discussion of the impairments of our investment in Usiminas, see Item 5. Operating and Financial Review and Prospects A. Results of Operations Fiscal Year Ended December 31, 2014 compared to Fiscal Year Ended December 31, 2013 Overview.

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

Allowances for doubtful accounts are adjusted periodically in accordance with the aging of overdue accounts. For this purpose, trade accounts receivable overdue by more than 90 days, and which are not covered by a credit collateral, guarantee or similar surety, are fully provisioned. As of December 31, 2014 and 2013, allowance for doubtful accounts totaled USD11.4 million and USD12.8 million, respectively.

Historically, losses due to credit failures, aging of overdue accounts and customer claims have been within expectations and in line with the provisions established. If, however, circumstances were to materially change (e.g., higher than expected defaults), management s estimates of the recoverability of amounts due to us could be materially reduced and our results of operations, financial condition and net worth could be materially and adversely affected.

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A. Results of Operations

The following discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements included elsewhere in this annual report. Accordingly, this discussion and analysis present our financial condition and results of operations on a consolidated basis. See Presentation of Certain Financial and Other Information Accounting Principles and notes 2 and 4 to our consolidated financial statements included elsewhere in this annual report. The following discussion should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report.

In thousands of U.S. dollars	For the year ended December 31,				
(except number of shares and per share data)	**2014**	**2013**	**2012(1)**	**2011(1)(2)**	**2010(1)(2)**
Selected consolidated income statement data					
Net sales	8,726,057	8,530,012	8,608,054	9,122,832	7,339,901
Cost of sales	(6,925,169)	(6,600,292)	(6,866,379)	(7,016,322)	(5,560,201)
Gross profit	1,800,888	1,929,720	1,741,675	2,106,510	1,779,700
Selling, general and administrative expenses	(816,478)	(843,311)	(809,181)	(839,362)	(738,304)
Other operating income (expenses), net	71,751	23,014	(11,881)	(11,495)	2,162
Operating income	1,056,161	1,109,423	920,613	1,255,653	1,043,558
Finance expense	(117,866)	(132,113)	(150,302)	(105,570)	(71,228)
Finance income	5,715	(2,358)	11,400	26,190	24,024
Other financial income (expenses), net	42,701	(1,004)	17,270	(221,042)	176,441
Equity in (losses) earnings of non-consolidated companies	(34,218)	(31,609)	(346,833)	10,137	12,867
Income before income tax expense	952,493	942,339	452,148	965,368	1,185,662
Income tax expense	(363,708)	(349,426)	(261,227)	(312,555)	(406,191)
Profit for the year	588,785	592,913	190,921	652,813	779,470
Attributable to:					
Owners of the parent	452,404	455,425	142,043	517,668	622,076
Non-controlling interest	136,381	137,488	48,878	135,145	157,394
Profit for the year	588,785	592,913	190,921	652,813	779,470
Depreciation and amortization	414,797	377,133	370,855	395,988	374,201
Weighted average number of shares outstanding (3)	1,963,076,776	1,963,076,776	1,963,076,776	1,968,327,917	2,004,743,442
Basic earnings per share (in USD per share) (4) (5)	0.23	0.23	0.07	0.26	0.31
Dividends per share (in USD per share)	0.090(6)	0.075	0.065	0.075	0.075

(1) Starting on January 1, 2013, Consorcio Peña Colorada and Exiros have been proportionally consolidated. Comparative amounts for the years ended December 31, 2012, 2011 and 2010 show them as investments in non-consolidated companies and their results are included within Equity in (losses) earnings of non-consolidated companies in the consolidated income statement.

(2) Ternium changed prospectively the functional currency of its Mexican subsidiaries to the U.S. dollar, effective as of January 1, 2012. For the periods ended December 31, 2011 and 2010 the functional currency for the Company s Mexican subsidiaries was the Mexican peso.

(3) Of the 2,004,743,442 shares issued as of December 31, 2014, Ternium held 41,666,666 through its wholly-owned subsidiary Ternium International Inc., repurchased from Usiminas on February 15, 2011. Such shares were not considered outstanding for purposes of the calculation of the weighted average number of shares.

(4) International Accounting Standard N° 1 (IAS 1) (Revised) requires that income for the year as shown in the income statement includes the portion attributable to non-controlling interest. Basic earnings per share, however, continue to be calculated on the basis of income attributable solely to the owners of the parent.

(5) Diluted earnings per share (expressed in USD per share), equals basic earnings per share.

(6) Reflects dividend proposal for the year ended December 31, 2014, which has been submitted to the shareholders for a vote at the annual general shareholders meeting to be held on May 6, 2015.

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In thousands U.S. dollars	At December 31,				
(except number of shares and per share data)	**2014**	**2013**	**2012**	**2011**	**2010**
Selected consolidated balance sheet data					
Non-current assets	6,905,672	7,153,162	7,211,371	5,195,688	5,600,608
Property, plant and equipment, net	4,481,027	4,708,895	4,438,117	3,969,187	4,203,685
Other non-current assets (1)	2,424,645	2,444,267	2,773,254	1,226,501	1,396,923
Current assets	3,348,869	3,219,462	3,655,628	5,547,374	5,499,306
Cash and cash equivalents	213,303	307,218	560,307	2,158,044	1,779,294
Other current assets (2)	3,120,810	2,894,474	3,083,303	3,378,956	3,710,050
Non-current assets classified as held for sale	14,756	17,770	12,018	10,374	9,961
Total assets	10,254,541	10,372,624	10,866,999	10,743,062	11,099,914
Capital and reserves attributable to the owners of the parent (3)	5,284,959	5,340,035	5,369,183	5,711,495	5,833,246
Non-controlling interest	973,523	998,009	1,065,730	1,077,055	1,127,526
Non-current liabilities	1,904,673	2,185,421	2,306,640	1,975,129	2,583,032
Borrowings	900,611	1,204,880	1,302,753	948,495	1,426,574
Deferred tax liabilities	611,126	605,883	657,211	719,061	847,044
Other non-current liabilities	392,936	374,658	346,676	307,573	309,414
Current liabilities	2,091,386	1,849,159	2,125,446	1,979,383	1,556,110
Borrowings	1,264,208	797,944	1,121,610	1,047,641	513,083
Other current liabilities	827,178	1,051,215	1,003,836	931,742	1,043,028
Total liabilities	3,996,059	4,034,580	4,432,086	3,954,512	4,139,142
Total equity and liabilities	10,254,541	10,372,624	10,866,999	10,743,062	11,099,914
Number of shares (3)	1,963,076,776	1,963,076,776	1,963,076,776	1,963,076,776	2,004,743,442

(1) As of December 31, 2014, 2013, 2012, 2011 and 2010, includes goodwill mainly related to the acquisition of our Mexican subsidiaries for a total amount of USD662.3 million, USD662.3 million, USD663.8 million, USD663.8 million and USD750.1 million, respectively.

(2) As of December 31, 2014, 2013, 2012, 2011 and 2010, includes financial assets with maturity of more than three months for a total amount of USD150.0 million, USD169.5 million, USD160.8 million, USD281.7 million and USD848.4 million, respectively.

(3) The Company s share capital as of December 31, 2014, 2013, 2012, 2011 and 2010 was represented by 2,004,743,442 shares, par value USD1.00 per share, for a total amount of USD2,004.7 million. Of the 2,004,743,442 shares, as of December 31, 2014, Ternium held 41,666,666 through its wholly-owned subsidiary Ternium International Inc., repurchased from Usiminas on February 15, 2011.

Fiscal Year Ended December 31, 2014 compared to Fiscal Year Ended December 31, 2013

Overview

Apparent steel use in Mexico increased 11.7% year-over-year to approximately 22.5 million tons in 2014, reflecting a vibrant industrial sector in which exports of manufactured goods, particularly to the United States continued to increase, and a slowly improving construction sector. Mexico s GDP increased 2.1% year-over-year, evidencing a moderate acceleration in economic activity versus the prior year. In Argentina, apparent steel use decreased slightly to approximately 5.0 million tons, reflecting a broad decrease in activity, particularly in the automotive sector. In Colombia, apparent steel use increased 15.8% year-over-year to approximately 4.0 million tons in 2014. Colombian GDP continued expanding at a solid pace, with positive performance by each of the different steel consuming sectors.

Ternium s operating income in 2014 was USD1.1 billion, slightly lower than operating income in 2013. Steel shipments increased by 647,000 tons year-over-year in Mexico, and decreased by a combined 254,000 tons in the Southern Region and Other Markets. Operating margin decreased slightly, reflecting a decrease of USD14 in steel revenue per ton, partially offset by a decrease of USD3 in steel operating cost per ton. A decrease in steel prices in the Southern Region was mostly offset by higher steel prices and a higher value added product mix in Mexico.

