Ternium S.A.
Form 6-K
March 22, 2018

FORM 6 - K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

As of 3/21/2018

Ternium S.A.

(Translation of Registrant's name into English)

Ternium S.A.
29, avenue de la Porte-Neuve – 3rd floor

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_ √_ Form 40-F__

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

Yes ____ No_ √_

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

Not applicable

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

This report contains Ternium S.A.'s 2017 Annual Report.

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/ Arturo Sporleder

Name: Arturo Sporleder

Title: Secretary to the Board of Directors

Dated: March 21, 2018

Ternium S.A.

Annual Report 2017

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01_Company Profile and Strategy

Ternium is Latin America's leading flat steel producer with an annual crude steel production capacity of 12.4 million tons. We operate through subsidiaries in Mexico, Brazil, Argentina, Colombia, the southern United States and Central America, which own regional manufacturing, service center and distribution networks. In addition, Ternium participates in the control group of Usiminas, a leading steel company in the Brazilian market.

Our customers range from small businesses to large global companies in the automotive, home appliances, construction, capital goods, container, food and energy industries across the Americas. We aim to build close relationships with our customers and recognize that our success is closely linked with theirs.

Ternium supplies a broad range of high value-added steel products and has advanced customer integration systems that enable us to differentiate ourselves from our competitors through the offering of sophisticated products and services.

The company's industrial system has varied production technologies that provide a diversified cost structure, based on different types of raw material and energy sources, and a flexible production configuration. The industrial system includes proprietary iron ore mines, steelmaking facilities, finishing facilities, service centers and a broad distribution network to offer slabs, hot-rolled products, cold-rolled products, galvanized and electro-galvanized sheets, pre-painted sheets, tinplate, welded pipes, bars and wire rods as well as slit and cut-to-length products.

Its innovative culture, industrial expertise and long-term view enable Ternium to continuously achieve new breakthroughs in industrial excellence, competitiveness and customer service. We operate with a broad and long-term perspective, and we regularly work towards improving the quality of life of our employees, their families and the local communities where we operate.

Ternium S.A. (the "Company") is a Luxembourg company and its American Depositary Shares, or ADSs, are listed on the New York Stock Exchange (NYSE: TX). We refer to Ternium S.A. and its consolidated subsidiaries as "we," "our" or "Ternium."

The financial and operational information contained in this annual report is based on Ternium's operational data and on the Company's consolidated financial statements, which were prepared in accordance with IFRS and IFRIC interpretations developed by the IFRS Interpretations Committee, as issued by IASB and adopted by the European Union, and presented in US dollars ($) and metric tons.

Some of the statements contained in this annual report are "forward-looking statements". Forward-looking statements are based on management's current views and assumptions and involve known and unknown risks that could cause actual results, performance or events to differ materially from those expressed or implied by those statements. These risks include but are not limited to risks arising from uncertainties as to gross domestic product, related market demand, global production capacity, tariffs, cyclicality in the industries that purchase steel products and other factors beyond Ternium's control.

Board of Directors and Senior Management

Investor Information

02_Chairman's Letter

In 2017, Ternium laid the foundations for a new cycle of growth over the coming years. The acquisition of thyssenkrupp's advanced steel slab production facilities in Brazil and our expansion plans in Mexico and Colombia will allow us to build on the solid platform we have established over the past decade and strengthen our position as the leading flat steel producer in the Latin American region.

The integration of the modern slab facilities in Rio de Janeiro with our industrial center in Pesquería, Mexico, along with our expansion projects will transform our industrial system and our product development capabilities, and act as a catalyst to implement advanced manufacturing technologies throughout the company. Our agenda will be one of industrial and technological excellence, customer service and competitive differentiation aimed at sustaining the profitability of our operations for the long-term.

At its center will be the challenge of applying the connectivity and processing capabilities of new digital technologies to create the smart factory of the future. This will be a factory where the use of automation, analytics and real-time data processing systems produces a step change in safety, purchasing, quality, manufacturing and logistics, integrating with customer operations and providing a more stimulating work environment.

With this demanding agenda in front of it, Ternium performed well in 2017. Sales and shipments were boosted in the second part of the year following the incorporation of the new steel slab operations in Brazil in September. EBITDA rose 25% to $1.9 billion, on higher shipments of 11.6 million tons and margins remained at an industry-leading level.

In Mexico, shipments rose to a new record of 6.6 million tons as steel consumption continues to grow and we strengthen our position serving the high value automotive and industrial sectors. We announced an investment plan of $1.1 billion for the construction of a new hot rolling mill with an annual capacity of 4.1 million tons to further strengthen our positioning and expand our product range by integrating the advanced steel capabilities of our new Brazilian slab mill. Meanwhile, our investment in the Techgen power generation plant performed very well in its first year of operation, with savings on our energy costs and positive margins on the sale to third parties of our unused quota.

In Argentina, shipments rose 11% to 2.3 million tons, reflecting a gradual recovery in the economy led by the agricultural, infrastructure and energy sectors, and our industrial facilities are operating at a good level of utilization. Following the results of mid-term elections and an improvement in economic conditions in Brazil, we expect the recovery to consolidate and extend to the automotive and private construction sectors in 2018.

In Colombia, we announced an investment plan of $90 million to build a new rebar rolling facility with an annual production capacity of 520,000 tons, which we expect to start up in the second half of 2019. The Colombian market for long steel products has grown significantly over the last few years and we see an opportunity to leverage our distribution and finishing capabilities to displace imports and strengthen our position in the dynamic construction sector.

In Brazil, the recovery in Usiminas continues. The market is improving and sales rose 27%. Margins are back at normal levels and the financial position of the company is now stable. We have agreed with our partners at NSSMC new corporate governance conditions, which should ensure renewed support for the company in the coming years. As the Brazilian industrial sector strengthens, we expect our returns on this investment to continue to improve.

As we advance with our investment programs and seek to develop integrated industrial value chains in the countries where we operate, including our *ProPymes* program that provides technical and managerial support for small and medium enterprises, we remain vigilant in our efforts to protect our markets from unfair trade practices. This year, it has been encouraging to see a reduction in the overwhelming volume of unfairly traded steel exports from China as the government takes steps to reduce excess capacity in its most polluting mills. Nevertheless, unfair trade practices remain pervasive among government-sponsored companies in China and other countries with excess capacity. In recent days, the US has proclaimed a 25% tariff under section 232 on steel imports from all countries except Mexico and Canada. In the event that there were to be collateral effects involving unfair trade as a result of these trade measures, we are confident the different trade authorities in the region will take corresponding actions.

Actions to improve the sustainability of the company and our standing in the communities where we operate are at the center of our agenda. We are active participants in the actions of worldsteel to bring transparency and improve the industry's record on sustainability issues. The extensive efforts we have made to improve our safety management continue to bear results as our indicator for lost-time accidents fell a further 20% in 2017, bringing it in line with the leading companies in our industry. We continue to invest to reduce emissions, improve air quality and reduce water consumption at our less modern facilities as well as certifying all our operations in accordance with OHSAS 18001 and ISO 14001 standards. The Roberto Rocca Technical School in Pesquería, now in its second year, has 252 students and is an integral part of a vibrant and growing industrial community.

Net income for the year amounted to $886.2 million, or $4.51 per ADS, a 49% increase over the previous year. After the acquisition of the new slab mill in Brazil and an increase in working capital, associated with a higher unit cost of inventories and an increase in sales, our net financial debt increased to $2.7 billion, or 1.4 times EBITDA. Considering the improvement in our financial results and a favorable outlook ahead for our sales, we are proposing a further increase in the annual dividend payable to shareholders to $1.10 per ADS.

As Ternium embarks on a new cycle of growth, after an extraordinary decade since the company was first publicly listed, it will now be led by Máximo Vedoya. Máximo has been at the helm of the company's operations in Mexico over the past six years and will bring management continuity and renewed energy for the transformation of the company that lies ahead. I would like to thank Daniel Novegil for the remarkable job he has done in leading Ternium over the past twelve years and we are very pleased to be able to continue to count on his wisdom and experience as Vice-Chairman of the Board.

