

Ternium S.A.
Form 6-K
February 20, 2019
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 02/19/2019

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 a 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

Edgar Filing: Ternium S.A. - Form 6-K

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

This report contains Ternium S.A.'s consolidated financial statements as of December 31, 2018.

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 | By: /s/ Máximo Vedoya |
| Name: Pablo Brizzio | Name: Máximo Vedoya |
| Title: Chief Financial Officer | Title: Chief Executive Officer |

Dated: February 19, 2019

TERNIUM S.A.

Consolidated Financial Statements

as of December 31, 2018 and 2017 and

for the years ended on December 31, 2018, 2017 and 2016

29 Avenue de la Porte-Neuve, 3rd floor

L – 2227

R.C.S. Luxembourg: B 98 668

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

INDEX TO THE CONSOLIDATED FINANCIAL STAMENTS

| | Page |
|--|------|
| Consolidated Income Statements for the years ended December 31, 2018, 2017 and 2016 | 2 |
| Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016 | 3 |
| Consolidated Statements of Financial Position as of December 31, 2018 and 2017 | 4 |
| Consolidated Statements of Changes in Equity for the years ended December 31, 2018, 2017 and 2016 | 5 |
| Consolidated Statements of Cash Flow for the years ended December 31, 2018, 2017 and 2016 | 8 |
| Index to the Notes to the Consolidated Financial Statements | 9 |

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016
(All amounts in USD thousands)

Consolidated Income Statements

| | | Year ended December 31, | | |
|--|-------|-------------------------|---------------|---------------|
| | Notes | 2018 | 2017 | 2016 |
| Net sales | 5 | 11,454,807 | 9,700,296 | 7,223,975 |
| Cost of sales | 6 | (8,483,328) | (7,403,025) | (5,384,390) |
| Gross profit | | 2,971,479 | 2,297,271 | 1,839,585 |
| Selling, general and administrative expenses | 7 | (876,764) | (824,247) | (687,942) |
| Other operating income (expenses), net | 9 | 13,656 | (16,240) | (9,925) |
| Operating income | | 2,108,371 | 1,456,784 | 1,141,718 |
| Finance expense | 10 | (131,172) | (114,583) | (89,971) |
| Finance income | 10 | 21,236 | 19,408 | 14,129 |
| Other financial income (expenses), net | 10 | (69,640) | (69,915) | 37,957 |
| Equity in earnings (losses) of non-consolidated companies | 14 | 102,772 | 68,115 | 14,624 |
| Profit before income tax expense | | 2,031,567 | 1,359,809 | 1,118,457 |
| Income tax expense | 11 | (369,435) | (336,882) | (411,528) |
| Profit for the year | | 1,662,132 | 1,022,927 | 706,929 |
| Attributable to: | | | | |
| Owners of the parent | | 1,506,647 | 886,219 | 595,644 |
| Non-controlling interest | | 155,485 | 136,708 | 111,285 |
| Profit for the year | | 1,662,132 | 1,022,927 | 706,929 |
| 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 USD per share) | | 0.77 | 0.45 | 0.30 |

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016
(All amounts in USD thousands)

Consolidated Statements of Comprehensive Income

| | Year ended December 31, | | |
|---|-------------------------|------------|------------|
| | 2018 | 2017 | 2016 |
| Profit for the year | 1,662,132 | 1,022,927 | 706,929 |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Currency translation adjustment | (376,220) | (95,462) | (141,665) |
| Currency translation adjustment from participation in non-consolidated companies | (73,761) | (8,931) | 53,858 |
| Changes in the fair value of financial instruments at fair value through other comprehensive income | (1,036) | — | — |
| Income tax related to financial instruments at fair value | 122 | — | — |
| Changes in the fair value of derivatives classified as cash flow hedges | (132) | 735 | 641 |
| Income tax relating to cash flow hedges | (73) | (107) | (192) |
| Other comprehensive income items | (897) | (96) | (1,542) |
| Other comprehensive income items from participation in non-consolidated companies | 499 | 191 | 1,054 |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Remeasurement of post employment benefit obligations | (38,263) | (15,068) | (14,735) |
| Income tax relating to remeasurement of post employment benefit obligations | 9,259 | 4,916 | 2,571 |
| Remeasurement of post employment benefit obligations from participation in non-consolidated companies | (3,780) | 3,954 | (15,817) |
| Other comprehensive loss for the year, net of tax | (484,282) | (109,868) | (115,827) |
| Total comprehensive income for the year | 1,177,850 | 913,059 | 591,102 |
| Attributable to: | | | |
| Owners of the parent | 1,176,964 | 815,434 | 534,827 |
| Non-controlling interest | 886 | 97,625 | 56,275 |
| Total comprehensive income for the year | 1,177,850 | 913,059 | 591,102 |

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016
(All amounts in USD thousands)

Consolidated Statements of Financial Position

| | Notes | Balances as of | | | |
|---|-------|-------------------|-------------------|------------|-----------|
| | | December 31, 2018 | December 31, 2017 | | |
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment, net | 12 | 5,817,609 | 5,349,753 | | |
| Intangible assets, net | 13 | 1,012,524 | 1,092,579 | | |
| Investments in non-consolidated companies | 14 | 495,241 | 478,348 | | |
| Other investments | 18 | 7,195 | 3,380 | | |
| Derivative financial instruments | 22 | 818 | — | | |
| Deferred tax assets | 20 | 134,224 | 121,092 | | |
| Receivables, net | 15 | 649,447 | 677,299 | | |
| Trade receivables, net | 16 | 4,766 | 8,121,824 | 4,832 | 7,727,283 |
| Current assets | | | | | |
| Receivables, net | 15 | 309,750 | 362,173 | | |
| Derivative financial instruments | 22 | 770 | 2,304 | | |
| Inventories, net | 17 | 2,689,829 | 2,550,930 | | |
| Trade receivables, net | 16 | 1,128,470 | 1,006,598 | | |
| Other investments | 18 | 44,529 | 132,736 | | |
| Cash and cash equivalents | 18 | 250,541 | 4,423,889 | 337,779 | 4,392,520 |
| Non-current assets classified as held for sale | | | 2,149 | 2,763 | |
| | | | 4,426,038 | 4,395,283 | |
| Total Assets | | | 12,547,862 | 12,122,566 | |
| EQUITY | | | | | |
| Capital and reserves attributable to the owners of the parent | | | 6,393,255 | 5,010,424 | |
| Non-controlling interest | | | 1,091,321 | 842,347 | |
| Total Equity | | | 7,484,576 | 5,852,771 | |
| LIABILITIES | | | | | |
| Non-current liabilities | | | | | |
| Provisions | 19 | 643,950 | 768,517 | | |
| Deferred tax liabilities | 20 | 474,431 | 513,357 | | |
| Other liabilities | 21 | 414,541 | 373,046 | | |
| Trade payables | | 935 | 2,259 | | |
| Finance lease liabilities | 23 | 65,798 | 69,005 | | |
| Borrowings | 24 | 1,637,101 | 3,236,756 | 1,716,337 | 3,442,521 |

Edgar Filing: Ternium S.A. - Form 6-K

| | | | | | |
|----------------------------------|----|---------|------------|------------|-----------|
| Current liabilities | | | | | |
| Current income tax liabilities | | 150,276 | | 52,940 | |
| Other liabilities | 21 | 351,216 | | 357,001 | |
| Trade payables | | 904,171 | | 897,732 | |
| Derivative financial instruments | 22 | 12,981 | | 6,001 | |
| Finance lease liabilities | 23 | 8,030 | | 8,030 | |
| Borrowings | 24 | 399,856 | 1,826,530 | 1,505,570 | 2,827,274 |
| Total Liabilities | | | 5,063,286 | 6,269,795 | |
| Total Equity and Liabilities | | | 12,547,862 | 12,122,566 | |

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

Page 4 of 87

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017

and for the years ended December 31, 2018, 2017 and 2016

(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 | Total Equity |
| Balanace at January 1, 2018 | 2,004,743 | (150,000) | (23,295) | 1,416,121 | (2,324,866) | (2,403,664) | 6,491,385 | 5,010,424 | 842,347 | 5,852,771 |
| Impact of adopting IFRS 9 at January 1, 2018 (see note 28) | | | | 450 | | | (147) | 303 | 204 | 507 |
| Impact of adopting IAS 29 at January 1, 2018 (see note 4 (cc)) | | | | | | | 421,502 | 421,502 | 268,824 | 690,326 |
| Adjusted Balance at January 1, 2018 | 2,004,743 | (150,000) | (23,295) | 1,416,571 | (2,324,866) | (2,403,664) | 6,912,740 | 5,432,229 | 1,111,375 | 6,543,604 |
| Profit for the year | | | | | | | 1,506,647 | 1,506,647 | 155,485 | 1,662,132 |
| Other comprehensive income (loss) for the period | | | | | | | | | | |
| Currency translation adjustment | | | | | | (298,813) | | (298,813) | (151,168) | (449,981) |
| Remeasurement of post employment benefit obligations | | | | (29,418) | | | | (29,418) | (3,366) | (32,784) |
| Cash flow hedges and others, net of tax | | | | (288) | | | | (288) | 83 | (205) |
| Others | | | | (1,164) | | | | (1,164) | (148) | (1,312) |
| | — | — | — | (30,870) | — | (298,813) | 1,506,647 | 1,176,964 | 886 | 1,177,850 |