Ternium s net income in 2014 was USD588.8 million, which was relatively stable compared with net income in 2013, mainly as a result of the slightly lower operating income discussed above, offset by an improved financial result.

As of December 31, 2014, Ternium performed an impairment test of its investment in Usiminas and subsequently wrote down such investment by USD196.4 million in the fourth quarter of 2014. The main drivers of the changes in the Company s estimated value in use of its investment in Usiminas leading to this additional impairment were expectations of a weaker industrial environment in Brazil, and consequently a weaker steel demand, as a result of worsening economic activity, as well

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as a significant downturn in international prices of iron ore and steel, which together led to diminished cash flow expectations. For further information on the Usiminas investment, see note 3 to our consolidated financial statements included elsewhere in this annual report.

In addition, in October 2014 Ternium acquired 51.4 million additional ordinary shares of Usiminas from PREVI for a total purchase price of BRL616.7 million (or USD249.0 million). Subsequently, Ternium applied its purchase price allocation procedures in connection with this transaction and determined a higher value of net assets at fair value versus book value and, accordingly, recognized a gain from bargain purchase of USD188.9 million in the fourth quarter of 2014. For further information on the Usiminas transactions, see note 3 to our consolidated financial statements included elsewhere in this annual report and for a discussion of the legal proceedings associated with Ternium s investment in Usiminas, see Item 8 Financial Information A. Consolidated Statements and Other Financial Information Legal Proceedings.

Net Sales

Net sales in 2014 were USD8.7 billion, 2% higher than net sales in 2013, mainly as a result of higher steel products sales in Mexico, partially offset by lower steel products sales in the Southern Region and Other Markets. The following table shows Ternium s total consolidated net sales for 2014 and 2013:

	Net sales (million USD)		
	2014	**2013**	**Dif.**
Mexico	4,863.9	4,230.1	15%
Southern Region	2,641.5	2,944.7	-10%
Other Markets	1,159.3	1,251.2	-7%
Total steel products consolidated net sales	8,664.8	8,426.0	3%
Other products (1)	35.8	33.9	5%
Total steel segment net sales	8,700.5	8,459.9	3%
Total mining segment net sales	313.2	386.5	-19%
Intersegment eliminations	(287.6)	(316.4)	
Total consolidated net sales	8,726.1	8,530.0	2%

(1) The item Other products primarily includes pig iron and pre-engineered metal building systems.

Cost of sales

Cost of sales was USD6.9 billion in 2014, an increase of USD324.9 million compared with 2013. This was principally due to a USD248.0 million, or 5%, increase in raw material and consumables used, mainly reflecting a 4% increase in steel shipment volumes, higher purchased slabs costs and higher energy costs, partially offset by lower iron ore and coking coal costs; and a USD76.9 million increase in other costs, including a USD44.6 million increase in maintenance expenses, a USD39.7 million increase in depreciation of property, plant and equipment and amortization of intangible assets and a USD2.6 million increase in services and fees, partially offset by a USD6.9 million decrease in labor costs and USD2.5 million decrease in insurance costs.

Selling, general and administrative expenses

Selling, General & Administrative (SG&A) expenses in 2014 were USD816.5 million, or 9.4% of net sales, a decrease of USD26.8 million compared with SG&A in 2013, mainly as a result of lower taxes and contributions (other than income tax) and lower freight and transportation expenses.

Other net operating income

Other net operating income in 2014 was USD71.8 million, higher than the USD23.0 million gain in 2013. Other net operating income in 2014 and 2013 included a USD57.5 million and a USD11.7 million income recognition on insurance recovery, respectively.

Operating income

Operating income in 2014 was USD1.1 billion, or 12.1% of net sales, compared with operating income of USD1.1 billion, or 13.0% of net sales, in 2013.

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The following table shows Ternium s operating income by segment for 2014 and 2013:

In millions of U.S. dollars	Steel segment		Mining segment		Intersegment eliminations		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Net Sales	8,700.5	8,459.9	313.2	386.5	(287.6)	(316.4)	8,726.1	8,530.0
Cost of sales	(6,960.0)	(6,645.2)	(255.2)	(268.3)	290.1	313.2	(6,925.2)	(6,600.3)
SG&A expenses	(799.8)	(820.3)	(16.6)	(23.0)			(816.5)	(843.3)
Other operating income (expenses), net	70.7	23.1	1.0	(0.1)			71.8	23.0
Operating income (loss)	**1,011.4**	**1,017.5**	**42.3**	**95.1**	**2.4**	**(3.2)**	**1,056.2**	**1,109.4**

Steel reporting segment

The steel segment s operating income was USD1.0 billion in 2014, a decrease of USD6.1 million compared with 2013, reflecting higher operating cost, offset by higher sales.

Net sales of steel products in 2014 increased 3% compared with 2013, reflecting an increase in shipments partially offset by a decrease in revenue per ton. Shipments increased 393,000 tons, or 4%, compared with 2013, mainly due to higher sales volume in Mexico partially offset by lower sales volume in the Southern Region and Other Markets. Revenue per ton decreased by USD14, mainly due to lower steel prices in the Southern Region, mostly offset by higher steel prices and a higher value added product mix in Mexico.

	Net Sales (million USD)			Shipments (thousand tons)			Revenue / ton (USD/ton)		
	2014	2013	Dif.	2014	2013	Dif.	2014	2013	Dif.
Mexico	4,863.9	4,230.1	15%	5,632.2	4,984.9	13%	864	849	2%
Southern Region	2,641.5	2,944.7	-10%	2,510.9	2,633.1	-5%	1,052	1,118	-6%
Other Markets	1,159.3	1,251.2	-7%	1,238.5	1,370.3	-10%	936	913	3%
Total steel products	**8,664.8**	**8,426.0**	**3%**	**9,381.5**	**8,988.4**	**4%**	**924**	**937**	**-1%**
Other products (1)	35.8	33.9	5%						
Total steel segment	**8,700.5**	**8,459.9**	**3%**						

(1) The item Other products primarily includes pig iron and pre-engineered metal building systems.

Operating cost increased 4%, due to the above-mentioned 4% increase in shipment volumes and relatively stable operating cost per ton.

Mining reporting segment

The mining segment s operating income was USD42.3 million in 2014, a decrease of USD52.8 million compared with 2013 mainly reflecting lower iron ore sales, partially offset by lower operating cost. Net Sales of mining products in 2014 were 19% lower than in 2013, reflecting lower shipments and revenue per ton. Shipments were 3.9 million tons, 9% lower than in 2013, mainly as a result of lower iron ore production at Peña Colorada.

	Mining segment		
	2014	2013	Dif.
Net Sales (million USD)	313.2	386.5	-19%
Shipments (thousand tons)	3,857.3	4,243.0	-9%
Revenue per ton (USD/ton)	81	91	-11%

Operating cost decreased 7% year-over-year, due to the above mentioned 9% decrease in shipment volumes, partially offset by a 3% increase in operating cost per ton. Operating cost per ton increased mainly due to higher depreciation of property, plant and equipment.

Net financial results

Net financial results were a USD69.5 million loss in 2014, compared with a USD135.5 million loss in 2013. During 2014, Ternium s net financial interest results totaled a loss of USD106.8 million, compared with a loss of USD111.5 million in 2013. Net foreign exchange result was a gain of USD26.7 million in 2014 compared with a gain of USD0.3 million in 2013. The gain in 2014 was primarily associated with the effect of a depreciation of the Mexican peso against the U.S. dollar on a net short local currency position in Ternium s Mexican subsidiaries. Change in fair value of financial instruments included in net financial results in 2014 was a USD17.8 million gain, mainly related to results from changes in the fair value of financial assets, compared with a USD12.3 million loss in 2013.

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Equity in results of non-consolidated companies

Equity in results of non-consolidated companies was a loss of USD34.2 million in 2014, compared with a loss of USD31.6 million in 2013. Equity in results of non-consolidated companies in 2014 included the USD196.4 million loss related to an impairment of Ternium s investment in Usiminas, partially offset by an income recognition of USD188.9 million related to Ternium s acquisition of additional shares in Usiminas during October 2014 as a result of a higher value of net assets at fair value versus book value after applying purchase price allocation procedures, as discussed above.