We have ahead of us a fascinating opportunity to strengthen our position as a leading industrial company in Latin America, adopting new digital technologies to achieve new levels of industrial excellence and integration with our suppliers and customers. I would like to thank our employees for their efforts and achievements during the past year. I would also like to thank our customers, suppliers and shareholders for their continuing support and confidence in our company.

Paolo Rocca

Chairman

March 21, 2018

03_Operating and Financial Highlights

	2017(*)	2016	2015	2014	2013
STEEL SHIPMENTS (thousand tons)					
Mexico	6,622.8	6,405.2	5,933.4	5,632.2	4,984.9
Southern Region	2,456.0	2,220.8	2,552.2	2,510.9	2,633.1
Other Markets	2,517.7	1,138.1	1,114.6	1,238.5	1,370.3
Total	11,596.6	9,764.0	9,600.3	9,381.5	8,988.4
FINANCIAL INDICATORS ($ million)					
Net sales	9,700.3	7,224.0	7,877.4	8,726.1	8,530.0
Operating income	1,456.8	1,141.7	639.3	1,056.2	1,109.4
EBITDA[1]	1,931.1	1,548.6	1,073.1	1,471.0	1,486.6
Equity in earnings (losses) of non-consolidated companies[2]	68.1	14.6	(272.8)	(751.8)	(31.6)
Profit before income tax expense	1,359.8	1,118.5	267.1	234.9	942.3
Profit (loss) for the year attributable to:					
Owners of the Parent	886.2	595.6	8.1	(198.8)	455.4
Non-controlling interest	136.7	111.3	51.7	94.6	137.5
Profit (loss) for the year	1,022.9	706.9	59.8	(104.2)	592.9
Capital expenditures	409.4	435.5	466.6	443.5	883.3
Free cash flow[3]	(25.5)	664.1	856.8	62.4	208.9
BALANCE SHEET ($ million)					
Total assets	12,122.6	8,322.9	8,062.6	9,690.2	10,372.6
Total financial debt	3,221.9	1,218.6	1,521.0	2,164.8	2,002.8
Net financial debt[4]	2,748.3	884.3	1,132.3	1,801.5	1,526.1
Total liabilities	6,269.8	3,156.3	3,259.6	4,055.5	4,034.6
Capital and reserves attributable to the owners of the parent	5,010.4	4,391.3	4,033.1	4,697.2	5,340.0
Non-controlling interest	842.3	775.3	769.8	937.5	998.0
STOCK DATA ($ per share / ADS[5])					
Basic earnings (losses) per share	0.45	0.30	0.00	(0.10)	0.23
Basic earnings (losses) per ADS	4.51	3.03	0.04	(1.01)	2.32
Proposed dividend per ADS	1.10	1.00	0.90	0.90	0.75
Weighted average number of shares outstanding[6] (thousand shares)	1,963,076.8	1,963,076.8	1,963,076.8	1,963,076.8	1,963,076.8

(*) In 2017, the financial statements of Ternium Brasil Ltda. (Ternium Brasil, formerly known as CSA Siderúrgica do Atlântico Ltda.) were consolidated into Ternium's, starting in September. For more information, see note 3 to our consolidated financial statements included in this annual report.

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1 EBITDA is operating income adjusted to exclude depreciation and amortization.

2 Equity in earnings (losses) of non-consolidated companies includes in 2014 and 2015 impairment charges on the Usiminas investment of $739.8 million and $191.9 million, respectively; no impairments were recorded in 2013, 2016 and 2017.

3 Free cash flow equals net cash provided by operating activities less capital expenditures.

4 Net financial debt equals total financial debt less cash and cash equivalents plus other investments.

5 Each ADS represents 10 shares.

6 Shares outstanding were 1,963,076,776 as of December 31 of each year.

04_Management's Report

This review of Ternium's financial condition and results of operations is based on, and should be read in conjunction with, the Company's consolidated financial statements as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015 (including the notes thereto), which are included elsewhere in this annual report.

Summary of 2017 results

Steel shipments (tons)	11,597,000	9,764,000	19%
Iron ore shipments (tons)	3,551,000	3,310,000	7%
Net sales ($ million)	9,700.3	7,224.0	34%
Operating income ($ million)	1,456.8	1,141.7	28%
EBITDA ($ million)	1,931.1	1,548.6	25%
EBITDA margin (% of net sales)	19.9%	21.4%	-7%
EBITDA per ton ($)	166.5	158.6	5%
Income tax expense ($ million)	(336.9)	(411.5)	-18%
Profit for the year ($ million)	1,022.9	706.9	45%
Profit attributable to owners of the parent	886.2	595.6	
($ million)			49%
Basic earnings per ADS ($)	4.51	3.03	49%

- EBITDA of $1.9 billion in 2017, a 25% year-over-year increase reflecting higher shipments and EBITDA per ton.
- Basic earnings per American Depositary Share (ADS) of $4.51 in 2017, a year-over-year increase of $1.48 per ADS.
- Capital expenditures of $409.4 million in 2017, down from $435.5 million in 2016.
- Net cash use of $1.6 billion in connection with the acquisition of Ternium Brasil and related transactions.
- Consolidation of Ternium Brasil's financial statements into Ternium's, starting in September 2017. For more information, see note 3 to our consolidated financial statements included in this annual report.
- Net debt position of $2.7 billion at the end of December 2017, up from $0.9 billion at the end of December 2016 and equivalent to 1.4 times net debt to EBITDA.

Operating income in 2017 was $1.5 billion, a $315.1 million increase compared to operating income in 2016, primarily attributable to higher steel segment operating income, with an increase in steel shipments partially offset by a decrease in steel operating margin, and higher mining segment operating income. Steel shipments were 1.8 million tons higher compared to 2016, reflecting a 1.4 million-ton increase in Other Markets, mainly as a result of the consolidation of Ternium Brasil's shipments, a 235,000-ton increase in the Southern Region and a 218,000-ton increase in Mexico. Steel revenue per ton increased year-over-year in Mexico and the Southern Region, and decreased in Other Markets, mainly due to the consolidation of Ternium Brasil slab sales. In addition, operating cost per ton increased as a result of higher raw material and purchased slab costs, partially offset by the consolidation of Ternium Brasil.

Profit for 2017 amounted to $1.0 billion, compared to a profit of $706.9 million for 2016. This $316.0 million increase in the year-over-year comparison was mainly due to the above-mentioned higher operating income, a lower effective tax rate and higher results from the equity in earnings of Usiminas (not consolidated), partially offset by higher net financial expenses. The effective tax rate was affected by the non-cash effect on deferred taxes of the fluctuation of the Mexican peso against the US dollar, which appreciated 5% in 2017 and depreciated 17% in 2016. Higher net financial expenses included an $85.8 million negative year-over-year difference in net foreign exchange results mainly related to the effect of the fluctuations of the Mexican peso and the Argentine peso against the US dollar on a net short local currency position in Ternium's Mexican subsidiaries and a net short US dollar position in Ternium's Argentine subsidiary.

Net Sales

Net sales in 2017 were $9.7 billion, 34% higher than net sales in 2016. The following table outlines Ternium's consolidated net sales for 2017 and 2016.

	Net Sales ($ million)			Shipments (thousand tons)			Revenue per ton ($/ton)		
Mexico	5,378.6	4,477.6	20%	6,622.8	6,405.2	3%	812	699	16%
Southern Region	2,313.6	1,865.9	24%	2,456.0	2,220.8	11%	942	840	12%
Other Markets	1,699.0	864.4	97%	2,517.7	1,138.1	121%	675	760	-11%
Total steel products	9,391.2	7,208.0	30%	11,596.6	9,764.0	19%	810	738	10%
Other products[7]	309.1	13.8	2,140%						
				3,551.1	3,309.6	7%	76	62	23%
Intersegment eliminations	(271.4)	(202.7)							

Steel reportable segment

Ternium produces flat and/or long steel products in Mexico, Brazil, Argentina, the United States, Colombia and Guatemala. We conduct our steel manufacturing activities through subsidiaries, including Ternium México S.A. de C.V. (Ternium Mexico), Ternium Brasil, Ternium Argentina S.A. (Ternium Argentina, formerly Siderar S.A.I.C., a company in which we have a 61% equity interest), Ternium USA Inc. (Ternium USA), Ternium Colombia S.A.S. (Ternium Colombia), Ternium Guatemala S.A. (Ternium Guatemala), and Tenigal S.R.L. de C.V. (Tenigal, a Mexican corporation in which we have a 51% equity interest, with Nippon Steel & Sumitomo Metal Corporation having the remaining 49% interest). We report steel shipments under three operating segments: Mexico, Southern Region (encompassing the steel markets of Argentina, Bolivia, Chile, Paraguay and Uruguay), and Other Markets.