Total
comprehensive
income (loss)
for the year

| | | | | |
|---|------------|------------|-----------|------------|
| Dividends paid in cash (5) | (215,938) | (215,938) | — | (215,938) |
| Dividends paid in cash to non-controlling interest (6) | — | (29,006) | (5,312) | |
| Inflation effect on dividends paid to non-controlling interest (note 4 (cc)) | — | 8,066 | (15,628) | |

Balance at

December 31, 2018 2,004,743 (150,000) (23,295) 1,385,701 (2,324,866) (2,702,477) 8,203,449 6,393,255 1,091,321 7,484,570

(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, 2018, there were 2,004,743,442 shares issued. All issued shares are fully paid. Also, as of December 31, 2018, 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 0.5 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 0.11 per share (USD 1.10 per ADS). Related to the dividends distributed on May 2, 2018, and as 41,666,666 shares are held as treasury shares by Ternium, the dividends attributable to these treasury shares amounting to USD 4.6 million were included in equity as less dividend paid.

(6) Corresponds to the dividends paid by Ternium Argentina S.A.

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, 2018 and 2017

and for the years ended December 31, 2018, 2017 and 2016

(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 (3) | Reserves (3) | Capital stock issue discount (4) | Currency translation adjustment | Retained earnings | Total | Non- controlling interest | Total Equity |
| Balance at 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 | 5,166,593 |
| Profit for the period | | | | | | | 886,219 | 886,219 | 136,708 | 1,022,927 |
| Other comprehensive income (loss) for the year | | | | | | | | | | |
| Currency translation adjustment | | | | | | (66,735) | | (66,735) | (37,658) | (104,393) |
| Remeasurement of post employment benefit obligations | | | | (4,642) | | | | (4,642) | (1,556) | (6,198) |
| Cash flow hedges and others, net of tax | | | | 504 | | | | 504 | 124 | 628 |
| Others | | | | 88 | | | | 88 | 7 | 95 |
| Total comprehensive income (loss) for the year | — | — | — | (4,050) | — | (66,735) | 886,219 | 815,434 | 97,625 | 913,059 |
| Dividends paid in cash (5) | | | | | | | (196,308) | (196,308) | — | (196,308) |
| Dividends paid in cash to non-controlling interest (6) | | | | | | | | — | (30,573) | (30,573) |
| Balance at 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 | 5,852,771 |

(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, 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.

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, 2018 and 2017

and for the years ended December 31, 2018, 2017 and 2016

(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 (3) | Reserves (3) | Capital stock issue discount (4) | Currency translation adjustment | Retained earnings | Total | Non- controlling interest | Total Equity |
| Balance at 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 | 4,802,997 |
| Profit for the year | | | | | | | 595,644 | 595,644 | 111,285 | 706,929 |
| Other comprehensive income (loss) for the year | | | | | | | | | | |
| Currency translation adjustment | | | | | | (36,594) | | (36,594) | (51,213) | (87,807) |
| Remeasurement of post employment benefit obligations | | | | (25,749) | | | | (25,749) | (2,232) | (27,981) |
| Cash flow hedges and others, net of tax | | | | 229 | | | | 229 | 220 | 449 |
| Others | | | | 1,297 | | | | 1,297 | (1,785) | (488) |
| Total comprehensive income (loss) for the year | — | — | — | (24,223) | — | (36,594) | 595,644 | 534,827 | 56,275 | 591,102 |
| Dividends paid in cash (5) | | | | | | | (176,677) | (176,677) | — | (176,677) |
| Dividends paid in cash to non-controlling interest (6) | | | | | | | | — | (50,829) | (50,829) |
| Balance at 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 | 5,166,593 |

(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 USD1.00per 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.

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, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016
(All amounts in USD thousands)

Consolidated Statements of Cash Flows

| | Notes | Year ended December 31, | | |
|---|---------|-------------------------|-------------|-------------|
| | | 2018 | 2017 | 2016 |
| Cash flows from operating activities | | | | |
| Profit for the year | | 1,662,132 | 1,022,927 | 706,929 |
| Adjustments for: | | | | |
| Depreciation and amortization | 12 & 13 | 589,299 | 474,299 | 406,890 |
| Income tax accruals less payments | 27 (b) | (154,366) | (273,443) | 182,332 |
| Equity in earnings of non-consolidated companies | 14 | (102,772) | (68,115) | (14,624) |
| Interest accruals less payments | 27 (b) | (13,014) | 19,484 | 12,699 |
| Changes in provisions | 19 | (7,659) | 2,783 | 1,678 |
| Changes in working capital (1) | 27 (b) | (228,577) | (864,970) | (162,373) |
| Net foreign exchange results and others | | (5,778) | 70,894 | (33,936) |
| Net cash provided by operating activities | | 1,739,265 | 383,859 | 1,099,595 |
| Cash flows from investing activities | | | | |
| Capital expenditures | 12 & 13 | (520,250) | (409,402) | (435,460) |
| Loans to non-consolidated companies | 14 | (24,480) | (23,904) | (92,496) |
| Decrease in other investments | 18 | 86,857 | 14,986 | 86,340 |
| Proceeds from the sale of property, plant and equipment | | 861 | 1,124 | 1,212 |
| Dividends received from non-consolidated companies | | — | 65 | 183 |
| Acquisition of business | | | | |
| Purchase consideration | 3 | — | (1,890,989) | — |
| Cash acquired | 3 | — | 278,162 | — |
| Investment in non-consolidated companies | 14 | — | — | (114,449) |
| Net cash used in investing activities | | (457,012) | (2,029,958) | (554,670) |
| Cash flows from financing activities | | | | |
| Dividends paid in cash to company's shareholders | | (215,938) | (196,308) | (176,677) |
| Dividends paid in cash to non-controlling interests | | (20,940) | (30,573) | (50,829) |
| Finance Lease payments | | (7,565) | (4,157) | — |
| Proceeds from borrowings | | 1,188,731 | 3,239,121 | 910,577 |
| Repayments of borrowings | | (2,266,560) | (1,205,827) | (1,191,770) |
| Net cash provided by (used in) financing activities | | (1,322,272) | 1,802,256 | (508,699) |
| (Decrease) Increase in cash and cash equivalents | | (40,019) | 156,157 | 36,226 |
| Movement in cash and cash equivalents | | | | |

Edgar Filing: Ternium S.A. - Form 6-K

| | | | | |
|--|--------|-----------|----------|----------|
| At January 1, | | 337,779 | 183,463 | 151,491 |
| Effect of exchange rate changes and inflation adjustment | 4 (cc) | (47,219) | (1,841) | (4,254) |
| (Decrease) Increase in cash and cash equivalents | | (40,019) | 156,157 | 36,226 |
| Cash and cash equivalents at December 31, (2) | | 250,541 | 337,779 | 183,463 |
| Non- Cash transactions: | | | | |
| Acquisition of PP&E under lease contract agreements | | — | 77,035 | — |

(1) The working capital is impacted by non-cash movement of USD (216.6) million as of December 31, 2018 (USD (70.0) million and USD (73.8) million as of December 31, 2017 and 2016, respectively) due to the variations in the exchange rates used by subsidiaries with functional currencies different from the US dollar.

(2) It includes restricted cash of USD 2,216, USD 50 and USD 83 as of December 31, 2018, 2017 and 2016, respectively. In addition, the Company had other investments with a maturity of more than three months for USD 44,521, USD 135,864 and USD 150,851 as of December 31, 2018, 2017 and 2016, respectively.