Income tax expense

Income tax expense in 2014 was USD363.7 million, or 38% of income before income tax, compared with an income tax expense of USD349.4 million, or 37% of income before income tax, in 2013. The relatively high effective tax rate in 2014 was mainly related to the non-cash effect on deferred taxes of the significant depreciation of the Mexican peso and the Colombian peso against the U.S. dollar during the year, which reduces, in U.S. dollar terms, the tax base used to calculate deferred tax at our Mexican and Colombian subsidiaries (which have the U.S. dollar as their functional currency), an amendment of a previous period tax return in Mexico and the impact of non-taxable losses stemming from the investment in Usiminas, partially offset by a net gain related to a non-cash reduction of deferred tax liabilities at one of Ternium s subsidiaries.

Net income attributable to non-controlling interests

Net income attributable to non-controlling interest in 2014 was a gain of USD136.4 million, compared with a gain of USD137.5 million in 2013.

Fiscal Year Ended December 31, 2013 compared to Fiscal Year Ended December 31, 2012

Overview

Apparent steel use in Mexico decreased 9.0% year-over-year to approximately 18.6 million tons in 2013, mainly as a consequence of a struggling construction sector. Mexico s GDP increased 1.1% year-over-year, evidencing a slowdown in economic activity versus the prior year. In Argentina, apparent steel use increased 2.8% year-over-year to approximately 5.1 million tons, following a recovery in activity in the construction, agricultural and automotive sectors. In Colombia, apparent steel use increased 1.1% year-over-year to approximately 3.5 million tons in 2013. GDP continued expanding at a solid pace, with positive performance at each of the different steel consuming sectors.

Ternium s operating income in 2013 was USD1.1 billion, 21% higher than in 2012 mainly due to higher operating margin and a 220,000 ton increase in steel shipments, as well as higher iron ore shipments to third parties as a result of the proportional consolidation in 2013 of Consorcio Peña Colorada s mining operations. Operating margin in 2013 increased principally due to a lower operating cost per ton, which resulted mainly from a lower cost of purchased slabs and raw materials, partially offset by lower steel revenue per ton in Mexico and Other Markets. Operating cost per ton is equal to cost of sales plus selling, general and administrative expenses, divided by steel shipments expressed in tons.

Ternium s net income in 2013 was USD592.9 million, USD402.0 million higher than net income in 2012, mainly due to a USD328.6 million better result related to the investment in Usiminas, which in 2012 included a USD275.3 million impairment charge, and a USD188.8 million higher operating income, partially offset by higher net financial expenses and higher net income tax expenses.

Net Sales

Net sales in 2013 were USD8.5 billion, 1% lower than net sales in 2012, mainly as a result of lower steel products sales in Mexico and Other Markets, partially offset by higher steel products sales in the Southern Region and higher iron ore sales to third parties.

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The following table shows Ternium s total consolidated net sales for 2013 and 2012:

	Net sales (million USD)		
	2013	2012	Dif.
Mexico	4,230.1	4,457.3	-5%
Southern Region	2,944.7	2,737.4	8%
Other Markets	1,251.2	1,377.2	-9%
Total steel products consolidated net sales	8,426.0	8,572.0	-2%
Other products (1)	33.9	29.2	16%
Total steel segment net sales	8,459.9	8,601.1	-2%
Total mining segment net sales	386.5	190.7	103%
Intersegment eliminations	(316.4)	(183.8)	
Total consolidated net sales	8,530.0	8,608.1	-1%

(1) The item Other products primarily includes pig iron and pre-engineered metal building systems.

Cost of sales

Cost of sales was USD6.6 billion in 2013, a decrease of USD266.1 million compared to 2012. This decrease was principally due to a USD371.4 million, or 7%, decrease in raw material and consumables used, mainly reflecting a decrease in raw material and purchased slabs costs, partially offset by a 3% increase in steel shipment volumes and higher energy costs; and a USD105.3 million increase in other costs, including a USD56.1 million increase in labor cost and a USD52.7 million increase in maintenance expenses.

Selling, general and administrative expenses

SG&A expenses in 2013 were USD843.3 million, or 9.9% of net sales, an increase of USD34.1 million compared to 2012, mainly including higher taxes and contributions (other than income tax), labor expenses and freight and transportation expenses, partially offset by lower services and fees expenses.

Operating income

Operating income in 2013 was USD1.1 billion, or 13.0% of net sales, compared to operating income of USD920.6 million, or 10.7% of net sales, in 2012. The following table shows Ternium s operating income by segment for 2013 and 2012:

In millions of U.S. dollars	Steel segment		Mining segment		Intersegment eliminations		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Net Sales	8,459.9	8,601.1	386.5	190.7	(316.4)	(183.8)	8,530.0	8,608.1
Cost of sales	(6,645.2)	(6,909.5)	(268.3)	(132.8)	313.2	175.9	(6,600.3)	(6,866.4)
SG&A expenses	(820.3)	(804.7)	(23.0)	(4.5)			(843.3)	(809.2)
Other operating income (expenses), net	23.1	(12.3)	(0.1)	0.4			23.0	(11.9)
Operating income (loss)	**1,017.5**	**874.6**	**95.1**	**53.8**	**(3.2)**	**(7.9)**	**1,109.4**	**920.6**

Steel reporting segment

The Steel segment s operating income was USD1.0 billion in 2013, an increase of USD142.8 million compared to 2012, reflecting lower operating cost partially offset by lower net sales.

Net sales of steel products in 2013 decreased 2% compared to 2012, reflecting a USD40 decrease in revenue per ton, mainly due to lower steel prices in Mexico and Other Markets. Shipments increased 220,000 tons compared to 2012, or 3%, mainly due to higher sales volume in the Southern Region and Mexico.

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	Net Sales (million USD)			Shipments (thousand tons)			Revenue / ton (USD/ton)		
	2013	2012	Dif.	2013	2012	Dif.	2013	2012	Dif.
Mexico	4,230.1	4,457.3	-5%	4,984.9	4,952.4	1%	849	900	-6%
Southern Region	2,944.7	2,737.4	8%	2,633.1	2,444.5	8%	1,118	1,120	0%
Other Markets	1,251.2	1,377.2	-9%	1,370.3	1,371.2	0%	913	1,004	-9%
Total steel products	**8,426.0**	**8,572.0**	**-2%**	**8,988.4**	**8,768.2**	**3%**	**937**	**978**	**-4%**
Other products [(1)]	33.9	29.2	16%						
Total steel segment	**8,459.9**	**8,601.1**	**-2%**						

(1) The item Other products primarily includes pig iron and pre-engineered metal building systems.

Operating cost decreased 3%, due to a 6% decrease in operating cost per ton, partially offset by a 3% increase in shipment volumes. The decrease in operating cost per ton was mainly due to lower raw material and purchased slabs costs, partially offset by higher energy costs, maintenance expenses and labor costs.

Mining reporting segment

Net sales of mining products in 2013 were 103% higher than in 2012. Shipments were 4.2 million tons, 128% higher than in 2012, and revenue per ton was USD91, 11% lower than in 2012. The year-over-year differences were mainly due to the change in accounting treatment of Consorcio Peña Colorada, which began to be proportionally consolidated effective January 1, 2013.

	Mining segment		
	2013	2012	Dif.
Net Sales (million USD)	386.5	190.7	103%
Shipments (thousand tons)	4,243.0	1,862.6	128%
Revenue per ton (USD/ton)	91	102	-11%

The Mining segment s operating income was USD95.1 million in 2013, an increase of USD41.3 million compared to 2012 mainly reflecting the proportional consolidation of Consorcio Peña Colorada s mining operations in 2013.

Net financial results

Net financial results were a USD135.5 million loss in 2013, compared with a USD121.6 million loss in 2012. During 2013, Ternium s net financial interest results totaled a loss of USD106.3 million, USD18.9 million lower than in 2012, reflecting lower indebtedness and weighted average interest rates.

Equity in results of non-consolidated companies

Equity in results of non-consolidated companies was a loss of USD31.6 million in 2013, compared to a loss of USD346.8 million in 2012, which included a write-down of Ternium s investment in Usiminas of USD275.3 million.

Income tax expense

Income tax expense in 2013 was USD349.4 million, or 37% of income before income tax expense, compared with an income tax expense of USD261.2 million in 2012, or 58% of income before income tax expense. Income tax expense in 2013 included a deferred income tax charge of USD24.0 million related to the introduction of a new withholding tax on dividend distributions in Argentina and other charges mostly related to the effects of the 2014 Mexican tax reform package. The effective tax rate for 2012 was impacted by losses stemming from the investment in Usiminas (including the above mentioned write-down) that were recorded in 2012 and reduced Ternium s taxable income in that year.

Net income attributable to non-controlling interests

Net income attributable to non-controlling interest in 2013 was USD137.5 million, compared to USD48.9 million in 2012, mainly due to a higher result attributable to non-controlling interest in Siderar.