Net sales of steel products in 2017 increased 30% compared to net sales in 2016, reflecting a $72 increase in steel revenue per ton and a 1.8-million-ton increase in shipments. Revenue per ton increased 10%, reflecting higher steel prices in Mexico and the Southern Region, partially offset by lower average steel prices in Other Markets. Average steel prices in Other Markets decreased as a result of an increased participation of slabs in the segment's product mix, due to the consolidation of Ternium Brasil's shipments as from September 2017. Ternium's shipments of steel products reached 11.6 million tons in 2017, a 19% increase compared with the 9.8 million tons achieved in the previous year, reflecting a 1.4-million-ton increase in Other Markets mainly related to the consolidation of Ternium Brasil's shipments, a 235,000-ton increase in the Southern Region and a 218,000-ton increase in Mexico.

7 The item "Other products" primarily includes Ternium Brasil's and Ternium Mexico's electricity sales.

Mexico operating segment

During 2017, shipments in the Mexican market reached a new record of 6.6 million tons, representing 57% of Ternium's total steel shipments. Ternium is the leading supplier of flat steel products in the country. The Mexican steel market has been growing consistently, becoming the largest steel market in Latin America, with a consumption rate of more than 200 kilograms per capita. Apparent steel demand reached a new record of 26.4 million tons in 2017 driven mainly by improved local manufacturing activity.

Mexican industrial sectors proved to be very dynamic in recent years. In particular, light vehicle production grew 13.5% in 2017, supported by the ramp up of new vehicle manufacturing facilities during the year. With 3.9 million units produced in 2017, Mexico ranks as the world's seventh largest motor vehicle manufacturer. Ternium has participated in the expansion of this sector through investments in steel manufacturing capacity, mainly a new industrial center in Pesquería in 2013, and the upgrade of our hot-rolling mill in Churubusco in 2016. As a result, industrial customers now represent approximately 53% of our total shipments in the country.

Our new facilities in Pesquería enabled the development of new value-added high-end products mainly for the automotive, home appliance and heating-ventilation-air conditioning (HVAC) industries. In addition, the installation of state-of-the-art cooling technology in the Churubusco hot-strip mill opened up the possibility of developing and processing new advanced high-strength steel (AHSS) grades. With those new capabilities, we are widening our high-end product portfolio for customers in the automotive, metal mechanic, home appliances, oil & gas and electric motors industries.

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8 Source: worldsteel.

9 Source: Mexican Automotive Industry Association.

In September 2017, we announced the construction of a new hot-rolling mill in Pesquería. This facility will enable Ternium to expand its product range in Mexico with a broader dimensional offering and the most advanced steel grades, and reduce lead times in the value chain targeting the demanding and innovative automotive industry, as well as the home appliance, machinery, energy and construction sectors. The new hot-rolling mill will be fed with high-end slabs produced in our recently acquired facility in Rio de Janeiro.

In addition, the recently announced new hot-dip galvanizing and pre-painting facilities in Pesquería will enable Ternium to produce new high-end value-added products for the home appliance, HVAC and automotive industries.

We are also strengthening our product development capabilities through the expansion of our research infrastructure in Mexico and through a recent association with World Auto Steel, a consortium of steel companies that specializes in the design and promotion of AHSS auto components.

In the commercial steel market, we continued introducing innovative products such as new wood-resembling panels, new metal roof tiles and sides with original designs and colors, and new antibacterial products for cold chamber panels, among other applications. Ternium's strategy continues to gear toward the offering of full range product catalogs, a significant local presence, logistics management and the introduction of new information technology tools. Our commercial customers, mostly involved in the construction sector, continued shifting toward a fully digital commercial relationship. As a result, more than 80% of our customers are interacting with Ternium through Webservice, our digital marketplace. Webservice’s multiple functionalities enable the administration through B2B protocols and mobile devices of product catalog, order placement (end-to-end orders, sale from stock or bidding and auction), production and inventory monitoring, transportation tracking and payment, through a direct connection with banks.

In 2017, steel prices in Mexico continued to follow the US steel market trends. After the significant price rebound experienced during 2016, the market was strong throughout 2017. Service center steel inventories in the US increased during 2017 in line with apparent steel use, resulting in a relatively stable month-of-supply inventory ratio. As in recent years, in 2017 the US and Mexican governments remained active against unfair trade practices, issuing several new trade measures during the year. For a discussion regarding recent developments concerning the U.S. Department of Commerce Section 232 review, see “07_ Principal Risks and Uncertainties” included in this Annual Report.

Utilization rates in our integrated steelmaking facilities in Mexico remained high during 2017, achieving new record production levels in several facilities. We continued to maximize the use of direct reduced iron (DRI) in the metallic mix of our steel shops (produced in our natural gas-based iron ore direct reduction units), which continued to be a cost efficient input vis-à-vis steel scrap. Our downstream facilities, including our re-rolling facilities, showed new year-over-year increases in production rates in 2017, in line with a strong market demand for Ternium’s steel products.

During the year, Ternium started implementing the SMART factory concept, a digital transformation process that will lead our facilities to a more productive and efficient stage. This concept, supported by Ternium's information technology platform, ensures a constant stream of knowledge and information (data and events) that enables actors to achieve a more efficient performance by interacting from any location (offices, facilities or elsewhere) through different kinds of devices. Analytics and data correlation detect patterns for various applications to increase safety and efficiency, and reduce costs. Through video-feed analysis (machine learning), applications include real-time detection and reporting of unsafe situations or behaviors in the facilities and, with drones, the identification of potential damages in tall structures and the assessment of bulk material stockpiles. In addition, available technologies enable the automatic handling of semi-finished and finished steel products in the yards, speeding up logistic operations and increasing safety.

Ternium’s capital expenditures in the steel segment in Mexico amounted to $194 million in 2017, compared with $197 million in 2016. The main investments carried out during the period included the upgrade and expansion of the hot strip mill at the Churubusco unit, the expansion of connectivity and equipment automation throughout Ternium Mexico’s industrial system, and the improvement of environmental and safety conditions at certain facilities within the Guerrero, Churubusco and Puebla units. Capital expenditures are expected to increase in coming years, particularly in 2019 and 2020, as Ternium deploys its recently announced investments in a new hot-rolling mill and new hot-dip galvanizing and pre-painting facilities in Pesquería.

Southern Region operating segment

Shipments in the Southern Region reached 2.5 million tons in 2017, or 21% of Ternium’s consolidated shipments in the steel segment, increasing 11% year-over-year. Most of Ternium’s shipments in the region are destined for the Argentine market, where Ternium Argentina is the leading supplier of flat steel products.

Apparent steel demand in Argentina increased 17% year-over-year in 2017 to approximately 4.9 million tons. A markedly better business environment fostered a gradual recovery of most steel consuming sectors during the year. Of note in the rebound of steel consumption was a significant recovery of the construction sector (mainly public works) and the agribusiness activity, and the startup of new natural gas and oil investments in the Vaca Muerta shale formation. In addition, the incipient recovery of the Brazilian economy during 2017 is helping to raise activity levels in some industrial sectors in Argentina, which have started to show improvements.

Construction activity in Argentina increased 12.7% in 2017, mainly driven by new public infrastructure investments and increased availability of mortgage and building loans. Motor vehicle production stabilized after three consecutive years of decreases, as higher production of utility vehicles, mainly for the export markets, was offset by lower production of sedan vehicles for both the Argentine and export markets.