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

INDEX TO THE NOTES TO THE CONSOLIDATED FINANCIAL STAMENTS

| | Page |
|--|------|
| 1 General information | 10 |
| 2 Basis of presentation | 11 |
| 3 Acquisition of business | 14 |
| 4 Accounting policies | 18 |
| 5 Segment information | 42 |
| 6 Cost of sales | 45 |
| 7 Selling, general and administrative expenses | 46 |
| 8 Labor costs (included in cost of sales and selling, general and administrative expenses) | 46 |
| 9 Other operating income (expenses), net | 47 |
| 10 Other financial income (expenses), net | 47 |
| 11 Income tax expense | 48 |
| 12 Property, plant and equipment, net | 49 |
| 13 Intangible assets, net | 50 |
| 14 Investments in non-consolidated companies | 51 |
| 15 Receivables, net - non-current and current | 55 |
| 16 Trade receivables, net - non-current and current | 56 |
| 17 Inventories, net | 56 |
| 18 Cash, cash equivalents and other investments | 57 |
| 19 Allowances and provisions - non-current and current | 57 |
| 20 Deferred income tax | 58 |
| 21 Other liabilities - non-current and current | 60 |
| 22 Derivative financial instruments | 62 |
| 23 Finance leases | 64 |
| 24 Borrowings | 65 |
| 25 Contingencies, commitments and restrictions on the distribution of profits | 67 |
| 26 Related party transactions | 73 |
| 27 Other required disclosures | 75 |
| 28 Recently issued accounting pronouncements | 76 |
| 29 Financial risk management | 79 |
| 30 Subsequent events - Techgen refinancing | 86 |

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

Ternium S.A. (the “Company” or “Ternium”), was incorporated on December 22, 2003 to hold investments in flat and long steel manufacturing and distributing companies. The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD 1.00 per share. As of December 31, 2018, there were 2,004,743,442 shares issued. All issued shares are fully paid.

Ternium’s American Depositary Shares (“ADSs”) trade on the New York Stock Exchange under the symbol “TX”.

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

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

As part of the Company’s corporate reorganization in connection with the termination of Luxembourg’s 1929 holding company regime, on December 6, 2010, the Company contributed its equity holdings in all its subsidiaries and all its financial assets to its Luxembourg wholly-owned subsidiary Ternium Investments S.à r.l., or Ternium Investments, in exchange for newly issued corporate units of Ternium Investments. As the assets contributed were recorded at their historical carrying amount in accordance with Luxembourg GAAP, the Company’s December 2010 contribution of such assets to Ternium Investments resulted in a non-taxable revaluation of the accounting value of the Company’s assets under Luxembourg GAAP. The amount of the December 2010 revaluation was equal to the difference between the historical carrying amounts of the assets contributed and the value at which such assets were contributed and amounted to USD 4.0 billion. However, for the purpose of these consolidated financial statements, the assets contributed by Ternium to its wholly-owned subsidiary Ternium Investments were recorded based on their historical carrying amounts in accordance with IFRS, with no impact on the financial statements.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

1. GENERAL INFORMATION (continued)

Following the completion of the corporate reorganization, and upon its conversion into an ordinary Luxembourg holding company, the Company voluntarily recorded a special reserve exclusively for tax-basis purposes. As of December 31, 2018 and 2017, this special tax reserve amounted to USD 6.7 billion and USD 6.9 billion, respectively. The Company expects that, as a result of its corporate reorganization, its current overall tax burden will not increase, as all or substantially all of its dividend income will come from high income tax jurisdictions. In addition, the Company expects that dividend distributions for the foreseeable future will be imputed to the special reserve and therefore should be exempt from Luxembourg withholding tax under current Luxembourg law.

2. BASIS OF PRESENTATION

a) Basis of presentation

These consolidated financial statements have been prepared in accordance with IFRS (International Financial Reporting Standards) issued and effective or issued and early adopted as at the time of preparing these statements (February 2019), as issued by the International Accounting Standards Board and in conformity with International Financial Reporting Standards as adopted by the European Union ("EU"). These consolidated financial statements are presented in thousands of United States dollars ("USD"), except otherwise indicated.

These Consolidated financial statements fairly present the consolidated equity and consolidated financial situation of Ternium as of December 31, 2018, and the consolidated results of its operations, the Changes in the Consolidated Statement of Comprehensive Income, the Changes in Consolidated Net Equity and the Consolidated Cash Flows of Ternium for the year then ended.

Elimination of all material intercompany transactions and balances between the Company and their respective subsidiaries has been made in consolidation.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

These consolidated financial statements have been approved for issue by the Board of Directors on February 19, 2019.

Detailed below are the companies whose financial statements have been consolidated and accounted for interest in these consolidated financial statements.

Edgar Filing: Ternium S.A. - Form 6-K

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

2. BASIS OF PRESENTATION (continued)

| Company | Country of Organization | Main activity | Percentage of ownership at December 31, | | |
|--|----------------------------|--|--|---------|---------|
| | | | 2018 | 2017 | 2016 |
| Ternium S.A. | Luxembourg | Holding | 100.00% | 100.00% | 100.00% |
| Ternium Investments S.à.r.l. | Luxembourg | Holding | 100.00% | 100.00% | 100.00% |
| Ternium Solutions A.G. (1) | Switzerland | Services | 100.00% | 100.00% | 100.00% |
| Ternium Participações S.A. (1) | Brazil | Holding | 100.00% | 100.00% | 100.00% |
| Ternium Investments Switzerland AG (1) | Switzerland | Holding | 100.00% | 100.00% | 100.00% |
| Ternium Internacional España S.L.U. (1) | Spain | Marketing of steel products | 100.00% | 100.00% | 100.00% |
| Ternium USA Inc. (1) | USA | Manufacturing and selling of steel products | 100.00% | 100.00% | 100.00% |
| Ternium Argentina S.A. (2) | Argentina | Manufacturing and selling of steel products | 60.94 % | 60.94 % | 60.94 % |
| Impeco S.A. (3) | Argentina | Manufacturing of pipe products | 60.97 % | 60.97 % | 60.97 % |
| Prosid Investments S.A. (4) | Uruguay | Holding | 60.94 % | 60.94 % | 60.94 % |
| Ternium Mexico S.A. de C.V. (5) | Mexico | Manufacturing and selling of steel products | 88.78 % | 88.78 % | 88.78 % |
| Hylsa S.A. de C.V. (6) | Mexico | Manufacturing and selling of steel products | 88.78 % | 88.78 % | 88.78 % |
| Las Encinas S.A. de C.V. (6) | Mexico | Exploration, exploitation and pelletizing of iron ore | 88.78 % | 88.78 % | 88.78 % |
| Ferropak Comercial S.A. de C.V. (6) | Mexico | Scrap services company | 88.78 % | 88.78 % | 88.78 % |
| Transamerica E. & I. Trading Corp. (6) | USA | Scrap services company | 88.78 % | 88.78 % | 88.78 % |
| Técnica Industrial S.A. de C.V. (6) | Mexico | Services | 88.78 % | 88.78 % | 88.78 % |
| Galvacer Chile SA (6) | Chile | Distributing company | 88.78 % | 88.78 % | 88.78 % |
| Imsamex Ecuador, S.A. (6) | Ecuador | Distributing company | 88.78 % | 88.78 % | 88.78 % |
| Ternium Gas México S.A. de C.V. (7) | Mexico | Energy services company | 88.78 % | 88.78 % | 88.78 % |
| Consortio Minero Benito Juarez Peña Colorada S.A. de C.V. (8) | Mexico | Exploration, exploitation and pelletizing of iron ore | 44.39 % | 44.39 % | 44.39 % |
| Peña Colorada Servicios S.A. de C.V. (8) | Mexico | Services | 44.39 % | 44.39 % | 44.39 % |
| Exiros B.V. (8) | Netherlands | Procurement and trading services | 50.00 % | 50.00 % | 50.00 % |
| Servicios Integrales Nova de Monterrey S.A. de C.V. (9) | Mexico | Medical and Social Services | 66.14 % | 66.14 % | 66.14 % |
| Ternium Internacional Nicaragua S.A. | Nicaragua | Manufacturing and selling of steel products | 99.38 % | 99.38 % | 99.38 % |
| Ternium Internacional Honduras S.A. de C.V. | Honduras | Manufacturing and selling of steel products | 99.18 % | 99.18 % | 99.18 % |
| Ternium Internacional El Salvador S.A. de C.V. | El Salvador | Manufacturing and selling of steel products | 99.92 % | 99.92 % | 99.92 % |
| Ternium Internacional Costa Rica S.A. | Costa Rica | Manufacturing and selling of steel products | 99.98 % | 99.98 % | 99.98 % |
| | Guatemala | Selling of steel products | 99.98 % | 99.98 % | 99.98 % |

Edgar Filing: Ternium S.A. - Form 6-K

| | | | | | |
|---|-------------|---|---------|---------|---------|
| Ternium Internacional Guatemala S.A. (10) | | | | | |
| Ternium Colombia S.A.S. (formerly Ferrasa S.A.S.) (10) | Colombia | Manufacturing and selling of steel products | 100.00% | 100.00% | 100.00% |
| Ternium del Cauca S.A.S. (formerly Perfilamos del Cauca S.A.S.) (10) | Colombia | Manufacturing and selling of steel products | 100.00% | 100.00% | 100.00% |
| Ternium Siderúrgica de Caldas S.A.S. (formerly Siderúrgica de Caldas S.A.S.) (10) | Colombia | Manufacturing and selling of steel products | 100.00% | 100.00% | 100.00% |
| Tenigal S. de R.L. de C.V. (11) | Mexico | Manufacturing and selling of steel products | 51.00 % | 51.00 % | 51.00 % |
| Ternium Internacional S.A. (12) | Uruguay | Holding and marketing of steel products | 100.00% | 100.00% | 100.00% |
| Ternium Treasury Services S.A. (12) | Uruguay | Financial Services | 100.00% | 100.00% | 100.00% |
| Ternium Internationaal B.V. (13) | Netherlands | Marketing of steel products | 100.00% | 100.00% | 100.00% |