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Foreign Currency Fluctuations

See Item 11. Quantitative and Qualitative Disclosures About Market Risk Foreign Exchange Exposure Risk.

Governmental Economic, Fiscal, Monetary or Political Policies or Factors

See Item 3. Key Information D. Risk Factors Risks Relating to the Countries in Which We Operate.

B. Liquidity and Capital Resources

We obtain funds from our operations, as well as from short-term and long-term borrowings from financial institutions. These funds are primarily used to finance our working capital and capital expenditures requirements, as well as our acquisitions (for further information on capital expenditures, see Item 4. Information on the Company B. Business Overview Capital Expenditure Program). In addition, during 2012, we had total cash inflows of USD136.7 million in connection with compensation payments for the nationalization of our participation in Sidor. For more information on the Sidor nationalization process, see Item 4. Information on the Company History and Development of the Company. We hold money market investments, time deposits and variable-rate or fixed-rate securities, a majority of which are obligations of investment grade issuers. Our gross financial indebtedness decreased slightly in the 2013-2014 period, from USD2.4 billion at the end of 2012 to USD2.2 billion at the end of 2014. In November 2013, Ternium Mexico successfully negotiated a new USD800 million syndicated loan facility maturing in November 2018. See note 23 to our consolidated financial statements included elsewhere in this annual report for further information. In December 2014, Consorcio Peña Colorada negotiated a USD200 million loan with Nacional Financiera S.A., a Mexican development bank, maturing in April 2025. Disbursements under this facility began in April 2015. In the first quarter of 2012 and in the fourth quarter of 2014, we invested USD2.2 billion and USD249.0 million, respectively, in the purchase of Usiminas ordinary shares. For further information on the Usiminas transactions, see note 3 to our consolidated financial statements included elsewhere in this annual report.

Management believes that funds from operations will be sufficient to satisfy our current working capital needs and service our debt in the foreseeable future. Ternium has not negotiated additional committed credit facilities. However, Ternium has negotiated non-committed credit facilities and management believes it has adequate access to the credit markets. Management also believes that our liquidity and capital resources give us adequate flexibility to manage our planned capital spending programs and to address short-term changes in business conditions.

The following table shows the changes in our cash and cash equivalents for each of the periods indicated below:

	For the year ended December 31,		
In thousands of U.S. dollars	**2014**	**2013**	**2012**
Net cash provided by operating activities	505,844	1,092,174	1,055,092
Net cash used in investing activities	(675,774)	(882,779)	(2,994,747)
Net cash provided by (used in) financing activities	84,561	(466,076)	348,200
Decrease in cash and cash equivalents	(85,369)	(256,681)	(1,591,454)
Effect of exchange rate changes	(8,546)	(8,635)	(6,283)
Initial cash of Consorcio Peña Colorada and Exiros (1)		12,227	
Cash and cash equivalents at the beginning of the year	307,218	560,307	2,158,044
Cash and cash equivalents at the end of the year (2)	213,303	307,218	560,307

(1) Starting on January 1, 2013, Consorcio Peña Colorada and Exiros have been proportionally consolidated. Comparative amounts for the year ended December 31, 2012 show them as investments in non-consolidated companies and their results are included within Equity in earnings (losses) of non-consolidated companies in the consolidated income statement.

(2) In addition, at December 31, 2012, 2013 and 2014, Ternium had USD160.8, USD169.5 and USD150.0 million of other current investments with maturities of more than three months, respectively, and USD0.9, USD0.9 and USD0.1 million in restricted cash, respectively.

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Fiscal Year Ended December 31, 2014 compared to Fiscal Year Ended December 31, 2013

Overview

During 2014, Ternium s primary source of funding was cash provided by operating activities, net proceeds from borrowings and cash on hand. Cash and cash equivalents as of December 31, 2014 were USD213.3 million, a USD93.9 million decrease from USD307.2 million at the end of the previous year. The decrease is mainly attributable to net cash used in investing activities of USD675.8 million, partially offset by net cash provided by operating activities of USD505.8 million and net cash provided by financing activities of USD84.6 million.

In addition to cash and cash equivalents, as of December 31, 2014, we held other investments with maturity of more than three months for a total amount of USD150.0 million, decreasing USD19.5 million compared with December 31, 2013.

Operating activities

Net cash provided by operating activities was USD505.8 million in 2014, lower than the USD1.1 billion recorded in 2013, including an increase in working capital of USD551.0 million in 2014 and a decrease in working capital of USD114.6 million in 2013. The increase in working capital during 2014 was the result of a USD357.0 million increase in inventories, an aggregate USD108.0 million net decrease in accounts payable and other liabilities and an aggregate USD86.0 million net increase in trade and other receivables (amounts that included a negative non-cash effect of USD149.9 million reflecting variations in the exchange rates used by subsidiaries with functional currencies other than the U.S. dollar, mainly related to inventories).

Inventories increased as shown in the table below.

	Change in inventory Dec 14 / Dec 13 (in millions of USD)		
	Price	**Volume**	**Total**
Finished goods	(29.4)	(25.6)	(55.0)
Goods in process	(52.9)	(47.3)	(100.2)
Raw materials, supplies and allowances	(36.5)	(165.3)	(201.8)
Total	**(118.8)**	**(238.2)**	**(357.0)**

Investing activities

Net cash used in investing activities in 2014 was USD675.8 million, compared with net cash used in investing activities of USD882.8 million in 2013. This change was primarily attributable to the following:

- a decrease of USD439.9 million in capital expenditures (from USD883.3 million in 2013 to USD443.5 million in 2014); partially offset by
- an increase in net cash used in acquisitions of businesses of USD249.0 million (net cash used in 2014 consisted of cash paid for the acquisition of additional ordinary shares of Usiminas).

Financing activities

Net cash provided by financing activities was USD84.6 million in 2014, compared with net cash used in financing activities of USD466.1 million in 2013, for a net year-over-year change of USD550.6 million. This change was primarily attributable to the following:

- net proceeds from borrowings of USD265.4 million in 2014, compared with net repayment of borrowings of USD270.8 million in 2013, for a net year-over-year change of USD536.3 million; and

a decrease of USD33.1 million in dividends paid in cash to non-controlling interests (from USD66.7 million in 2013 to USD33.6 million in 2014); partially offset by

an increase of USD19.6 million in dividends paid in cash to the Company s shareholders (from USD127.6 million in 2013 to USD147.2 million in 2014).

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Fiscal Year Ended December 31, 2013 compared to Fiscal Year Ended December 31, 2012

Overview

During 2013, Ternium s primary source of funding was net cash provided by operating activities and its own cash reserves. Cash and cash equivalents as of December 31, 2013 were USD307.2 million, a USD253.1 million decrease from USD560.3 million at the end of the previous year. The decrease is mainly attributable to net cash used in investing activities of USD882.8 million and net cash used in financing activities of USD466.1 million, partially offset by net cash provided by operating activities of USD1.1 billion.

In addition to cash and cash equivalents, as of December 31, 2013, we held other investments with maturity of more than three months for a total amount of USD169.5 million, increasing USD1.8 million compared to December 31, 2012.

Operating activities

Net cash provided by operating activities was USD1.1 billion in 2013, similar to that of 2012, including a decrease in working capital of USD114.6 million in 2013 and of USD23.5 million in 2012.

The decrease in working capital during 2013 was the result of an aggregate USD137.1 million decrease in trade and other receivables and an aggregate USD93.3 million increase in accounts payable and other liabilities, partially offset by a USD115.8 million increase in inventories, as shown in the table below.

	Change in inventory Dec 13 / Dec 12 (in millions of USD)		
	Price	**Volume**	**Total**
Finished goods	(3.6)	(48.9)	(52.5)
Goods in process	21.8	64.3	86.0
Raw materials, supplies and allowances	107.1	(24.7)	82.3
Total	**125.2**	**(9.4)**	**115.8**

Investing activities

Net cash used in investing activities in 2013 was USD882.8 million, compared to net cash used in investing activities of USD3.0 billion in 2012. This change was primarily attributable to the following:

- in 2012, Ternium acquired a participation in the control group of Usiminas for a total consideration of USD2.2 billion; and
- a decrease of USD139.3 million in capital expenditures (from USD1.0 billion in 2012 to USD883.3 million in 2013); partially offset by
- a decrease of USD136.7 million in the proceeds from the Sidor financial asset arising from the nationalization of that company, as the payments received in 2012 cancelled the outstanding amount.