10 Source: Argentine Statistics Institute

11 Source: Argentine Automotive Producers Association

Ternium's capital expenditures in the Southern Region, mainly in Argentina, amounted to $95 million in 2017. During the year, we made progress on several projects, including those for the upgrade and expansion of the hot-rolling mill, the expansion of connectivity and equipment automation (SMART factory), and the improvement of environmental and safety conditions in our facilities.

In Argentina we focused our research and development efforts on further strengthening our offering of steel products and related services. Product development initiatives are being carried on in collaboration with our supply chain, targeting the automotive sector (specifically the new light truck models and lighter and longer heavy trucks), home appliance manufacturers (to increase product portfolio with improved performance), the non-conventional energy sector (for new wind and solar power projects) and the construction of natural gas pipelines. The development of these new products allows us to participate in new steel market segments in the country.

Utilization rates in our crude steel production facilities in Argentina remained relatively stable in 2017 compared to 2016. In our downstream facilities, production rates were mixed year-over-year in 2017. It is worth mentioning the recovery in utilization rates in all of our downstream facilities during the second half of 2017, compared to the first half of the year and the second half of 2016.

In addition to higher shipments in Argentina, Ternium's shipments increased year-over-year in 2017 in Paraguay and Uruguay, and decreased in Chile and Bolivia. Economic activity in these countries continued growing at sustained rates during 2017.

Other Markets operating segment

Our major shipment destinations in the Other Markets Region are the United States, Brazil, Colombia and Central America. On September 7, 2017, Ternium acquired Ternium Brasil's slab-making facility in Rio de Janeiro, Brazil, from thyssenkrupp AG. Following the consolidation of Ternium Brasil's financial statements as from that date, shipments in the Other Markets Region increased 121% year-over-year to 2.5 million tons, representing 22% of Ternium's total shipments in the steel segment. The volume increase included 1.3 million tons of slabs shipped to third parties in the United States and Brazil from the Rio de Janeiro facility, between September and December 2017.

The Rio de Janeiro facility has an annual production capacity of 5 million tons of high-end steel slabs, a deep-water harbor and a 490 MW combined cycle power plant. The transaction with thyssenkrupp included the assignment of an agreement to supply slabs to thyssenkrupp AG's former re-rolling facility in Calvert, Alabama, United States. Under that agreement, a total of 3.5 million tons of slabs will be supplied between January 2018 and December 2020.

In the United States, apparent demand for finished steel rebounded in 2017, showing a 6.4% year-over-year growth, on improved manufacturing activity and healthier economic performance. Ternium's shipments of finished steel products in the country (excluding slab shipments to the Calvert facility) increased in 2017, with shipments focused on the aesthetically demanding non-residential construction market, mainly for commercial and industrial buildings. The company's finished steel production in the United States increased slightly year-over-year in 2017, achieving new records.

In Colombia, Ternium is a leading supplier of finished steel products. With apparent steel use of 3.7 million tons, the country is the fourth largest steel market in Latin America. After a decrease in steel demand in 2016, Colombia's steel market started to recover in 2017 supported by a rebound in construction and oil & gas activity, and continued expansion of the manufacturing businesses. Although production rates at our facilities were higher year-over-year, Ternium's shipments in the country decreased slightly in 2017 on lower steel imports.

Ternium has recently announced the construction of a new rebar hot-rolling mill, with an annual production capacity of 520,000 tons, which will enable us to expand market share in the construction sector by substituting imports. With a total investment of $90 million, the mill is expected to start operations in the second half of 2019. The new mill will enable the upstream integration of our operations by replacing current purchases of reinforcing bars from third parties.

In Central America, Ternium's steel shipments increased year-over-year in 2017 as the region continued to grow at healthy rates. Ternium's finished steel production in Guatemala grew 24% year-over-year on higher production rates, achieving new records.

Our capital expenditures in the Other Markets Region amounted to $53 million in 2017, mainly related to maintenance activities and the improvement of environmental and safety conditions in our facilities.

Mining reportable segment

Ternium produces iron ore pellets and magnetite concentrate in Mexico. We conduct our mining activities through Las Encinas S.A. de C.V. (Las Encinas), a company in which we have a 100% equity interest, and Consorcio Minero Benito Juárez Peña Colorada S.A. de C.V. (Consorcio Peña Colorada, a company in which we have a 50% interest with ArcelorMittal having the other 50%). ArcelorMittal and Ternium each receive 50% of total iron ore production of Consorcio Peña Colorada. In 2017, most of our iron ore production was consumed internally at Ternium's steelmaking facilities in Mexico.

At the end of 2017, Las Encinas was operating the Aquila open pit mine, located in Michoacán, and the Las Palomas open pit mine, located in Jalisco, a small iron ore body where we started commercial operations during 2017. 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.

By the end of 2017, Consorcio Peña Colorada was operating the Peña Colorada open pit iron ore mine, located in Colima. The Consorcio Peña Colorada facilities include a concentration plant located at the mine and a two-line pelletizing plant located near the Manzanillo seaport on the Pacific coast in Colima.

Iron ore reserves (end of 2017)[12]

Las Encinas[13]	22	40	8
Peña Colorada[14]	230	21	15

Net sales of mining products in 2017 were 32% higher than those in 2016, reflecting 23% higher revenue per ton and 7% higher shipments. The increase in shipments was mainly the result of Consorcio Peña Colorada's increased iron ore pellet production in 2017, as the company ramped up its new iron ore crushing, grinding and concentration facilities during the year.

Capital expenditures in the mining segment in 2017, including Las Encinas and Ternium's share in Peña Colorada's capital expenditures, amounted to $67 million, mainly related to preparation works at a new iron ore body in the Peña Colorada mine and maintenance activities.

Cost of sales

Cost of sales was $7.4 billion in 2017, an increase of $2.0 billion compared to 2016. This was principally due to a $1.8 billion, or 47%, increase in raw material and consumables used, mainly reflecting a 19% increase in steel shipments volume and higher purchased slab, iron ore, coking coal, scrap, zinc and energy costs; and to a $204.6 million increase in other costs, mainly including a $113.3 million increase in labor cost, a $33.8 million increase in depreciation of property, plant and equipment, a $33.3 million increase in services and fees, and a $22.8 million increase in maintenance expenses. The consolidation of Ternium Brasil in 2017 affected all of the above-mentioned components of cost of sales, as well as our selling, general and administrative expenses. For more information, see note 3 to our consolidated financial statements included in this annual report.

Selling, general and administrative (SG&A) expenses

SG&A expenses in 2017 were $824.2 million, or 8.5% of net sales, a year-over-year increase of $136.3 million, mainly due to higher amortization of intangible assets, labor costs, freight and transportation, services and fees expenses, and taxes and contributions (other than income tax).

Other net operating expense

Other net operating expense in 2017 was $16.2 million, compared to $9.9 million in 2016. Other net operating expense in 2017 included a $15.9 million donation related to the Roberto Rocca technical school in Pesquería, Nuevo

León, Mexico. For more information, see 05_Environmental, Social and Governance, and note 9 to our consolidated financial statements included in this annual report.

Operating income

Operating income in 2017 was $1.5 billion, or 15.0% of net sales, compared to operating income of $1.1 billion, or 15.8% of net sales, in 2016. The following table shows Ternium's operating income by segment for 2017 and 2016.

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12 Iron ore reserves, proven and probable, on a run-of-mine basis

13 Includes exclusively the Las Encinas and Las Palomas mines

14 Reported figures represent the total reserves at the Peña Colorada mine. Ternium has a 50% interest in Consorcio Peña Colorada.

	Steel segment		Mining segment		Intersegment Eliminations		Total	
Net Sales	9,700.3	7,221.8	271.5	204.9	(271.4)	(202.7)	9,700.3	7,224.0
Cost of sales	(7,465.8)	(5,391.0)	(212.9)	(192.0)	275.6	198.7	(7,403.0)	(5,384.4)
SG&A expenses	(811.5)	(677.0)	(12.8)	(10.9)	-	-	(824.2)	(687.9)
Other operating (expenses) income, net	(17.0)	(9.5)	0.8	(0.4)	-	-	(16.2)	(9.9)

EBITDA

EBITDA in 2017 was $1.9 billion, or 19.9% of net sales, compared with $1.5 billion, or 21.4% of net sales, in 2016.