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

2. BASIS OF PRESENTATION (continued)

| Company | Country of Organization | Main activity | Percentage of ownership at December 31, | | |
|--|----------------------------|--|--|---------|---------|
| | | | 2018 | 2017 | 2016 |
| Ternium International Inc. (13) | Panama | Marketing of steel products | 100.00% | 100.00% | 100.00% |
| Ternium Procurement S.A. (14) | Uruguay | Procurement services | 100.00% | 100.00% | 100.00% |
| Technology & Engineering Services S.A. (14) | Uruguay | Engineering and other services | 100.00% | 100.00% | 100.00% |
| Ternium International USA Corporation (15) | USA | Marketing of steel products | 100.00% | 100.00% | 100.00% |
| Ternium Ingeniería y Servicios de México S.A. de C.V. (16) | Mexico | Engineering and other services | 99.89 % | 99.89 % | 99.89 % |
| Soluciones Integrales de Gestión S.A. (17) | Argentina | Other services | 100.00% | 100.00% | 100.00% |
| Ternium Staal B.V. (18) | Netherlands | Holding and marketing of steel products | 100.00% | 100.00% | — |
| Ternium Brasil Ltda. (18) | Brazil | Manufacturing and selling of steel products | 100.00% | 100.00% | — |
| Ternium del Atlántico S.A.S (19) | Colombia | Manufacturing and selling of steel products | 100.00% | 100.00% | — |
| Ternium Solutions S.A. (formerly Tericer Trading S.A.) (20) | Uruguay | Other services | 100.00% | — | — |
| Acedor, S.A. de C.V. (21) | Mexico | Holding | — | 88.78 % | 88.78 % |
| Ecosteel Gestao de Efuentes Industriais S.A. (22) | Brazil | Other services | — | 100.00% | — |
| Galvatubing Inc (23) | USA | Manufacturing and selling of pipe Products | — | 88.78 % | 88.78 % |
| Galvamet America Corp (24) | USA | Manufacturing and selling of insulated panel products | — | 88.78 % | 88.78 % |
| Ternium Internacional de Colombia S.A.S. (25) | Colombia | Marketing of steel products | — | 100.00% | 100.00% |
| Ecosteel Gestao de Águas Industriais S.A. (26) | Brazil | Other services | — | 100.00% | — |
| Galvacer America Inc (27) | USA | Distributing company | — | — | 88.78 % |

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

(2) During the fourth quarter of 2017, Siderar S.A.I.C. changed its business name to Ternium Argentina S.A. Indirectly through Ternium Internacional España S.L.U. Total voting rights held: 60.94%.

(3) Since the fourth quarter of 2017, indirectly through Ternium Argentina S.A. and Soluciones Integrales de Gestión S.A. Total voting rights held 100.00%. Before that, indirectly through Ternium Argentina S.A. and Ternium Internacional S.A.

(4) Since the fourth quarter of 2017, indirectly through Ternium Argentina S.A. and Ternium Procurement S.A. Total voting rights held 100.00%. Before that, indirectly through Ternium Argentina S.A. and Ternium Internacional S.A.

(5) Since the fourth quarter of 2017, indirectly through Ternium Argentina S.A. and Ternium Internacional España S.L.U. Total voting rights held 100.00%. Before that, indirectly through Ternium Argentina S.A., Ternium Internacional S.A. and Ternium Internacional España S.L.U.

Edgar Filing: Ternium S.A. - Form 6-K

- (6) Indirectly through Ternium Mexico S.A. de C.V. Total voting rights held: 100.00%.
- (7) Indirectly through Ternium Mexico S.A. de C.V. and Tenigal S. de R.L. de C.V. Total voting rights held: 100.00%.
- (8) Total voting rights held: 50.00%.
- (9) Indirectly through Ternium Mexico S.A. de C.V. Total voting rights held: 74.50%.
- (10) Indirectly through Ternium Internacional España S.L.U.. Total voting rights held: 100.00%.
- (11) Indirectly through Ternium Internacional España S.L.U.. Total voting rights held: 51.00%.
- (12) Indirectly through Ternium Investments Switzerland AG. Total voting rights held: 100.00%.
- (13) Since the third quarter of 2017, indirectly through Ternium Investments S.à r.l. Total voting rights held: 100.00%. Before that, indirectly through Ternium Investments Switzerland AG.
- (14) Since the third quarter of 2017, indirectly through Ternium Internacional España S.L.U. Total voting rights held: 100.00%. Before that, indirectly through Ternium Investments Switzerland AG.
- (15) Since the fourth quarter of 2017, indirectly through Ternium Investments S.à r.l. Total voting rights held: 100.00%. Before that, indirectly through Ternium Internacional S.A.
- (16) Indirectly through Technology & Engineering Services S.A. and Ternium México S.A. de C.V. Total voting rights held 100.00%.
- (17) Since the third quarter of 2017, indirectly through Ternium Investments S.à r.l. and Ternium Internacional España S.L.U. Total voting rights held 100.00%. Before that, indirectly through Ternium Investments S.à r.l. and Technology and Engineering Services S.A.
- (18) Indirectly through Ternium Investments S.à r.l. Total voting rights held: 100.00%.
- (19) Indirectly through Ternium Internacional España S.L.U.. Total voting rights held: 100.00%.
- (20) Indirectly through Ternium Investments S.à.r.l. Total voting rights held: 100.00%.
- (21) Merged with Ternium México as of December 31, 2018.
- (22) This company was dissolved as of May 4, 2018.
- (23) This company was dissolved as of July 19, 2018.
- (24) On August 3, 2018, the shareholders gave its consent to proceed with the liquidation and dissolution of this subsidiary.
- (25) This company was dissolved as of October 3, 2018.
- (26) This company was dissolved as of December 3, 2018.
- (27)This company was dissolved as of December 11, 2017.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

2. BASIS OF PRESENTATION (continued)

The most important non-controlling interest is related to the investment in Ternium Argentina S.A., which is a company listed in the Buenos Aires Stock Exchange. Ternium Argentina stated in its annual accounts as of and for the year ended December 31, 2018, that revenues amounted to USD 1,959 million (2017: USD 2,301 million), net profit from continuing operations to USD 254 million (2017: USD 337 million), total assets to USD 3,184 million (2017: USD 2,820 million), total liabilities to USD 606 million (2017: USD 874 million) and shareholders' equity to USD 2,578 million (2017: USD 1,945 million). All the information related to this investment could be found in the Buenos Aires Stock Exchange webpage.

3. ACQUISITION OF BUSINESS

CSA Siderúrgica do Atlântico Ltda. (now Ternium Brasil Ltda.) and thyssenkrupp Slab International B.V. (now Ternium Staal B.V.)

(a) The acquisition

On September 7, 2017, Ternium completed the acquisition from thyssenkrupp AG (“tkAG”) of a 100% ownership interest in thyssenkrupp Slab International B.V. (“tkSI”) and its wholly-owned subsidiary CSA Siderúrgica do Atlântico Ltda. (“CSA”), a steel slab producer with a steelmaking facility located in the state of Rio de Janeiro, Brazil, and having 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 acquisition was expected to substantially increase Ternium’s steelmaking capacity and strengthen its business in strategic industrial sectors across Latin America.

As part of the transaction, tkAG assigned to Ternium a slab commitment agreement providing for an arrangement relating to the purchase of CSA-manufactured carbon steel slabs under the terms of a slab frame supply agreement and related annual slab off-take agreements between tkSI and the entity that acquired thyssenkrupp’s former Calvert re-rolling facility in Alabama, United States of America. Such slab commitment agreement provided for a commitment by such entity to purchase from tkSI approximately 2.0 million tons of CSA-manufactured carbon steel slabs per year until September 30, 2019, at the price resulting from the pricing formula set forth therein. This slab commitment agreement was amended on December 20, 2017, spreading deliveries of the remaining slab volumes committed under such agreement through December 2020.

The purchase price paid by Ternium in the acquisition totaled approximately USD 1,891 million.

Ternium began consolidating the balance sheets and results of operations of tkSI and CSA as from September 7, 2017, and CSA changed its name to Ternium Brasil Ltda. and tkSI was renamed Ternium Staal B.V.