Financing activities

Net cash used in financing activities was USD466.1 million in 2013, compared to net cash provided by financing activities of USD348.2 million in 2012. This change was primarily attributable to the following:

a net repayment of borrowings of USD270.8 million in 2013, compared to net proceeds from borrowings of USD469.7 million in 2012, for a net year-over-year change of 740.5 million; and

an increase of USD50.8 million in dividends paid in cash by subsidiary companies (from USD15.9 million in 2012 to USD66.7 million in 2013).

Principal Sources of Funding

Funding Policies

Management s policy is to maintain a high degree of flexibility in operating and investment activities by maintaining adequate liquidity levels and ensuring access to readily available sources of financing. While Ternium currently does not have committed credit facilities available for borrowing, management believes that it could have access to external borrowing in case of any

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shortfalls or specific needs. We obtain financing primarily in U.S. dollars, Argentine pesos and Colombian pesos. Whenever feasible, management bases its financing decisions, including the election of currency, term and type of the facility, on the intended use of proceeds for the proposed financing and on costs. For further information on our financial risk management, see note 28 to our consolidated financial statements, included elsewhere in this annual report.

Financial Liabilities

Our financial liabilities consist of loans with financial institutions and some pre-accorded overdraft transactions. As of December 31, 2014, these facilities were mainly denominated in U.S. dollars (81.6% of total financial liabilities), Argentine pesos (12.9% of total financial liabilities) and Colombian pesos (4.6% of total financial liabilities). Total financial debt (inclusive of principal and interest accrued thereon) increased by USD162.0 million in the year, from USD2.0 billion as of December 31, 2013, to USD2.2 billion as of December 31, 2014, mainly due to an increase in short term borrowings, partially offset by the repayment of principal and interest on borrowings related to prior acquisitions. As of December 2014, current borrowings were 58.4% of total borrowings, none of which corresponded to borrowings with related parties.

The following table shows Ternium s financial liabilities as of December 31 of each of the last three years:

In thousands of U.S. dollars	2014	2013	2012
Borrowings with related parties			
Bank borrowings (1)	2,164,819	2,002,824	2,424,363
Total borrowings	2,164,819	2,002,824	2,424,363

(1) Net of debt issuance costs

The weighted average interest rates at December 31, 2014, 2013 and 2012 shown below were calculated using the rates set for each instrument in its corresponding currency and weighted using the U.S. dollar-equivalent outstanding principal amount of those instruments at December 31, 2014, 2013 and 2012, respectively. Such rates do not include the effect of derivative financial instruments, nor fluctuations in the exchange rate between the instrument s currencies and the U.S. dollar.

	2014	2013	2012
Bank borrowings	4.64%	4.89%	5.99%

As of December 31, 2014, the maturities of our financial liabilities were as follows:

In thousands of U.S. dollars At December 31, 2014	1 year Or less	1 - 2 Years	2 - 3 Years	3 - 4 Years	4 - 5 Years	Over 5 Years	Total
Borrowings (1)(2)	1,264,208	339,768	237,679	223,361	24,944	74,859	2,164,819
Total borrowings	1,264,208	339,768	237,679	223,361	24,944	74,859	2,164,819

(1) Borrowings are bank borrowings with third parties. See B. Liquidity and Capital Resources Principal Sources of Funding Financial Liabilities.

(2) Net of debt issuance costs.

For information on our derivative financial instruments, see Item 11. Quantitative and Qualitative Disclosures about Market Risk and note 22 to our consolidated financial statements included elsewhere in this annual report.

Most Significant Borrowings

Our most significant borrowings as of December 31, 2014, were those incurred under Ternium México s 2013 syndicated loan facility, intended to improve the company s debt profile, and under Tenigal s syndicated loan facility, in order to finance the construction of its new hot-dipped galvanizing mill in Pesquería, Mexico.

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In Millions of U.S. dollars

Date	Borrower	Type	Original principal amount	Outstanding principal amount as of December 31, 2014	Maturity
November 2013	Ternium Mexico	Syndicated loan	800.0	800.0	November 2018
2012/2013	Tenigal	Syndicated loan	200.0	200.0	July 2022

The main covenants in our syndicated loan agreements are limitations on liens and encumbrances, limitations on the sale of certain assets and compliance with financial ratios (e.g., leverage ratio and interest coverage ratio). As of December 31, 2014, we were in compliance with all covenants under our loan agreements.

For further information on our derivative financial instruments, borrowing and financial risk management, see notes 22, 23, and 28 to our consolidated financial statements included elsewhere in this annual report.

For information on Ternium s capital expenditures, see Item 4. Information on the Company B. Business Overview Capital Expenditure Program.

C. Research and Development, Patents and Licenses, Etc.

See Item 4. Information on the Company B. Business Overview Research and Development; Product Development.

D. Trend Information

See Overview.

E. Off-Balance Sheet Arrangements

During 2014, the Company granted the following guarantees in relation to its participation in the non-consolidated company Techgen:

A corporate guarantee covering 48% of the outstanding value of transportation capacity agreements entered into by Techgen with Kinder Morgan Gas Natural de Mexico, S. de R.L. de C.V., Kinder Morgan Texas Pipeline LLC and Kinder Morgan Tejas Pipeline LLC for a natural gas purchasing capacity of 150,000 million btu per day starting on June 1, 2016 and ending on May 31, 2036. As of December 31, 2014, the outstanding value of this commitment was approximately USD285 million. The Company s exposure under the guarantee in connection with these agreements amounts to USD136.7 million, corresponding to 48% of the outstanding value of the agreements as of December 31, 2014.

A corporate guarantee covering 48% of Techgen s obligations under three stand-by letters of credit up to an amount of USD47.5 million issued in relation to an agreement with GE Power Systems, Inc. and General Electric International Operations Company, Inc Mexico Branch for the purchase of power generation equipment and other services related to such equipment for an outstanding amount of approximately USD 238 million. The Company s exposure under the guarantee in connection with these stand-by letters of credit amounts to USD15.5 million.

A corporate guarantee covering 48% of Techgen s obligations under a syndicated loan agreement, the proceeds of which will be used by Techgen for the construction of its facilities. As of December 31, 2014, disbursements under the syndicated loan agreement amounted to USD440 million, Ternium having provided a guarantee of approximately USD211 million. If the USD800 million syndicated loan is disbursed in full, the amount guaranteed by the Company will amount to approximately USD384 million. The main covenants under the

corporate guarantee are limitations on the sale of certain assets and compliance with financial ratios (e.g. leverage ratio). As of December 31, 2014, Techgen and the Company were in compliance with all of their covenants under this syndicated loan agreement.

In addition, as described above, Ternium has various off-balance sheet commitments to purchase raw materials, energy (electricity and steam for the production of electricity), supplies (oxygen, nitrogen and argon) and production equipment.

Off-balance sheet commitments are discussed in note 24 (ii) to our consolidated financial statements included elsewhere in this annual report.

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F. Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2014, and the effect such obligations are expected to have on our liquidity and cash flow in future periods:

In millions of U.S. dollars		Payments Due by Period as of December 31, 2014			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**After 5 Years**
Borrowings (1)	2,164.8	1,264.2	577.4	248.3	74.9
Estimated interest payments (2)	66.7	35.6	24.5	5.5	1.1
Purchase obligations (3)	617.9	206.6	258.0	153.3	
Labor related obligations (4)	375.8	24.1	48.0	47.7	256.0
Total Contractual Obligations	3,225.2	1,530.5	907.9	454.8	332.0

(1) Borrowings are bank borrowings with third parties. See B. Liquidity and Capital Resources Principal Sources of Funding Financial Liabilities.
(2) In calculating estimated interest payments for our borrowings that bear interest at a floating rate, we use the variable rates in effect in the current interest period, and assume that such rate is fixed over the period(s) measured.
(3) Purchase obligations include mainly oxygen, nitrogen, argon, raw materials, electric power, equipment and steam.
(4) Labor related obligations include post-employment and other employee benefits, asset retirement obligations and termination benefits.

G. Recent Developments

March 31, 2015 Impairment of Usiminas Investment

As of March 31, 2015, Ternium performed an impairment test of its investment in Usiminas and subsequently wrote down such investment by USD109.7 million. The main changes to the Company s previous estimation of its investment s value in use that led to this impairment were related to expectations of lower prices of steel and iron ore, a weaker steel demand in Brazil, a weaker Brazilian Real to U.S. dollar exchange rate, a lower operating margin and a higher discount rate. For a discussion of the SEC s review process in connection with the impairment of our investment in Usiminas, see Item 4A. Unresolved Staff Comments .

Acquisition of the remaining 46% minority interest in Ternium s Colombian subsidiary Ferrasa and disposition of interest in Ferrasa Panamá S.A.