Net financial results

Net financial results were a $165.1 million loss in 2017, compared to a $37.9 million loss in 2016. During 2017, Ternium's net financial interest results were a loss of $95.2 million, compared to a $75.8 million loss in 2016.

Net foreign exchange results were a loss of $65.5 million in 2017 compared to a gain of $20.3 million in 2016. The year-over-year difference in net foreign exchange results of $85.8 million was mainly related to the effect of the fluctuations of the Mexican peso against the US dollar on a net short local currency position in Ternium's Mexican subsidiaries. In 2017, the Mexican peso appreciated 5% against the US dollar, compared to a 17% depreciation in 2016. Change in fair value of financial instruments included in net financial results was a $3.1 million gain in 2017 compared to a $19.3 million gain in 2016.

Equity in results of non-consolidated companies

Equity in results of non-consolidated companies was a gain of $68.1 million in 2017, compared to a gain of $14.6 million in 2016, mainly due to better results from Ternium's investment in Usiminas.

Income tax expense

Income tax expense in 2017 was $336.9 million, or 25% of income before income tax, compared to an income tax expense of $411.5 million, or 37% of income before income tax in 2016. Effective tax rate in 2017 included a non-cash gain on deferred taxes due to the 5% appreciation of the Mexican peso against the US dollar during the year. Effective tax rate in 2016 included a non-cash charge on deferred taxes due to the 17% depreciation of the Mexican peso against the US dollar during that year.

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. We hold money market investments, time deposits and variable-rate or fixed-rate securities. We increased our financial indebtedness to $3.2 billion at the end of 2017, from $1.2 billion at the end of 2016, in order to finance the acquisition of Ternium Brasil and related transactions and as a result of increased working capital requirements.

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

In $ million	**For the year ended December 31,**	
Net cash provided by operating activities	383.9	1,099.6
Net cash used in investing activities	(2,030.0)	(554.7)
Net cash provided by (used in) financing activities	1,802.3	(508.7)
Increase in cash and cash equivalents	156.2	36.2
Effect of exchange rate changes	(1.8)	(4.4)
Cash and cash equivalents at the beginning of the year	183.5	151.5

Operating activities

Net cash provided by operating activities in 2017 was $383.9 million. Working capital increased by $865.0 million in 2017 as a result of a $540.2 million increase in inventories and an aggregate $411.4 million increase in trade and other receivables, partially offset by an aggregate $86.6 million increase in accounts payable and other liabilities.

The inventory value increase in 2017 was mainly due to $258.1 million higher costs of slabs, goods in process and finished goods principally as a result of the pass-through of higher purchased slab, scrap, coal and iron ore prices; $129.1 million higher steel volume, mainly reflecting increased operating rates in all of Ternium’s facilities; and $152.9 million higher price and volume of raw materials, supplies and other items.

	Change in inventory Dec'17 / Dec'16 ($ million)		
Finished steel goods	44.8	30.0	74.7
Steel goods to undergo processing	213.4	99.1	312.5
Raw materials, supplies and other items			152.9

The increase in trade and other receivables in 2017 reflected mostly higher prices and shipments in Ternium's main steel markets. In addition, Ternium made income tax payments in excess of income tax accruals for an aggregate $273.4 million in 2017, as the payment of the balance of income tax for fiscal 2016 was very significant, reflecting a substantial increase in net income in 2016 compared to 2015.

Investing activities

Net cash used in investing activities in 2017 was $2.0 billion, primarily attributable to a net cash use of $1.6 billion in connection with the acquisition of Ternium Brasil and related transactions, and capital expenditures of $409.4 million.

Financing activities

Net cash provided by financing activities was $1.8 billion in 2017, primarily attributable to net proceeds from borrowings of $2.0 billion, partially offset by total dividend payments of $226.9 million ($196.3 million to the Company's shareholders and $30.6 million to non-controlling interest).

Principal sources of funding

Funding policy

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. We obtain financing primarily in US 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 information on our financial risk management, please see note 29 "Financial risk management" to our consolidated financial statements included in this annual report.

Ternium has in place non-committed credit facilities and management believes it has adequate access to the credit markets. Considering this fact and the funds provided by operating activities, management believes that we have sufficient resources to satisfy our current working capital needs, service our debt and pay dividends. 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.

Financial liabilities

Our financial liabilities consist of loans with financial institutions and some pre-agreed overdraft transactions. As of December 31, 2017, these facilities were mainly denominated in US dollars, Argentine pesos and Colombian pesos (88.5%, 10.3% and 0.9% of total financial liabilities, respectively). Total financial debt (inclusive of principal and interest accrued thereon) increased by $2.0 billion in the year, from $1.2 billion as of December 31, 2016, to $3.2 billion as of December 31, 2017. As of December 2017, current borrowings were 46.7% of total borrowings, none of which corresponded to borrowings with related parties.

Net financial debt (total financial debt less cash and cash equivalents plus other investments) increased by $1.9 billion in 2017, from $0.9 billion as of December 31, 2016, to $2.7 billion as of December 31, 2017. Net financial debt as of December 31, 2017 equaled 1.4 times 2017 EBITDA.

Ternium's weighted average interest rate for 2017 was 4.8%, a decrease compared to the 6.9% average interest rate in 2016. This rate was calculated using the rates set for each instrument in its corresponding currency and weighted using the US dollar-equivalent outstanding principal amount of each instrument as of December 31, 2017. The year-over-year decrease in average interest rates was due mainly to lower participation of Argentine peso denominated debt in the currency mix, as nominal interest rates in Argentina reflect high local inflation rates.

Most significant borrowings and financial commitments

Our most significant borrowings as of December 31, 2017 were those outstanding under Ternium Mexico's 2013 syndicated loan facility, Tenigal's 2012 syndicated loan facility, and Ternium Investments S.à.r.l.'s (Ternium Investments) 2017 syndicated loan facility to finance the acquisition of Ternium Brasil and related transactions.

$ million

Date	Borrower	Type	Original principal Amount	Outstanding principal amount as of December 31, 2017	Maturity
November 2013	Ternium Mexico	Syndicated loan	800	155	November 2018
2012/2013	Tenigal	Syndicated loan	200	125	July 2022
September 2017	Ternium Investments	Syndicated loan	1,500	1,500	September 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, 2017, we were in compliance with all covenants under our loan agreements.

Our most significant financial commitments as of December 31, 2017, were the following:

A corporate guarantee covering 48% of the obligations of Techgen under a syndicated loan agreement. Proceeds from the syndicated loan were used by Techgen for the construction of its facilities. As of December 31, 2017, Ternium's guarantee amounted to approximately $346 million, based on an outstanding loan amount of $720 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, 2017, Techgen and Ternium, as guarantor, were in compliance with all of its covenants.

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 starting on August 1, 2016 and ending during the second half of 2036. As of December 31, 2017, the outstanding value of this commitment was approximately $265 million. Our exposure under the guarantee in connection with these agreements amounts to $127 million, corresponding to 48% of the outstanding value of the agreements as of December 31, 2017.

For further information on our financial instruments, borrowings, commitments and financial risk management please see notes 22, 23, 24, 25 and 29 to our consolidated financial statements included in this annual report.

Recent Developments

Agreement regarding governance of Usiminas

On February 8, 2018, the Company's subsidiary Ternium Investments S.à r.l. entered into a binding and immediately effective agreement (the "Agreement") with Nippon Steel & Sumitomo Metal Corporation ("NSSMC"), establishing certain new governance rules for Usiminas as well as certain undertakings for the settlement of legal disputes. The new governance rules for Usiminas include, among others, an alternation mechanism for the nomination of each of the CEO and the Chairman of the Board of Directors, as well as a new mechanism for the nomination of other members of Usiminas' Executive Board. In addition, the Agreement incorporates an exit mechanism.