(b) Fair value of net assets acquired

The application of the purchase method required certain estimates and assumptions especially concerning the determination of the fair values of the acquired intangible assets and property, plant and equipment as well as the liabilities assumed at the date of the acquisition. The fair values determined at the acquisition date were based mainly on discounted cash flows and other valuation techniques.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

3. ACQUISITION OF BUSINESS (continued)

The allocation of the fair values determined for the assets and liabilities arising from the acquisition was as follows:

Fair value of acquired assets and liabilities:

| | |
|---|------------|
| Property, plant and equipment and Intangible assets | 1,573,946 |
| Inventories | 400,047 |
| Cash and cash equivalents | 278,162 |
| Trade receivables | 63,710 |
| Other receivables | 705,058 |
| Deferred tax assets | 13,686 |
| Provisions | (799,938) |
| Trade payables | (219,604) |
| Other assets and liabilities, net | (124,078) |
| Net assets acquired | 1,890,989 |

According to this purchase price allocation, no goodwill was recorded.

Ternium entered into several derivative contracts to partially hedge the currency volatility risk associated with the Euro-denominated transaction price. As of the date of the closing of the acquisition, the fair value of those contracts amounted to USD 75.9 million. Such value was deducted from the purchase consideration.

The purchase price allocation disclosed above was prepared with the assistance of a third-party expert. As of December 31, 2018, no adjustment has been recorded to the assets and liabilities assumed in comparison to the amounts registered as of December 31, 2017.

(c) Main contingencies associated with the acquired business

Contrary to the recognition principles in IAS 37 Provisions, Contingent Liabilities and Contingent Assets, IFRS 3 Business Combinations requires an acquirer of a business to recognize contingent liabilities assumed in a business acquisition at the acquisition date even if it is not probable that an outflow of resources will be required to settle the obligation.

The main contingencies recognized in the Company's consolidated financial statements pursuant to IFRS 3 Business Combinations in connection with the acquisition of tkSI and CSA include the following:

(i) Fishermen associations' claims

Civil contingencies include lawsuits brought by a number of fishermen associations on behalf of their associates, alleging that the dredge of Ternium Brasil's deep-water port has had a negative impact on fish farming and exploitation activities in the Sepetiba Bay area in Rio de Janeiro and that, as a result, fishermen in that area had suffered damages. A provision in the amount of USD 24.5 million was recorded at the acquisition date in connection with this matter (USD 19.7 million as of December 31, 2018).

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

3. ACQUISITION OF BUSINESS (continued)

(ii) Tax assessments relating to the use of certain ICMS tax credits

The Imposto Sobre Operações Relativas à Circulação de Mercadorias e Serviços, or ICMS, is a Brazilian value-added tax on the services (inter-states) and the transfer of goods in Brazil. Payment of ICMS generates tax credits that, subject to applicable law, rules and regulations, may be either used to offset ICMS payment obligations generated in connection with domestic sales of products and services, or sold and transferred to third parties.

The Rio de Janeiro State Treasury Office is challenging the use by Ternium Brasil of ICMS tax credits generated in connection with purchases of refractory materials in the period from December 2010 through December 2016, and intends to assess taxes and impose fines on Ternium Brasil on the argument that such materials may not be qualified as “raw materials” or “intermediary products” but as “goods for consumption” and, accordingly, ICMS tax credits generated in connection with their purchase are not available and may not be used to offset ICMS payment obligations generated in connection with Ternium Brasil’s domestic sales of carbon steel slabs. Ternium Brasil has appealed against the Rio de Janeiro State Treasury Office tax assessments and fines. A provision in the amount of USD 57.7 million was recorded as of the acquisition date in connection with this matter (USD 46.9 million as of December 31, 2018).

(iii) ICMS deferral tax benefit - Unconstitutionality

Through State Law No. 4,529, of March 31, 2005, the State of Rio de Janeiro granted Ternium Brasil a tax incentive consisting of a deferment of ICMS payable by Ternium Brasil in connection with the construction and operation of the company’s Rio de Janeiro steelmaking complex. The incentive applies in respect of the acquisition of fixed assets and certain raw materials (i.e. iron ore, pellets, alloys, coke, coal and scrap) and significantly reduces input ICMS credit accumulation by Ternium Brasil. The tax incentive was granted for a period of 20 years from the commencement of the construction works for Ternium Brasil’s Rio de Janeiro steel complex.

In 2012, a Brazilian political party filed a direct action of unconstitutionality against the above-mentioned State Law before the Brazilian Federal Supreme Court, predicated on the argument that, since the tax incentive granted pursuant to such State Law had not been approved by Brazil’s National Council of Fiscal Policy (Conselho Nacional de Política Fazendária, or CONFAZ), such State Law should be declared unconstitutional.

In August 2017, the Brazilian Congress enacted Supplementary Law No. 160/2017, instituting a mechanism through which the States may confirm any ICMS incentives they had granted in prior years without CONFAZ approval and, in furtherance of such Supplementary Law, in December 2017 the States adopted ICMS Convention 190/2017, establishing the applicable rules and deadlines for so confirming such ICMS incentives. As per the terms of ICMS Convention 190/2017, all States are required to publish in their official gazettes, on or before March 29, 2018, a list of the ICMS incentives that are to be confirmed pursuant to Supplementary Law No. 160. On March 6, 2018, the State of Rio de Janeiro published its list of ICMS incentives, including, among others, the ICMS benefit granted to Ternium Brasil. ICMS Convention 190/2017 also required that all relevant documents concerning such incentives be filed with CONFAZ, and the State of Rio de Janeiro satisfied such requirements as well. On July 27, 2018, the Governor of Rio de Janeiro issued Executive Order (Decreto) No. 46,78, pursuant to which the State of Rio de Janeiro reconfirmed, in accordance with ICMS Convention 190/2017, the ICMS tax benefits listed in its official gazette publication made pursuant to the Convention, including, among others, Ternium Brasil’s ICMS tax benefits.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

3. ACQUISITION OF BUSINESS (continued)

In October 2018, the State of Rio de Janeiro and the Federation of Industries of the State of Rio de Janeiro (Federação das Indústrias do Estado do Rio de Janeiro, or FIRJAN) filed petitions arguing that the action of unconstitutionality against the March 31, 2005 Rio de Janeiro State Law No. 4,529 could not be judged by the Federal Supreme Court since, following the revalidation of such law under Supplementary Law No.160/17 and the ICMS Convention 190/2017, such action of unconstitutionality had lost its purpose. Following the filing of such petitions, the Reporting Justice Minister in charge of the case summoned the plaintiff in such action of unconstitutionality, the Federal Attorney General's Office (Advocacia-Geral da União, or AGU) and the Chief of the Public Minister (Procuradoria-Geral da República, or PGR) to submit statements expressing their respective views on the arguments presented by the State of Rio de Janeiro and the FIRJAN with respect to the effect of Supplementary Law No.160/17 and the ICMS Convention 190/2017 on the pending action of unconstitutionality. In their respective statements, the plaintiff argued that Supplementary Law No.160/17 and the ICMS Convention 190/2017 do not affect the unconstitutionality of ICMS benefits granted through State Law No. 4,529, while the AGU stated that, in light of the additional legal support provided by Supplementary Law No.160/17 and the ICMS Convention 190/2017, a finding of unconstitutionality of State Law No. 4,529 would not be warranted. In turn, the PGR stated that a decision on the case should be postponed until the Federal Supreme Court completes its analysis of Supplementary Law No.160/17 and ICMS Convention 190/2017. As of the date of these consolidated financial statements, the Federal Supreme Court has not yet ruled on the above-referred petitions filed by the State of Rio de Janeiro and FIRJAN.

The tax benefits accumulated under Ternium Brasil's ICMS incentive as of the acquisition date amounted to approximately USD 1,089 million. In accordance with the guidance in IFRS 3, the Company recorded as of the acquisition date a provision of USD 651.8 million (including estimated penalties and interest) in connection with this matter, together with an asset of USD 325.9 million arising from its right to recover part of the contingency amount from Thyssenkrup Veerhaven B.V. (USD 529.4 million and USD 264.7 million, respectively, as of December 31, 2018). The calculation of this contingency has been determined taking into consideration the probability of negative outcome for the Company, if any, on an estimated total risk of USD 1,630 million (including estimated penalties and interests).

(d) Acquisition financing

The acquisition was mainly financed through an unsecured 5-year syndicated facility in the principal amount of USD 1.5 billion granted to the Company's subsidiary, Ternium Investments S.à.r.l., by a syndicate of banks.