On January 20, 2015, Ternium entered into an agreement to acquire the remaining 46% interest in Ferrasa for a total consideration of USD74 million. The Ferrasa transaction closed on April 7, 2015. In addition, on January 20, 2015, Ternium sold its 54% interest in Ferrasa Panamá S.A. for a total consideration of USD2.0 million. For more information related to Ferrasa, see Item 4 Information on the Company C. Organizational Structure Ferrasa.

Annual Dividend Proposal

On February 19, 2015, the Company s board of directors proposed that an annual dividend of USD0.090 per share (USD0.90 per ADS), or approximately USD180.4 million in the aggregate, be approved at the Company s annual general shareholders meeting, which is scheduled to be held on May 6, 2015. If the annual dividend is approved, it will be paid on May 15, 2015.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management
Board of Directors

The Company s articles of association provide for a board of directors consisting of a minimum of five members (when the shares of the Company are listed on a regulated market, as they currently are) and a maximum of fifteen. The board of directors is vested with the broadest powers to act on behalf of the Company and accomplish or authorize all acts and transactions of management and disposition that are within its corporate purpose and are not specifically reserved in the articles of association or by applicable law to the general shareholders meeting.

The board of directors is required to meet as often as required by the interests of the Company and at least four times per year. In 2014, the Company s board of directors met six times. A majority of the members of the board of directors in office present or represented at each board of directors meeting constitutes a quorum, and resolutions may be adopted by the vote of a majority of the directors present or represented. In case of a tie, the chairman is entitled to cast the deciding vote.

Directors are elected at the annual ordinary general shareholders meeting to serve one-year renewable terms, as determined by the general shareholders meeting. The general shareholders meeting may dismiss all or any one member of the board of directors at any time, with or without cause, by resolution passed by a simple majority vote. The Company s current board of directors is composed of nine directors, three of whom are independent directors.

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On January 9, 2006, Tenaris and a wholly-owned subsidiary of San Faustin entered into a shareholders agreement, pursuant to which such San Faustin subsidiary is required to take all actions in its power to cause one of the members of the Company s board of directors to be nominated by Tenaris and any directors nominated by Tenaris only be removed pursuant to written instructions by Tenaris. Tenaris and San Faustin s subsidiary also agreed to cause any vacancies on the board of directors to be filled with new directors nominated by either Tenaris or the San Faustin subsidiary, as applicable. On April 27, 2007, the San Faustin subsidiary assigned all of its rights and obligations under the shareholders agreement to Techint. The shareholders agreement will remain in effect so long as each of the parties holds at least 5% of the shares of the Company or until it is terminated by either Tenaris or Techint pursuant to its terms. Carlos A. Condorelli was nominated by Tenaris and appointed as a director pursuant to this agreement.

Within the limits of applicable law, the board of directors of the Company may appoint any or all members of the board of directors as the Company s attorney-in-fact, delegating to such director or directors any management powers to the extent the board of directors may deem appropriate. In addition, the board of directors may delegate to one or more persons, whether or not members of the board of directors, the Company s day-to-day management and the authority to represent the Company, provided that such delegation shall be subject to prior authorization by the general shareholders meeting. On September 14, 2005, following the requisite authorization at the general shareholders meeting, the board of directors delegated such day-to-day management and authority to Daniel Agustín Novegil. On May 7, 2014, the Company s annual general shareholders meeting re-elected Ubaldo José Aguirre, Roberto Bonatti, Carlos Alberto Condorelli, Pedro Pablo Kuczynski, Adrián Lajous Vargas, Bruno Marchettini, Gianfelice Mario Rocca, Paolo Rocca and Daniel Agustín Novegil as members of the board of directors to serve until the next annual shareholders meeting, which will be held on May 6, 2015 or any adjournment thereof. The board of directors subsequently re-appointed Paolo Rocca as its chairman and Daniel Novegil as chief executive officer of the Company.

The following table sets forth the current members of the board of directors of the Company, their respective offices on the board, their principal occupation, their years of service as board members and their age.

Name	Position	Principal Occupation	Years as director	Age at December 31, 2014
Paolo Rocca (1)	Chairman	Chairman and CEO of Tenaris, director and vice president of San Faustin	10	62
Ubaldo José Aguirre	Director	Managing director of Aguirre y Gonzalez S.A.	9	66
Roberto Bonatti (1)	Director	President of San Faustin	10	65
Carlos Alberto Condorelli	Director	Director of Tenaris	9	63
Adrián Lajous Vargas	Director	President of Petrométrica, S.C.	9	71
Bruno Marchettini	Director	Director of San Faustin and senior advisor in technology matters for the Techint group	9	73
Daniel Agustín Novegil	Director	CEO of the Company	10	62
Gianfelice Mario Rocca (1)	Director	Chairman of the board of directors of San Faustin, director of Tenaris and president of Humanitas Group	9	66
Pedro Pablo Kuczynski	Director	Senior advisor to The Rohatyn Group	8	76

(1) Paolo Rocca and Gianfelice Rocca are brothers, and Roberto Bonatti is Paolo and Gianfelice Rocca s first cousin.

Paolo Rocca. Mr. Rocca has served as chairman of the Board since 2005. He is a grandson of Agostino Rocca. He is also chairman and chief executive officer of Tenaris, a member of the board of directors and vice president of San Faustin, chairman of Tubos de Acero de México S.A. and a director of Techint Financial Corporation N.V. In addition, he is a member of the Executive Committee of the World Steel Association. Mr. Rocca is an Italian citizen.

Ubaldo José Aguirre. Mr. Aguirre has served on the Board since 2006. He is a managing director of Aguirre y Gonzalez S.A., an Argentine financial services firm, and also serves as chairman of the board of directors and as a member of the audit committee of Holcim Argentina S.A., a subsidiary of Holcim, the Swiss cement producer. Since 2005, he also serves as chairman of the board of directors of Permasur S.A., an Argentine winery, and of Editorial Sur S.A. Since 2000, he is a member of the board of directors of URS Argentina S.A., the Argentine subsidiary of the U.S. corporation. He is a member of the Administrative Board of Universidad Católica Argentina. Mr. Aguirre formerly served

as director and chairman of the audit committee of Siderar S.A.I.C. Mr. Aguirre began his career at the World Bank in Washington, D.C. In addition, Mr. Aguirre has been a member of the boards of each of Argentina s Central Bank where he was responsible for that country s external borrowing program and financial negotiations Banco de la Nación Argentina and Banco Nacional de Desarrollo. He also served as the Republic of Argentina s financial representative for Europe in Geneva and as negotiator on behalf of the Republic of Argentina with the Paris Club. Mr. Aguirre is an Argentine citizen.

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Roberto Bonatti. Mr. Bonatti has served as a director of the Company since 2005. Mr. Bonatti is a grandson of Agostino Rocca, founder of the Techint Group, a group of companies controlled by San Faustin. Throughout his career in the Techint group he has been involved specifically in the engineering and construction and corporate sectors. He was first employed by the Techint Group in 1976, as deputy resident engineer in Venezuela. In 1984, he became a director of San Faustin and, since 2001, he has served as its president. In addition, Mr. Bonatti currently serves as president of Sadma Uruguay S.A. He is also a member of the board of directors of Tenaris. Mr. Bonatti is an Italian citizen.

Carlos Alberto Condorelli. Mr. Condorelli has served as a director of the Company since 2005. He is also a member of the board of directors of Tenaris since 2007. He began his career within the Techint group in 1975 as an analyst in the accounting and administration department of Siderar. He has held several positions within Tenaris and other Techint group companies, including chief financial officer of Tenaris, finance and administrative director of Tubos de Acero de México, S.A. and president of the board of directors of Empresa Distribuidora La Plata S.A., an Argentine utilities company. Mr. Condorelli is an Argentine citizen.

Adrián Lajous Vargas. Mr. Lajous has served as a director of the Company since 2006. Mr. Lajous currently serves as chairman of the Oxford Institute for Energy Studies, a fellow at the Center for Global Energy Policy at Columbia University, president of Petrométrica, S.C. and non-executive director of Trinity Industries Inc. Mr. Lajous began his career teaching economics at El Colegio de México and in 1977 was appointed director general for energy at Mexico s Ministry of Energy. Mr. Lajous joined Petróleos Mexicanos (Pemex) in 1983, where he held a succession of key executive positions including executive coordinator for international trade, corporate director of planning, corporate director of operations and director of refining and marketing. From 1994 until 1999, he served as chief executive officer of Pemex and chairman of the boards of the Pemex Group of operating companies. In addition, he served as non-executive director of Schlumberger Ltd. between 2002 and 2014. Mr. Lajous is a Mexican citizen.