Annual dividend proposal

On February 20, 2018, the Company's board of directors proposed that an annual dividend of $0.11 per share ($1.10 per ADS), or approximately $215.9 million in the aggregate, be approved at the Company's annual general shareholders' meeting, which is scheduled to be held on May 2, 2018. If the annual dividend is approved, it will be paid on May 10, 2018. Ternium's dividend payments have been growing over the years, starting from 0.50 dollars per ADS in 2006, the year of the initial public offering and listing.

05_Environmental, Social and Governance

Ternium believes that the long-term prosperity of the company and the communities surrounding its operations are entwined. Environmental protection and the individual's health and safety are paramount values for Ternium, and directors, officers and employees have a mandate to observe this value and to promote and share related policies with the company's value chain and with the communities where it operates.

Ternium aims to achieve the highest standards of environment care, health and safety, incorporating the principles of sustainable development throughout its business. Health and safety, customer satisfaction, environment protection and community development are identified as integrated key drivers of our business. The entire organization is oriented towards achieving these goals.

Environment, health and safety (EHS)

Under Ternium's environmental and health and safety policies in place, environmental, health and safety management and risk assessment are integrated in all business processes. Management is responsible and accountable for achieving excellence in environmental, health and safety performance for successful business results.

15 Lost time injuries frequency rate refers to quantity of day-loss injuries per million of hours worked.

16 Injuries frequency rate refers to total quantity of injuries per million of hours worked.

(*) Ternium Brasil’s facilities, acquired during the year, are included starting September 2017.

Ternium is committed to training all its employees in the appropriate use of its EHS management systems, strengthening its management through updating of professional and managerial skills, fostering diversity, emphasizing employee evaluation and motivation and complying with the ethical principles established in its code of conduct.

Ternium recognizes the importance of implementing its environment and health and safety policies throughout its management systems, covering the entire supply chain from suppliers to customers and the proper and efficient use of its products in accordance with their agreed specifications.

World Steel Association (worldsteel) forums

Ternium’s environment, health and safety policies abide by worldsteel’s policy statement and its principles for excellence in safety and occupational health. worldsteel forums address various matters of interest for the industry, including the Climate Change Policy, Life Cycle Assessment, Carbon Dioxide (CO_2) Data Collection Program, Water Management, Sustainability Reporting, and Safety and Occupational Health Committee groups and their working subgroups. These forums are focused on sustainable development, environment, safety and occupational health, and develop consistent measurements, statistics and databases of selected variables aiming to enable steelmaking companies to benchmark performance, share state-of-the-art best practices and ultimately set industrial process improvement plans.

Environmental certifications

Ternium’s management of its environmental footprint leans on a unified environmental management system that integrates all of its production units. The company periodically certifies its procedures, which in turn help us identify improvement opportunities and update our environmental management processes. Ternium also certifies each facility’s management system under ISO 14001. This standard was created by the International Organization for Standardization, a network of national standardization institutes that work together with governments, the industry and consumer representatives with the purpose of supporting the implementation of an environment management plan in public and private organizations.

Our recently acquired facility in Rio de Janeiro, Brazil has become the main focus of our ISO 14001 certification project. We aim to obtain a ISO 14001 certificate for this facility by year-end 2018, which would enable us to achieve a certification rate, as reported to worldsteel, of approximately 99% of our work force.

In addition, every year Ternium revalidates each steel and in-use mining facility in Mexico with Clean Industry certificates issued by Mexican environmental authorities. The Clean Industry standard is the result of an environmental voluntary program developed by the Mexican government in collaboration with *ema*, a network of private companies and national chambers that design technical standards and rate laboratories, inspection bodies and certification bodies. The standards set for Clean Industry certificates are in line with the requirements of Mexican environmental legislation.

Environmental investments

Ternium continuously invests in best-available technologies to maximize the efficient use of energy resources, the re-use of by-products and the appropriate treatment and disposal of wastes, air emissions and wastewater. These initiatives usually require significant investments in new equipment, such as de-dusting systems, scrap handling facilities or briquetting facilities to clean and recycle material recovered from air emissions; and hydrochloric acid regeneration facilities and coke-oven gas treatment facilities to capture re-usable by-products. Ternium's energy efficiency program generates dozens of new energy-saving projects every year. This program is a continuous initiative encompassing all of Ternium's facilities to reduce greenhouse gas emissions and operating costs.

Occupational, health and safety certification

Ternium’s programs to improve safety in its production units are managed through a unified health and safety management system. The company periodically certifies its procedures, which helps us find new opportunities to improve our safety management systems and ensure their compliance with our health and safety policy.

Ternium’s steelmaking and steel processing facilities in Mexico, Argentina, Colombia and Guatemala are certified under OHSAS 18001. The Occupational Health and Safety Assessment Series (OHSAS) standard is the result of a concerted effort from a number of the world’s leading national standards bodies, certification bodies and specialist consultancies to help develop safety management systems with the highest level of excellence.

We are currently working on the certification process of our mining facilities in Mexico. In addition, we are implementing our health and safety programs and management system in our recently acquired facility in Rio de Janeiro, Brazil.

Safety management improvements for critical production processes

We performed a diagnosis and identification of process hazards at critical processes in our mining, steelmaking and steel processing facilities in Mexico, Argentina and Colombia, and are now working on sustainability. With the assistance of DuPont, a renowned authority in industrial safety, we developed new safety management tools for critical processes and consolidated a safe administration of critical processes.

Community relations

Ternium's social programs focus on helping strengthen our neighboring communities and forge deepening ties with them. We work together with local institutions to develop projects in the areas of education, health and social integration. Lead by the principle "help those who help themselves", the company promotes initiatives that improve life quality and strengthen institutions that foster education and welfare of our communities.

Ternium supports several state-run technical schools near its facilities in the Ramallo and Ensenada industrial areas in Argentina and the Monterrey industrial area in Mexico. This endeavor has contributed to a significant improvement of the training level of their graduates. In addition to Ternium, this program involves local governments and the *Hermanos Agustín y Enrique Rocca* foundation, a non-governmental organization linked to the Techint Group committed to community development.

The program provides technical internships at workshops and training at operating areas of the company's industrial centers, in addition to technical training programs in schools. We offer activities for developing teachers' skills and school management. Moreover, the program funds the expansion and improvement of school infrastructure, and makes cash contributions for the purchase of new equipment or the enhancement of existing equipment.

Ternium has programs aimed at improving basic education in low-income communities near its facilities. It provides support to elementary schools in San Nicolás de los Garza and Pesquería, Mexico, and in Ramallo, Argentina, and also organizes workshop academies in Pihuamo, Aquila and Alzada in Mexico.

Together with the *Hermanos Agustín y Enrique Rocca* foundation, Ternium funds scholarships for high-school and university students from local communities in Mexico, Argentina, Colombia and Guatemala. It also organizes health fairs, clinical examination, and disease and addiction prevention campaigns aimed at increasing the community's awareness and gaining of a basic understanding of how to prevent and take care of various health issues.

In addition, the company supports and funds a basic health care unit in Aquila, Mexico, and health care infrastructure improvements in various locations. As part of its health care initiative, the company fosters sports through activities organized together with local institutions, such as annual marathons and sport leagues involving schools in its facilities' neighboring communities.

Support to the industrial network

Ternium offers assistance and training to small and medium enterprises (SMEs) to foster the industrial value chain in Mexico and Argentina. With the participation of approximately 1,500 companies, the *ProPymes* program provides a variety of services, including training, industrial assistance, institutional assistance, commercial support and financial aid. Through these means, *ProPymes* has helped create an industrial network that encourages the professionalization and quest for excellence of SMEs, which, based on knowledge sharing, reciprocal learning and exchange of experiences, aims at the implementation along the whole value chain of the best practices utilized in the industry.

Training programs are performed in-house or at universities or business schools. They cover an expanding range of SMEs needs and are continuously updated and broadened in order to adapt to the requirements of managers, white-collar and blue-collar employees.

Industrial assistance programs include a broad array of issues from the use of automation technology and optimization of production facilities, to the development of environment, health and safety protocols and human resources management.