The facility will be repaid in eight consecutive and equal semi-annual installments, commencing on March 5, 2019, and has been guaranteed by the Company's subsidiary, Ternium México, S.A. de C.V. The borrower and the guarantor are subject to certain covenants customary for transactions of this type, including limitations on liens and encumbrances, transactions with affiliates, consolidations and mergers and restrictions on investments. The guarantor is additionally subject to limitations on the sale of certain assets and compliance with a leverage ratio. There are no limitations to the payment of dividends applicable to the borrower or the guarantor, except, with respect to the borrower, upon an event of default under the facility. During 2018, the Company made prepayments of principal for USD 375 million. As of December 31, 2018, the outstanding value of this syndicated facility was USD 1.125 billion and both the borrower and the guarantor were in compliance with all of its covenants.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES

The following is a summary of the principal accounting policies followed in the preparation of these Consolidated Financial Statements:

(a) Group accounting

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

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

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

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

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

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

The Company treats transactions with non-controlling interests as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of

the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

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

(2) Investments in non-consolidated companies

Associated companies are those entities in which Ternium has significant influence, but which it does not control.

Joint arrangements are understood as combinations in which there are contractual agreements by virtue of which two or more companies hold an interest in companies that undertake operations or hold assets in such a way that any financial or operating decision is subject to the unanimous consent of the partners. A joint arrangement is classed as a joint operation if the parties hold rights to its assets and have obligations in respect of its liabilities or as a joint venture if the venturers hold rights only to the investee's net assets.

Investments in non-consolidated companies (associated companies and joint ventures) are accounted for using the equity method of accounting. Under this method, interests in joint ventures and associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the post-acquisition profits or losses in the income statement, and its share of post-acquisition changes in reserves recognized in reserves and in other comprehensive income in the income statement. Unrealized gains on transactions among the Company and its non-consolidated companies are eliminated to the extent of the Company's interest in such non-consolidated companies; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When the Company's share of losses in a non-consolidated company equals or exceeds its interest in such non-consolidated company, the Company does not recognize further losses unless it has incurred obligations or made payments on behalf of such non-consolidated company.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

The Company's investment in associates and joint ventures includes notional goodwill identified on acquisition.

The Company determines at each reporting date whether there is any objective evidence that the investment is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognizes the amount within "Equity on earnings (losses) of non-consolidated companies".

(b) Foreign currency translation

(1) Functional and presentation currency

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

(2) Subsidiary companies

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

- (i) assets and liabilities are translated at the closing rate of each statement of financial position;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting translation differences are recognized within other comprehensive income.

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

(3) Transactions in currencies other than the functional currency

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

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than the functional currency are recorded as gains and losses from foreign exchange and included in "Other financial income (expenses), net" in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the "fair value gain or loss," while translation differences on non-monetary financial assets such as equities classified as fair value through other comprehensive income are included in other gains/(losses).

(c) Financial instruments

Non derivative financial instruments

Non derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

From January 1, 2018, the Company classifies its financial instruments in the following measurement categories:

- Amortized cost: instruments that are held for collection or repayment of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income and expenses from these financial instruments are included in finance income or expense using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in finance income or expense, together with foreign exchange gains and losses. Impairment losses are presented as separate line items in the statement of profit or loss.
- Fair value through other comprehensive income ("FVOCI"): financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- Fair value through profit or loss ("FVPL"): financial instruments that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

The classification depends on the Company's business model for managing the financial instruments and the contractual terms of the cash flows.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

For financial instruments measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

At initial recognition, the Company measures a financial instrument at its fair value plus, in the case of a financial instrument not at FVPL, transaction costs that are directly attributable to the acquisition of the financial instrument. Transaction costs of financial instruments carried at FVPL are expensed in profit or loss. Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

Until December 31, 2017, Ternium non derivative financial instruments were classified into the following categories:

- Financial instruments at fair value through profit or loss: comprising mainly cash and cash equivalents and investments in debt securities held for trading;
- Held-to-maturity instruments: measured at amortized cost using the effective interest method less impairment losses. As of December 31, 2017, there were USD 6.1 million classified under this category;
- Loans and receivables: measured at amortized cost using the effective interest method less impairment losses;
- Available-for-sale ("AFS") financial assets: gains and losses arising from changes in fair value were recognized within other comprehensive income ("OCI") with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which were recognized directly in profit or loss. Where the investment was disposed of or was determined to be impaired, the cumulative gain or loss previously recognized in OCI was included in the income statement for the period. As of December 31, 2017, there were no AFS amounts classified under this category;
- Other financial liabilities: measured at amortized cost using the effective interest method.

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

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

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

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

Impairment of financial assets

From January 1, 2018, the Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables, see note 4 (i) for further details.

Until December 31, 2017, the Company assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. The Company first assessed whether objective evidence of impairment existed.

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

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

Derivative financial instruments

Information about accounting for derivative financial instruments and hedging activities is included in Note 29 "Financial Risk management" and Note 4 (y).

(d) Property, plant and equipment

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

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

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

Where a tangible fixed asset comprises major components having different useful lives, these components are accounted for as separate items. Spare parts are included in property, plant and equipment.

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

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

| | |
|--|-----------------|
| Land | No depreciation |
| Buildings and improvements | 10-50 years |
| Production equipment | 5-40 years |
| Vehicles, furniture and fixtures and other equipment | 3-20 years |

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

The assets' useful lives are reviewed, and adjusted if appropriate, at each year end. The re-estimation of assets useful lives by the Company did not materially affect depreciation charges in 2018, 2017 and 2016.

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

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

Amortization charges are included in cost of sales, selling, general and administrative expenses.

(e) Intangible assets

(1) Information system projects

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

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

(2) Mining assets

Mining assets include:

- (a) Mining licenses acquired;
- (b) Capitalized exploration and evaluation costs, reclassified from exploration and evaluation costs (see note 4 (e) 3);
and
- (c) Capitalized developmental stripping costs (see note 4 (u)).

Mining licenses were recognized as separate intangible assets upon the acquisition of the investment in Mexico and comprise the right to exploit the mines and are recognized at its fair value at acquisition date less accumulated amortization.

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

Amortization charge is calculated by using the unit-of-production method, on the basis of actual mineral extracted in each period compared to the estimated mineral reserves, and is included in cost of sales. Any change in the estimation of reserves is accounted for prospectively. The resulting amortization rate for the years ended December 31, 2018, 2017 and 2016, is approximately 8%, 7% and 7% per year, respectively.

(3) Exploration and evaluation costs

Exploration and evaluation activities involve the search for iron ore resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration and evaluation costs are measured at cost. Costs directly associated with exploration and evaluation activities are capitalized as intangible assets until the determination of reserves is evaluated. The costs associated to the acquisition of machinery and equipment are recognized as property, plant and equipment. If it is determined that commercial discovery has been achieved, costs incurred are reclassified into Mining assets and amortization starts once production begins.

Exploration costs are tested for impairment when there are indicators that impairment exists. Indicators of impairment include, but are not limited to:

- Rights to explore in an area have expired or will expire in the near future without renewal;
- No further exploration and evaluation is planned or budgeted;
- A decision to discontinue exploration and evaluation in an area because of the absence of commercial reserves; and
- Sufficient data exists to indicate that the book value will not be fully recovered from future development and production.

When analyzing the existence of impairment indicators, the exploration and evaluation areas from the mining cash-generating units will be evaluated.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

(4) Goodwill

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

Goodwill is allocated to Cash-generating units ("CGU") for the purpose of impairment testing. The allocation is made to those cash-generating units expected to benefit from the business combination which generated the goodwill being tested. The impairment losses on goodwill cannot be reversed.

As of December 31, 2018 and 2017, the carrying amount of goodwill allocated to the Mexico CGUs was USD 662.3 million, of which USD 619.8 million corresponds to steel operations and USD 42.5 million to mining operations.

(5) Research and development

Research expenditures are recognized as expenses as incurred. Development costs are recorded as cost of sales in the income statement as incurred because they do not fulfill the criteria for capitalization. Research and development expenditures for the years ended December 31, 2018, 2017 and 2016 totaled USD 8.9 million, USD 9.8 million and USD 9.2 million, respectively.

(6) Customer relationships acquired in a business combination

In accordance with IFRS 3 and IAS 38, Ternium has recognized the value of customer relationships separately from goodwill in connection with the acquisitions of Grupo Imsa and Ternium Colombia S.A.S. These customer relationships were amortized using the straight-line method over a useful life of approximately 10 years. As of December 31, 2017, these assets were fully amortized.

In accordance with IFRS 3 and IAS 38, Ternium has recognized the value of customer relationships in connection with the acquisition of Ternium Staal B.V. The value of the slab commitment agreement by which Ternium Investments S.à r.l. is entitled to invoice, under certain conditions, the price difference between slabs and hot rolled coils will be amortized using the units of slabs sold method.

(7) Trademarks acquired in a business combination

In accordance with IFRS 3 and IAS 38, Ternium has recognized the value of trademarks separately from goodwill in connection with the acquisitions of Grupo Imsa and Ternium Colombia S.A.S. As of December 31, 2017, these assets were fully amortized.