Bruno Marchettini. Mr. Marchettini has served as a director of the Company since 2006. He is a senior advisor to the Techint group in technology matters. He has retired from executive positions and is presently engaged as a consultant by Siderar. Mr. Marchettini is a member of the board of directors of San Faustin. Mr. Marchettini is an Italian citizen.

Daniel Agustín Novegil. Mr. Novegil has served as a director and chief executive officer of the Company since 2005. With more than 35-years of experience in the steelmaking industry, he was appointed managing director of Siderar in 1993 and a member of the board of directors of Usiminas in 2012. He is also member of the board of directors of the World Steel Association and former president of Alacero (Latin American Steel Association). Since 1999 he has been a member of the advisory board of the Sloan Masters Program at Stanford University. Mr. Novegil is an Argentine citizen.

Gianfelice Mario Rocca. Mr. Rocca has served as a director of the Company since 2006. He is a grandson of Agostino Rocca. He is chairman of the board of directors of San Faustin, a member of the board of directors of Tenaris, president of the Humanitas Group and president of the board of directors of Tenova S.p.A. In June 2013, he was elected president of Assolombarda, the largest territorial association of entrepreneurs in Italy and part of Confindustria (Italian employers organization). In addition, he is a member of the EIT Governing Board (European Institute of Innovation and Technology) and sits on the board of directors or executive committees of several companies, including Allianz S.p.A., Brembo and Buzzi Unicem. He is a member of the Advisory Board of Allianz Group, of the Aspen Institute Executive Committee, of the Trilateral Commission and of the European Advisory Board of the Harvard Business School. Mr. Rocca is an Italian citizen.

Pedro Pablo Kuczynski. Mr. Kuczynski has served as a member of the Board since 2007. Prior to that, he served in the Peruvian government as Prime Minister (2005-2006), Minister of Economy and Finance (2001-2005) and Minister of Energy and Mines (1980-1982). He was president until 2001 of a private equity firm he founded in 1992 after spending ten years as Chairman of First Boston International (today Credit Suisse) in New York. Since 2007, he is Senior Advisor to the Rohatyn Group, a firm specializing in emerging markets. He ran a bauxite mining company affiliated with Alcoa between 1977 and 1980. He began his career at the World Bank in 1961 and in the 1970s headed its Policy Planning Division as Chief Economist for Latin America and Chief Economist of IFC. Mr. Kuczynski is a U.S. and Peruvian national.

Director Liability

Under Luxembourg law, a director may be liable to the Company for any damage caused by such director s misconduct in the Company s management. In addition, directors will be jointly and severally liable to the Company, its shareholders or other third parties in the event that the Company, its shareholders or such other third parties suffer a loss due to a breach by any one or more of the directors of either the Luxembourg Company Law or the Company s articles of association, provided that the

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losses that are independent and separate from the losses suffered by the Company. A director will be discharged from such joint and several liability only with respect to breaches, provided no misconduct is attributable to such director and such director reports such breaches at the first general meeting after such director first has knowledge thereof.

An action against directors for damages may be initiated by the Company upon a resolution of the shareholders meeting passed by a simple majority vote, irrespective of the number of shares represented at the meeting. In general, claims must be brought within five years from the occurrence of an action or omission for which liability may apply or, in case the action or omission was fraudulently concealed, from the date of discovery of the relevant action or omission.

It is customary in Luxembourg that the shareholders expressly discharge the members of the board of directors from any liability arising out of or in connection with the exercise of their mandate when approving the Company s annual accounts at the annual shareholders meeting. However, such discharge will not release the directors from liability for any damage caused to the Company by unrevealed acts of mismanagement or unrevealed breaches of Luxembourg Company Law or the Company s articles of association, nor will it release the directors from liability for any personal loss of our shareholders independent and separate from the losses suffered by the Company due to a breach either revealed and unrevealed of either the Luxembourg Company Law or the Company s articles of association.

Under Luxembourg law, any director having a conflict of interest in respect of a transaction submitted for approval to the board of directors may not take part in the deliberations concerning such transaction and must inform the board of such conflict and cause a record of his statement to be included in the minutes of the meeting. Subject to certain exceptions, transactions in which any directors may have had an interest conflicting with that of the Company must be reported at the next general shareholders meeting following any such transaction.

Auditors

The Company s articles of association require the appointment of at least one independent auditor chosen from among the members of the Luxembourg Institute of Independent Auditors. Auditors are appointed by the general shareholders meeting, on the audit committee s recommendation, through a resolution passed by a simple majority vote. Shareholders may determine the number and the term of the office of the auditors at the ordinary general shareholders meeting, provided however that an auditor s term shall not exceed one year and that any auditor may be reappointed or dismissed by the general shareholders meeting at any time, with or without cause. As part of their duties, the auditors report directly to the audit committee.

PwC Luxembourg, an independent registered public accounting firm, was appointed as the Company s independent auditor for the fiscal year ended December 31, 2014, at the ordinary general shareholders meeting held on May 7, 2014.

Senior Management

The following table sets forth certain information concerning our senior management:

Name	Age at December 31, 2014	Position
Daniel Novegil	62	Chief Executive Officer; Director
Pablo Brizzio	44	Chief Financial Officer
Máximo Vedoya	44	Mexico Area Manager
Martín Berardi	57	Siderar Executive Vice President
Héctor Obeso	50	International Area Manager
Oscar Montero Martínez	54	Planning and Operations General Director
Luis Andreozzi	64	Engineering and Environment Director
Rodrigo Piña	42	Human Resources Director
Roberto Demidchuk	53	Chief Information Officer
Rubén Herrera	57	Quality and Product Director

Daniel A. Novegil. See Board of Directors.

Pablo Brizzio. Mr. Brizzio currently serves as our Chief Financial Officer. He began his career with the Techint group in 1993 in Siderar. Since then, he has held several positions within the Techint group. He served as finance director of Ternium from 2005 to 2007 and in 2009, and in

2008 he served as chief financial officer of Sidor. In 2010, he assumed his position as chief financial officer of the Company. Mr. Brizzio is an Argentine citizen.

Máximo Vedoya. Mr. Vedoya currently serves as our Mexico Area Manager. Since January 2012, he has been the executive vice president of Ternium Mexico. Prior to that, he served as chief executive officer of Ferrasa. He has held several other

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executive positions since joining the Techint Group in 1992, such as director of Ternium Mexico s international and steel purchase operations, commercial director and export manager of Sidor and commercial planning manager of Siderar. He was also director of Colombian metal-mechanic and shipbuilding chamber Fedemetal, and the Venezuelan association of the metallurgical and mining industry AIMM, and is currently vice-president of the Mexican steel chamber Canacero, director of the Latin American steel chamber Alacero, vice-president of the Nuevo León industrial chamber Caintra, and vice-president of the Mexican industrial chamber CONCAMIN. Mr. Vedoya is an Argentine citizen.

Martín Berardi. Mr. Berardi currently serves as our Siderar Executive Vice President. He began his career with the Techint group in 1980 as a trainee in Propulsora Siderúrgica. He has held several positions within the Techint group including in Propulsora Siderúrgica, Siat S.A.I.C. and Siderca. He served as managing director of Siat (1992-1995), managing director of Tamsa (1995-2000), president and chief executive officer of Sidor (2000-2004) and became managing director of Siderar in October 2004, a position which he held until he assumed his present position at the Company. He was president of IVES (Venezuelan steel institute) (2002-2004), president of Mercofer (2006-2009) and president of CAA (Argentine steel chamber) (2012-2014). He is currently vice-president of CAA, president of Alacero and a member of the board of directors of ITBA (Buenos Aires Institute of Technology). Mr. Berardi is an Argentine citizen.

Héctor Obeso. Mr. Obeso currently serves as our International Area Manager. He assumed his current position in October 2012. Prior to that, he served as commercial manager of Ternium Mexico. Mr. Obeso has held several other executive positions since joining Ternium in 2007, such as quality manager of Siderar and industrial sales manager of Ternium Mexico. Mr. Obeso is a Mexican citizen.

Oscar Montero Martínez. Mr. Montero currently serves as our Planning and Operations General Director. He began his career with the Techint group in 1984 as a commercial analyst in Siderar. Since then, he has held several positions within Siderar in the planning, commercial and procurement areas. In 1998, he assumed the position of strategic planning director of Sidor. Since 2005, he serves as planning and operations general director of the Company. Mr. Montero is an Argentine citizen.