The institutional assistance program helps SMEs develop strategies aimed at ensuring a level playing field in the local market, given the potential threat of increased unfairly traded imports. Assistance efforts included those for the setting of industry chambers, the development of technical standards for industrial products and institutional initiatives aimed at improving SMEs competitiveness. In addition, we help SMEs set their own corporate social programs through the implementation of a support program for technical educational institutes.

Commercial support initiatives include the promotion of commercial ties between SMEs and potential customers in the automotive sector and other industries in our value chain, and assistance in the development process required to become a supplier of a large company. In addition, we offer SMEs to leverage on the Techint Group's global network of commercial offices in order to enhance their market reach.

The financial assistance program aims at fostering investments to enhance productivity and increase installed capacity, taking advantage of government-sponsored low-cost financing instruments.

Corporate governance

Ternium S.A. is organized as a public limited liability company (*société anonyme*), organized under the laws of the Grand Duchy of Luxembourg. The Company holds controlling stakes in steel companies operating in Latin America and the Southern United States. San Faustín S.A., the holding company of the Techint Group, an international group of companies, has a 62% controlling interest in Ternium. San Faustín also has controlling interests in Tenaris, a global supplier of steel pipes and related services mainly for the energy industry which holds an additional 11% interest in Ternium; Tecpetrol, an oil and gas company; Techint, an engineering and construction company; Tenova, a supplier of equipment and technology for iron mining and steel; and Humanitas, a network of hospitals in Italy.

The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of $1.00 per share. The general extraordinary meeting of shareholders held on May 6, 2015 renewed the validity of the Company’s authorized share capital until 2020. As of December 31, 2017, there were 2,004,743,442 shares issued and outstanding, of which 41,666,666 are held in the Company’s treasury.

The Company’s ADSs are listed in the New York Stock Exchange. Each ADS represents ten shares. Holders of ADSs only have those rights that are expressly granted to them in the deposit agreement dated January 31, 2006, among the Company, The Bank of New York Mellon (formerly The Bank of New York), as depositary, and all owners and beneficial owners from time to time of ADRs of the Company. ADS holders may not attend or directly exercise voting rights in shareholders’ meetings, but may instruct the depositary how to exercise the voting rights for the shares, which underlie their ADSs. Holders of ADSs maintaining non-certificated positions must follow instructions given by their broker or custodian bank.

Our articles of association provide that our annual ordinary general shareholders' meetings must take place in Luxembourg on the first Wednesday of every May at 2:30 p.m., Luxembourg time. At these meetings, our annual financial statements are approved and the members of our board of directors are elected. No attendance quorum is required at annual ordinary general shareholders' meetings and resolutions are adopted by a simple majority vote of the shares represented at the meeting. There are no limitations currently imposed by Luxembourg law on the rights of non-resident shareholders to hold or vote the Company's shares.

The Company's board of directors is currently comprised of eight directors, of whom three are independent under the articles of association and SEC regulations applicable to foreign private issuers. The board of directors has an audit committee consisting of three independent members. The charter of the audit committee sets forth, among other things, the audit committee's purpose and responsibilities, which include the responsibility to review material transactions with related parties to determine whether their terms are consistent with market conditions or are otherwise fair to the Company and/or its subsidiaries. In addition, the audit committee reports to the board of directors on the adequacy of the systems of internal control over financial reporting.

Ternium has adopted a Code of Conduct incorporating guidelines and standards of integrity and transparency that applies to all directors, officers and employees. In addition, it has adopted a Code of Ethics for Senior Financial Officers, a Transparency Policy governing relationships with third parties, a Policy on Business Conduct, a Code of Conduct for Suppliers, an Antifraud Policy, a Policy on Securities Trading and a Human Rights Policy.

Ternium has an internal audit area that reports to the Chairman of the Board of Directors and, with respect to internal control over financial reporting, to the Audit Committee. The internal audit area evaluates and reassures the effectiveness of control processes, risk management and governance. Ternium established and encourages the use of a web-based anonymous compliance line to report situations contrary to the Code of Conduct, which operates according to the procedures designed by the internal audit area.

Ternium has an Internal Control and Business Conduct Compliance Officer reporting to the CEO of the Company, who has responsibility for identifying and mitigating corruption risks and fostering a culture of ethical and transparent conduct, and for designing norms aligned with national and international laws against corruption and bribery.

Ternium purchases most of its supplies through Exiros, a specialized procurement company whose ownership we share with Tenaris. Ternium’s suppliers undergo a rigorous process of selection to ensure governance standards are in place, in line with applicable laws and regulations and in accordance with our Health and Safety and Environmental policies and Code of Conduct. Our Code of Conduct for Suppliers covers ethical behavior, compliance with law, and health, safety and environmental care.

TERNIUM S.A.

Consolidated Financial Statements

as of December 31, 2017 and 2016 and

for the years ended on December 31, 2017, 2016 and 2015

29 Avenue de la Porte-Neuve, 3rd floor

L – 2227

R.C.S. Luxembourg: B 98 668

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Audit report

To the Board of Directors and Shareholders of

Ternium S.A.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Ternium S.A. (the Company) and its subsidiaries (the Group) as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;

- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Law and standards are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated

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financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the consolidated Annual report but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on other legal and regulatory requirements

The consolidated Management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 21 March 2018

Marc Minet

TERNIUM S.A.
Consolidated Financial Statements as of December 31, 2017 and 2016

and for the years ended December 31, 2017, 2016 and 2015

(All amounts in USD thousands)

Consolidated Income Statements

	Notes	Year ended December 31, 2017	2016	2015
Net sales	**5**	9,700,296	7,223,975	7,877,449
Cost of sales	**6**	(7,403,025)	(5,384,390)	(6,477,272)
Gross profit		**2,297,271**	**1,839,585**	**1,400,177**
Selling, general and administrative expenses	**7**	(824,247)	(687,942)	(770,292)
Other operating income (expenses), net	**9**	(16,240)	(9,925)	9,454
Operating income		**1,456,784**	**1,141,718**	**639,339**
Finance expense	**10**	(114,583)	(89,971)	(89,489)
Finance income	**10**	19,408	14,129	7,981
Other financial income (expenses), net	**10**	(69,915)	37,957	(17,922)
Equity in earnings (losses) of non-consolidated companies	**3 & 14**	68,115	14,624	(272,810)
Profit before income tax expense		**1,359,809**	**1,118,457**	**267,099**
Income tax expense	**11**	(336,882)	(411,528)	(207,320)
Profit (Loss) for the year		**1,022,927**	**706,929**	**59,779**
Attributable to:				
Owners of the parent		886,219	595,644	8,127
Non-controlling interest		136,708	111,285	51,652
Profit (Loss) for the year		**1,022,927**	**706,929**	**59,779**
Weighted average number of shares outstanding		1,963,076,776	1,963,076,776	1,963,076,776
Basic and diluted (losses) earnings per share for profit attributable to the owners of the parent (expressed in		0.45	0.30	0.00

USD per share)

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

TERNIUM S.A.
Consolidated Financial Statements as of December 31, 2017 and 2016

and for the years ended December 31, 2017, 2016 and 2015

(All amounts in USD thousands)

Consolidated Statements of Comprehensive Income

	Year ended December 31,		
	2017	**2016**	**2015**
Profit (Loss) for the year	**1,022,927**	**706,929**	**59,779**
Items that may be reclassified subsequently to profit or loss:			
Currency translation adjustment	(95,462)	(141,665)	(409,767)
Currency translation adjustment from participation in non-consolidated companies	(8,931)	53,858	(230,774)
Changes in the fair value of derivatives classified as cash flow hedges and available-for-sale financial instruments	735	641	1,277
Income tax relating to cash flow hedges and available-for-sale financial instruments	(107)	(192)	(371)
Other comprehensive income items	(96)	(1,542)	-
Other comprehensive income items from participation in non-consolidated companies	191	1,054	973
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of post employment benefit obligations	(15,068)	(14,735)	5,277
Income tax relating to remeasurement of post employment benefit obligations	4,916	2,571	(1,946)
Remeasurement of post employment benefit obligations from participation in non-consolidated companies	3,954	(15,817)	(5,113)
Other comprehensive loss for the year, net of tax	**(109,868)**	**(115,827)**	**(640,444)**
Total comprehensive income (loss) for the year	**913,059**	**591,102**	**(580,665)**
Attributable to:			
Owners of the parent	815,434	534,827	(457,750)
Non-controlling interest	97,625	56,275	(122,915)
Total comprehensive income (loss) for the year	**913,059**	**591,102**	**(580,665)**