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

(f) Impairment

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

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

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

Ternium uses cash flow projections for the next five years based on past performance and expectations of market development; thereafter, it uses a perpetuity rate. 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 the weighted average cost of capital (WACC), which is considered to be a good indicator of cost of capital. As of December 31, 2018 the discount rate used to test goodwill allocated to the Steel and Mining Mexico CGUs for impairment was 11.68% (as of December 31, 2017, 11.49%).

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.

Considering the deteriorated economic situation in Argentina, the increase in the inflation rates, the devaluation of the Argentine peso and the expectations of a weaker industrial environment, the Company decided to assess the recoverability of its investments in Argentina, resulting in no impairment charges to be recognized. As of December 31, 2018, the discount rate used to test the investment in Argentine subsidiaries for impairment was 13.5%.

During the years 2018, 2017 and 2016, no impairment provisions were recorded in connection with assets that have an indefinite useful life (including goodwill).

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

(g) Other investments

Other investments consist primarily of investments in financial debt instruments and equity investments where the Company holds a minor equity interest and does not exert significant influence.

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

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

Certain fixed income financial instruments purchased by the Company have been categorized as at fair value through other comprehensive income. The results of these financial investments are recognized in Finance Income in the Consolidated Income Statement using the effective interest method. Unrealized gains and losses other than impairment and foreign exchange results are recognized in Other comprehensive income. On maturity or disposal, net gain and losses previously deferred in Other comprehensive income are recognized in Finance Income in the Consolidated Income Statement.

(h) Inventories

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

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

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

(i) Trade receivables and other receivables

Trade and other receivables are recognized initially at fair value, generally the original invoice amount. Since January 1, 2018, the Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due. The Company keeps an allowance for trade receivables, recorded in an asset account to offset the trade receivables in an amount estimated sufficient to cover the losses resulting from the impossibility for the debtors to cancel the amounts owed. This allowance for trade receivables is recorded with a charge to selling expenses.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

(j) Cash and cash equivalents

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

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

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

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

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

The carrying value of non-current assets classified as held for sale, at December 31, 2018 and 2017 totals USD 2.1 million and USD 2.8 million, respectively, which corresponds principally to land and other real estate items. Sale is expected to be completed within a one-year period.

(l) Borrowings

Borrowings are recognized initially for an amount equal to the net proceeds received. In subsequent periods, borrowings are stated at amortized cost following the effective interest method.

(m) Finance leases

Leases of property, plant and equipment where the Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term.

(n) Income taxes - current and deferred

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

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

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

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

Deferred tax assets and liabilities are re-estimated if tax rates change. These amounts are charged or credited to the consolidated income statement or to the item "Other comprehensive income for the year" in the consolidated statement of comprehensive income, depending on the account to which the original amount was charged or credited.

(o) Employee liabilities

(1) Post-employment obligations

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

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually (at year end) by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognized immediately in income.

For defined benefit plans, net interest income/expense is calculated based on the surplus or deficit derived by the difference between the defined benefit obligations less plan assets.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Mexico

Ternium Mexico has defined benefit and defined contribution plans.

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

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

Argentina

Ternium Argentina implemented an unfunded defined benefit employee retirement plan for certain senior officers. The plan is designed to provide certain benefits to those officers (additional to those contemplated under applicable Argentine labor laws) in case of termination of the employment relationship due to certain specified events, including retirement. This unfunded plan provides defined benefits based on years of service and final average salary.

(2) Termination benefits

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

(3) Other compensation obligations

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

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

As of December 31, 2018 and 2017, the outstanding liability corresponding to the Program amounts to USD 43.0 million and USD 30.8 million, respectively. The total value of the units granted to date under the program, considering the number of units and the book value per share as of December 31, 2018 and 2017, is USD 42.2 million and USD 30.3 million, respectively.

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

(4) Social security contributions

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

(p) Provisions and other liabilities

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

(q) Trade payables

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

(r) Revenue recognition and other income

Revenue is recognized at a point of time from sales to direct customers upon the satisfaction of performance obligations, which occurs when control of the goods transfers to the customer and the customer obtains the benefits from the goods, the potential cash flows and the transaction price can be measured reliably, and it is probable that the Company will collect the consideration in connection with the exchange of the goods. The control over the goods is obtained by the customer depending on when the goods are made available to the shipper or the customer takes possession of the goods, depending on the delivery terms. The Company considers that it has completed its performance obligations when the goods are delivered to its customers or to a shipper who will transport the goods to its customers. The revenue recognized by the Company is measured at the transaction price of the consideration received or receivable to which the Company is entitled to, reduced by estimated returns and other customer credits, such as discounts and volume rebates, based on the expected value to be realized and after eliminating sales within the group.

Interest income is recognized on an effective yield basis.

(s) Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are expensed in the period in which they are incurred.

The amount of borrowing costs that Ternium capitalized during a period will not exceed the amount of borrowing costs incurred during that period. At December 31, 2018, 2017 and 2016, the capitalized borrowing costs were of USD 7.4 million, USD 0.5 million and USD 1.7 million, respectively.

(t) Cost of sales, selling, general and administrative expenses

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

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

(u) Stripping costs

Stripping costs are the costs associated with the removal of overburden and other waste materials and can be incurred before the mining production commences (“development stripping”) or during the production stage (“production stripping”).

Development stripping costs that contribute to the future economic benefits of mining operations are capitalized as intangible assets (Mining assets). Production stripping costs which are part of on-going activities are included in the cost of the inventory produced (that is extracted) at each mine during the period in which they are incurred.

Capitalization of development stripping costs finishes when the commercial production of the mine commences. At that time, all development stripping costs are presented within Mining assets and depreciated on a unit-of-production basis. It is considered that commercial production begins when the production stage of mining operations begins and continues throughout the life of a mine.

(v) Mining development costs

Mining development costs are the costs associated to the activities related to the establishment of access to the mineral reserve and other preparations for commercial production. These activities often continue during production. Development expenditures are capitalized and classified as Work in progress. On completion of development, all assets included in Work in progress are individually reclassified to the appropriate category of property, plant and equipment and depreciated accordingly.

(w) Asset retirement obligations

Ternium records asset retirement obligations (“ARO”) initially at the fair value of the legal or constructive obligation in the period in which it is incurred and capitalizes the ARO by increasing the carrying amount of property, plant and equipment. The fair value of the obligation is determined as the discounted value of the expected future cash flows and is included in Provisions. The liability is accreted to its present value through net financing cost and the capitalized cost is depreciated based in the unit of production method.

(x) Earnings per share

Earnings per share are calculated by dividing the net income attributable to shareholders by the daily weighted average number of ordinary shares issued during the year, excluding the average number of shares of the parent Company held by the Group. There are no dilutive securities for the periods presented.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

(y) Derivative financial instruments and hedging activities

Ternium designates certain derivatives as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction. These transactions are classified as cash flow hedges (mainly interest rate swaps, collars, currency forward contracts on highly probable forecast transactions and commodities contracts). The effective portion of the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI.

Amounts accumulated in OCI are recognized in the income statement in the same period as any offsetting losses and gains on the hedged item. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. The fair value of Ternium derivative financial instruments (asset or liability) continues to be reflected in the statement of financial position.

For transactions designated and qualifying for hedge accounting, Ternium documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. At December 31, 2018 and 2017, the effective portion of designated cash flow hedges (net of taxes) amounted to USD 0.5 million and USD 0.7 million, respectively, and were included under "changes in the fair value of derivatives classified as cash flow hedges" line item in the statement of comprehensive income (see Note 27 (a)).

More information about accounting for derivative financial instruments and hedging activities is included in Note 29 "Financial risk management".

(z) Treasury shares

Acquisitions of treasury shares are recorded at acquisition cost, deducted from equity until disposal. The gains and losses on disposal of treasury shares are recognized under "Reserves" in the consolidated statement of financial position.

(aa) Cash flow

The consolidated statements of cash flows have been prepared using the indirect method and contain the use of the following expressions and their respective meanings:

- a) Operating activities: activities that constitute ordinary Group revenues, as well as other activities that cannot be qualified as investing or financing.
- b) Investing activities: acquisition, sale or disposal by other means of assets in the long-term and other investments not included in cash and cash equivalents.
- c) Financing activities: activities that generate changes in the size and composition of net equity and liabilities that do not form part of operating activities.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

(bb) Critical Accounting Estimates

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

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

(1) Goodwill impairment test

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

Goodwill is tested at the level of the CGUs. Impairment testing of the CGUs is carried out and the value in use determined in accordance with the accounting policy stated in Note 4(f). The discount rates used for these tests are based on Ternium's weighted average cost of capital adjusted for specific country and currency risks associated with the cash flow projections. The discount rate used at December 31, 2018 was 11.68% and no impairment charge resulted from the impairment test performed. See notes 4(f) and 4(e)(4).