Luis Andreozzi. Mr. Andreozzi currently serves as our Engineering and Environment Director. He began his career with the Techint group in 1968 as a trainee in Siderca. He has held several positions within other Techint group companies, including Techint Engineering Company, or TEING, Siderar and Sidor. Most recently, he served as construction manager of TEING (1986-1992), construction manager of Siderar (1992-1998), engineering and environment general manager of Sidor (1998-2004) and technology manager of the Techint Flat and Long Steel Division, a position he held until he assumed his present position at the Company. Mr. Andreozzi is an Italian citizen.

Rodrigo Piña. Mr. Piña currently serves as our Human Resources Director. He assumed his current position in January 2013. Prior to that, he served as human resources director of Siderar. He has held several other executive positions since joining the Company in 2004, such as commercial planning, CEO assistant and human resources director assistant. Mr. Piña is an Argentine citizen.

Roberto Demidchuk. Mr. Demidchuk currently serves as our Chief Information Officer. He joined the Techint group in 1986 as a trainee for Techint Engineering. Since then he has held several positions in different Techint group companies, including programming manager and procurement manager at Siderar and supply chain director at Ternium. Mr. Demidchuk is an Argentine citizen.

Rubén Herrera. Mr. Herrera currently serves as our Quality and Product Director. He assumed his current position in July 1, 2008. He has also been quality and product director of Ternium Mexico since 2007. Since joining the Techint group in 1990, he has held several other executive positions, including mechanical metallurgical department chief in Siderca s Industrial Research Center, product manager of Siderar, and quality and product director of Sidor. Mr. Herrera is an Argentine citizen.

B. Compensation

The compensation of the members of the Company s board of directors is determined at the annual ordinary general shareholders meeting. Each member of the board of directors received for the year 2014 a fee of USD85,000, and the chairman of the board of directors received an additional fee of USD295,000. The chairman of the audit committee received as additional compensation a fee of USD65,000, while the other members of the audit committee received an additional fee of USD55,000. Under the Company s articles of association, the members of the audit committee are not eligible to participate in any incentive compensation plan for employees of the Company or any of its subsidiaries.

The aggregate cash compensation received by senior management for the year 2014 amounted to USD12.9 million. In addition, senior management received, for the year 2014, 1,059,320 units for a total amount of USD2.8 million, in connection with the employee incentive retention program described in note 4 (n) (3) Employee liabilities Other compensation obligations to our consolidated financial statements included elsewhere in this annual report.

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There are no service contracts between any director and Ternium that provide for material benefits upon termination of employment. The Company does not provide pension, retirement or similar benefits to directors.

C. Board Practices

See A. Directors and Senior Management.

Audit Committee

On May 7, 2014, the Company s board of directors re-appointed Ubaldo José Aguirre, Adrián Lajous Vargas and Pedro Pablo Kuczynski as members of its audit committee, with Mr. Aguirre to continue chairing that committee. All three members of the audit committee are independent directors as defined under the Company s articles of association.

Under the Company s articles of association, an independent director is a director who:

(i) is not employed, and has not been employed in an executive capacity by the Company or any of its subsidiaries within the five years preceding the ordinary general shareholders meeting at which the candidate for the board of directors was voted upon;

(ii) does not receive consulting, advisory or other compensatory fees from the Company or any of its subsidiaries (other than fees received as a member of the board of directors of any committee thereof and fees received as a member of the board of directors or other governing body, or any committee thereof, of any of the Company s subsidiaries);

(iii) is not a person who directly or indirectly controls the Company;

(iv) does not have, and does not control a business entity that has, a material business relationship with the Company, any of its subsidiaries or a person who directly or indirectly controls the Company, if such material business relationship would reasonably be expected to adversely affect the director s ability to properly discharge his or her duties;

(v) does not control, and is not and has not been, within the five years preceding the ordinary general shareholders meeting at which the candidate for the board of directors was voted upon, employed by a present or former internal or external auditor of the Company, any of its subsidiaries or a person who directly or indirectly controls the Company; and

(vi) is not a spouse, parent, sibling or relative up to the third degree of, and does not share a home with, any of the persons above described.

Under our articles of association and the audit committee charter, the audit committee is required, among other things, to report to the board of directors on its activity and the adequacy of the Company s systems of internal control over financial reporting. In addition, the charter of the audit committee sets forth, among other things, the audit committee s purpose and responsibilities. The audit committee assists the board of directors in its oversight responsibilities with respect to the integrity of the Company s financial statements and is responsible for making recommendations regarding the appointment, dismissal, compensation, retention and oversight of, and assess the independence of the Company s independent auditors (see Item 16.C Principal Accountant Fees and Services for additional information about the audit committee s procedures with respect to our independent auditors). The audit committee also performs other duties imposed by applicable laws and regulations of the regulated market or markets on which the shares of the Company are listed, as well as any other duty entrusted to it by the Company s board of directors.

In addition, the audit committee is required by the Company s articles of association to review Material Transactions, as such term is defined by the Company s articles of association, to be entered into by the Company or its subsidiaries with Related Parties, as such term is defined by the Company s articles of association (other than transactions reviewed and approved by the independent members of the board of directors of the

Company or through any other procedures that the board of directors may deem substantially equivalent to the foregoing), in order to determine whether their terms are consistent with market conditions or are otherwise fair to the Company and/or its subsidiaries. In the case of Material Transactions entered into by the Company s subsidiaries with Related Parties, the Company s audit committee will review those transactions entered into by those subsidiaries whose boards of directors do not have independent members, or that have not been reviewed and approved by such independent directors or through any other procedures that the board of directors of the Company may deem substantially equivalent to the foregoing.

Under the Company s articles of association, as supplemented by the audit committee s charter:

a Material Transaction is (i) any transaction with or involving a Related Party (x) with an individual value equal to or greater than ten million U.S. dollars or (y) with an individual value lower than ten million U.S. dollars, when the aggregate sum of

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any series of transactions reflected in the financial statements of the four fiscal quarters of the Company preceding the date of determination (excluding any transactions that were reviewed and approved by any of the audit committee of the Company, or any of its subsidiaries, the board of directors of the Company, the independent members of the board of directors or other governing body of any subsidiary of the Company, or a majority of the members of the board of directors or similar governing body of any subsidiary of the Company that were not nominated by or at the request of the Company or any entity that directly or indirectly controls or is under common control with the Company) exceeds 1.5% of the Company s consolidated net sales made in the fiscal year preceding the year on which the determination is made; or (ii) any corporate reorganization transaction (including a merger, spin-off or bulk transfer of a business) involving the Company or any of its direct or indirect subsidiaries for the benefit of or involving a Related Party; and

a Related Party is, in relation to the Company or its direct or indirect subsidiaries, any of the following persons: (i) a member of the board of directors of the Company or of the board of directors or other governing body of any of the Company s subsidiaries; (ii) any member of the board of directors or other governing body of an entity that directly or indirectly controls the Company; (iii) any entity that directly or indirectly controls or is under common control with the Company (other than the Company s subsidiaries); (iv) any entity controlled directly or indirectly by any member of the board of directors of the Company, or of the board of directors or other governing body of any subsidiary of the Company; and (v) any spouses, parents, siblings or relatives up to the third degree of, and any person that shares a home with, any person referred to in (i) or (ii).

The audit committee has the power (to the maximum extent permitted by applicable laws) to request that the Company or relevant subsidiary provide any information necessary for it to review any Material Transaction. A Related Party transaction shall not be entered into unless (i) the circumstances underlying the proposed transaction justify that it be entered into before it can be reviewed by the Company s audit committee or approved by the board of directors and (ii) the Related Party agrees to unwind the transaction if the Company s audit committee or board of directors does not approve it.

The audit committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and has direct access to the Company s internal and external auditors as well as Ternium s management and employees and, subject to applicable laws, its subsidiaries.

D. Employees

As of December 31, 2014, Ternium had 16,919 employees, an amount slightly higher than the number of employees it had as of the end of the previous two years.

The following table shows the number of persons employed by Ternium and its fully consolidated subsidiaries, and excludes proportionally consolidated subsidiaries Consorcio Peña Colorada and Exiros:

	At December 31,		
	2014	**2013**	**2012**
Mexico	9,266	9,285	9,118
Argentina	5,641	5,539	5,454
Colombia	1,440	1,354	1,455
Other	572	610	584
Total employees (1)	16,919	16,788	16,611

(1) Does not include employees of proportionally consolidated subsidiaries Consorcio Peña Colorada and Exiros. Does not include 2,473 employees of contractors who performed services at Ternium s facilities at year-end 2014, 2,646 employees of contractors at year-end 2013 and 2,435 employees of contractors at year-end 2012.

Mexico