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

TERNIUM S.A.
Consolidated Financial Statements as of December 31, 2017 and 2016

and for the years ended December 31, 2017, 2016 and 2015

(All amounts in USD thousands)

Consolidated Statements of Financial Position

	Notes	Balances as of December 31, 2017		December 31, 2016	
ASSETS					
Non-current assets					
Property, plant and equipment, net	**12**	5,349,753		4,135,977	
Intangible assets, net	**13**	1,092,579		842,557	
Investments in non-consolidated companies	**14**	478,348		418,379	
Other investments	**18**	3,380		5,998	
Deferred tax assets	**20**	121,092		85,795	
Receivables, net	**15**	677,299		132,580	
Trade receivables, net	**16**	4,832	7,727,283	1,270	5,622,556
Current assets					
Receivables, net	**15**	362,173		79,820	
Derivative financial instruments	**22**	2,304		316	
Inventories, net	**17**	2,550,930		1,647,869	
Trade receivables, net	**16**	1,006,598		633,745	
Other investments	**18**	132,736		144,853	
Cash and cash equivalents	**18**	337,779	4,392,520	183,463	2,690,066
Non-current assets classified as held for sale			2,763		10,248
			4,395,283		2,700,314
Total Assets			**12,122,566**		**8,322,870**
EQUITY					
Capital and reserves attributable to the owners of the parent			5,010,424		4,391,298
Non-controlling interest			842,347		775,295
Total Equity			**5,852,771**		**5,166,593**
LIABILITIES					
Non-current liabilities					

Provisions	**19**	768,517		6,950	
Deferred tax liabilities	**20**	513,357		609,004	
Other liabilities	**21**	373,046		302,784	
Trade payables		2,259		9,305	
Finance lease liabilities	**23**	69,005		-	
Borrowings	**24**	1,716,337	3,442,521	396,742	1,324,785
Current liabilities					
Current income tax liabilities		52,940		178,112	
Other liabilities	**21**	357,001		228,081	
Trade payables		897,732		603,119	
Derivative financial instruments	**22**	6,001		287	
Finance lease liabilities	**23**	8,030		-	
Borrowings	**24**	1,505,570	2,827,274	821,893	1,831,492
Total Liabilities			6,269,795		3,156,277
Total Equity and Liabilities			**12,122,566**		**8,322,870**

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

TERNIUM S.A.
Consolidated Financial Statements as of December 31, 2017 and 2016

and for the years ended December 31, 2017, 2016 and 2015

(All amounts in USD thousands)

Consolidated Statements of Changes in Equity

	Attributable to the owners of the parent (1)									
	Capital stock (2)	Treasury shares (2)	Initial public offering expenses	Reserves (3)	Capital stock issue discount(4)	Currency translation adjustment	Retained earnings	Total	Non-controlling interest	T Eq
Balance as of January 1, 2017	**2.004.743**	**(150.000)**	**(23.295)**	**1.420.171**	**(2.324.866)**	**(2.336.929)**	**5.801.474**	**4.391.298**	**775.295**	**5.16**
Profit for the year							886.219	886.219	136.708	1.02
Other comprehensive income (loss) for the year										
Currency translation adjustment						(66.735)		(66.735)	(37.658)	(10
Remeasurement of post employment benefit obligations				(4.642)				(4.642)	(1.556)	(
Cash flow hedges and others, net of tax				504				504	124	
Others				88				88	7	
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**(4.050)**	**-**	**(66.735)**	**886.219**	**815.434**	**97.625**	**91**
Dividends paid in cash (5)							(196.308)	(196.308)	-	(19
Dividends paid in cash to non-controlling								-	(30.573)	(3

interest (6)											
Balance as of December 31, 2017	**2.004.743**	**(150.000)**	**(23.295)**	**1.416.121**	**(2.324.866)**	**(2.403.664)**	**6.491.385**	**5.010.424**		**842.347**	**5.85**

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

(2) The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD 1.00 per share. As of December 31, 2017, there were 2,004,743,442 shares issued. All issued shares are fully paid. Also, as of December 31, 2017, the Company held 41,666,666 shares as treasury shares.

(3) Include mainly legal reserve under Luxembourg law for USD 200.5 million, undistributable reserves under Luxembourg law for USD 1.4 billion, hedge accounting reserve, net of tax effect, for USD 0.6 million and reserves related to the acquisition of non-controlling interest in subsidiaries for USD (88.5) million.

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

(5) Represents USD 0.10 per share (USD 1.00 per ADS). Related to the dividends distributed on May 3, 2017, and as 41,666,666 shares are held as treasury shares by Ternium, the dividends attributable to these treasury shares amounting to USD 4.2 million were included in equity as less dividend paid.

(6) Corresponds to the dividends paid by Ternium Argentina S.A. (formerly Siderar S.A.I.C.).

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

TERNIUM S.A.
Consolidated Financial Statements as of December 31, 2017 and 2016

and for the years ended December 31, 2017, 2016 and 2015

(All amounts in USD thousands)

Consolidated Statements of Changes in Equity

	Attributable to the owners of the parent (1)									
	Capital stock (2)	**Treasury shares (2)**	**Initial public offering expenses**	**Reserves (3)**	**Capital stock issue discount(4)**	**Currency translation adjustment**	**Retained earnings**	**Total**	**Non-controlling interest**	**T Eq**
Balance as of January 1, 2016	**2,004,743**	**(150,000)**	**(23,295)**	**1,444,394**	**(2,324,866)**	**(2,300,335)**	**5,382,507**	**4,033,148**	**769,849**	**4,80**
Profit for the year							595,644	595,644	111,285	70
Other comprehensive income (loss) for the year										
Currency translation adjustment						(36,594)		(36,594)	(51,213)	(8
Remeasurement of post employment benefit obligations				(25,749)				(25,749)	(2,232)	(2
Cash flow hedges and others, net of tax				229				229	220	
Others				1,297				1,297	(1,785)	
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**(24,223)**	**-**	**(36,594)**	**595,644**	**534,827**	**56,275**	**59**
Dividends paid in cash (5)							(176,677)	(176,677)	-	(17
Dividends paid in cash to non-controlling								-	(50,829)	(5

interest (6)											
Balance as of December 31, 2016	**2,004,743**	**(150,000)**	**(23,295)**	**1,420,171**	**(2,324,866)**	**(2,336,929)**	**5,801,474**	**4,391,298**		**775,295**	**5,16**

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

(2) The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD 1.00 per share. As of December 31, 2016, there were 2,004,743,442 shares issued. All issued shares are fully paid. Also, as of December 31, 2016, the Company held 41,666,666 shares as treasury shares.

(3) Include mainly legal reserve under Luxembourg law for USD 200.5 million, undistributable reserves under Luxembourg law for USD 1.4 billion, hedge accounting reserve, net of tax effect, for USD 0.1 million and reserves related to the acquisition of non-controlling interest in subsidiaries for USD (88.5) million.

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

(5) Represents USD 0.090 per share (USD 0.90 per ADS). Related to the dividends distributed on May 4, 2016, and as 41,666,666 shares are held as treasury shares by Ternium, the dividends attributable to these treasury shares amounting to USD 3.7 million were included in equity as less dividend paid.

(6) Corresponds to the dividends paid by Ternium Argentina S.A. (formerly Siderar S.A.I.C.).

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

TERNIUM S.A.
Consolidated Financial Statements as of December 31, 2017 and 2016

and for the years ended December 31, 2017, 2016 and 2015

(All amounts in USD thousands)

Consolidated Statements of Changes in Equity

Attributable to the owners of the parent (1)								Non-controlling interest	Total Equity
Capital stock (2)	Treasury shares (2)	Initial public offering expenses	Reserves (3)	Capital stock issue discount (4)	Currency translation adjustment	Retained earnings	Total		