(2) Income taxes

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

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.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

(3) Loss contingencies

Ternium is subject to various claims, lawsuits and other legal proceedings that arise in the ordinary course of business, including customer claims in which a third party is seeking reimbursement or indemnity. The Company's liability with respect to such claims, lawsuits and other legal proceedings cannot be estimated with certainty. Periodically, management reviews the status of each significant matter and assesses potential financial exposure. If the potential loss from the claim or proceeding is considered probable and the amount can be reasonably estimated, a liability is recorded. Management estimates the amount of such liability based on the information available and the assumptions and methods it has concluded are appropriate, in accordance with the provisions of IFRS. Accruals for such contingencies reflect a reasonable estimate of the losses to be incurred based on information available, including the relevant litigation or settlement strategy, as of the date of preparation of these financial statements. As additional information becomes available, management will reassess its evaluation of the pending claims, lawsuits and other proceedings and revise its estimates. The loss contingencies provision amounts to USD 643.9 million and USD 768.5 million as of December 31, 2018 and 2017, respectively.

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

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

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

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

As of December 31, 2018 and 2017, the Company recorded no allowance for net realizable value and USD 55.5 million and USD 36.2 million, respectively, as allowance for obsolescence.

(5) 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.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

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

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

Considering the economic situation in Argentina, the Company tested the recoverability of its investment in Ternium Argentina as of December 31, 2018, resulting in no impairment charges to be recognized.

Considering that no impairment indicators were identified in the rest of subsidiaries as of December 31, 2018 and 2017, the Company additionally tested the value of the goodwill for impairment, resulting in no impairment charges to be recognized.

(6) Allowances for doubtful accounts

Management makes estimates of the uncollectibility of our accounts receivable. Management analyses the trade accounts receivable on a regular basis and applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due.

Allowances for doubtful accounts are adjusted periodically in accordance with the results obtained in the provision matrix. To calibrate the provision matrix, Management adjusts its historical credit loss experience with current and forward-looking information that might affect the customers' historical default rates. As of December 31, 2018 and 2017, allowance for doubtful accounts totals USD 14.3 million and USD 16.5 million, respectively.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

(7) Mining reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the Company's mining concessions. In order to estimate reserves, a range of geological, technical and economic factors is required to be considered. Estimating the quantity and/or grade of reserves requires complex and difficult geological judgments to interpret the data. Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period.

Changes in reported reserves may affect the Company's financial results and financial position, including the following:

• Asset carrying amounts may be affected due to changes in estimated future cash flows.

• Depreciation and amortization charges may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.

• Stripping costs recognized in Mining assets or charged to results may change due to changes in stripping ratios or the units of production basis of depreciation.

• Asset retirement obligations may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

(8) Post-employment obligation estimates

The Company estimates at each year-end the provision necessary to meet its post-employment obligations in accordance with the advice from independent actuaries. The calculation of post-employment and other employee obligations requires the application of various assumptions. The main assumptions for post-employment and other employee obligations include discount rates, compensation growth rates, pension growth rates and life expectancy. Changes in the assumptions could give rise to adjustments in the results and liabilities recorded and might have an impact on the post-employment and other employee obligations recognized in the future.

(9) Business combinations

The recognition of business combinations requires the excess of the purchase price of acquisitions over the net book value of assets acquired to be allocated to the assets and liabilities of the acquired entity. The Company makes judgments and estimates in relation to the fair value allocation of the purchase price. If any unallocated portion is positive, it is recognized as goodwill, and if negative, it is recognized in the income statement. See further information in note 3.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

(cc) Application of IAS 29 in financial reporting of Argentine subsidiaries and associates

IAS 29 “Financial Reporting in Hyperinflationary Economies” requires that the financial statements of entities whose functional currency is that of a hyperinflationary economy to be adjusted for the effects of changes in a suitable general price index and to be expressed in terms of the current unit of measurement at the closing date of the reporting period. Accordingly, the inflation produced from the date of acquisition or from the revaluation date, as applicable, must be computed in the non-monetary items.

In order to conclude on whether an economy is categorized as hyperinflationary under the terms of IAS 29, the Standard details a series of factors to be considered, including the existence of a cumulative inflation rate in three years that approximates or exceeds 100%.

Considering that the downward trend in inflation in Argentina observed in the previous year has reversed and observing a significant increase in inflation during 2018, which exceeded the 100% three-year cumulative inflation rate, and that the rest of the indicators do not contradict the conclusion that Argentina should be considered a hyperinflationary economy for accounting purposes, the Company considered that there was sufficient evidence to conclude that Argentina is a hyperinflationary economy under the terms of IAS 29 as from July 1, 2018, and, accordingly, applied IAS 29 as from that date in the financial reporting of its subsidiaries and associates with the Argentine peso as functional currency.

According to this principle, the financial statements of an entity that reports in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current on the date of the financial statements. All statement of financial position amounts that are not stated in terms of the measuring unit current on the date of the financial statements must be restated by applying a general price index. All income statement components must be stated in terms of the measuring unit current on the date of the financial statements, applying the change in the general price index that occurred since the date when revenues and expenses were originally recognized in the financial statements.

The inflation adjustment on the initial balances was calculated by means of conversion factor derived from the Argentine price indexes published by the National Institute of Statistics (“INDEC”). The average index for the year period ended December 31, 2018, was 1.48.

The main procedures for the above-mentioned adjustment are as follows:

- Monetary assets and liabilities which are carried at amounts current at the balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- Non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date, and components of shareholders' equity are adjusted by applying the relevant conversion factors.
- All items in the income statement are restated by applying the relevant conversion factors.
- The effect of inflation on the Company's net monetary position is included in the income statement, in Other financial income (expenses), net, under the caption “Inflation adjustment results”.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

4. ACCOUNTING POLICIES (continued)

The ongoing application of the re-translation of comparative amounts to closing exchanges rates under IAS 21 and the hyperinflation adjustments required by IAS 29 will lead to a difference in addition to the difference arising on the adoption of hyperinflation accounting.

The comparative figures in these consolidated financial statements presented in a stable currency are not adjusted for subsequent changes in the price level or exchange rates. This resulted in an initial difference, arising on the adoption of hyperinflation accounting, between the closing equity of the previous year and the opening equity of the current year. The Company recognized this initial difference directly in equity.

Page 41 of 87

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

5. SEGMENT INFORMATION

REPORTABLE OPERATING SEGMENTS

The Company is organized in two reportable segments: Steel and Mining.

The Steel segment includes the sales of steel products, which comprises slabs, hot rolled coils and sheets, cold rolled coils and sheets, tin plate, welded pipes, hot dipped galvanized and electro-galvanized sheets, pre-painted sheets, billets (steel in its basic, semi-finished state), wire rod and bars and other tailor-made products to serve its customers' requirements. It also includes the sales of energy.

The Steel segment comprises four operating segments: Mexico, Southern Region, Brazil and Other markets. These four segments have been aggregated considering the economic characteristics and financial effects of each business activity in which the entity engages; the related economic environment in which it operates; the type or class of customer for the products; the nature of the products; and the production processes. The Mexico operating segment comprises the Company's businesses in Mexico. The Southern region operating segment manages the businesses in Argentina, Paraguay, Chile, Bolivia and Uruguay. The Brazil operating segment includes the business generated in Brazil. The Other markets operating segment includes businesses mainly in United States, Colombia, Guatemala, Costa Rica, Honduras, El Salvador and Nicaragua.

The Mining segment includes the sales of mining products, mainly iron ore and pellets, and comprises the mining activities of Las Encinas, an iron ore mining company in which Ternium holds a 100% equity interest and the 50% of the operations and results performed by Peña Colorada, another iron ore mining company in which Ternium maintains that same percentage over its equity interest. Both mining operations are located in Mexico. For Peña Colorada, the Company recognizes its assets, liabilities, revenue and expenses in relation to its interest in the joint operation.

Ternium's Chief Operating Decision Maker (CEO) holds monthly meetings with senior management, in which operating and financial performance information is reviewed, including financial information that differs from IFRS principally as follows:

- The use of direct cost methodology to calculate the inventories, while under IFRS is at full cost, including absorption of production overheads and depreciation.
- The use of costs based on previously internally defined cost estimates, while, under IFRS, costs are calculated at historical cost (with the FIFO method).
- Other timing and non-significant differences.

Most information on segment assets is not disclosed as it is not reviewed by the (CEO).

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

5. SEGMENT INFORMATION (continued)

| | Year ended December 31, 2018 | | | |
|---|------------------------------|------------|-----------------------------------|--------------|
| | Steel | Mining | Inter- segment eliminations | Total |
| IFRS | | | | |
| Net sales | 11,453,420 | 282,000 | (280,613) | 11,454,807 |
| Cost of sales | (8,524,890) | (239,893) | 281,455 | (8,483,328) |
| Gross profit | 2,928,530 | 42,107 | 842 | 2,971,479 |
| Selling, general and administrative expenses | (860,881) | (15,883) | — | (876,764) |
| Other operating income, net | 12,950 | 706 | — | 13,656 |
| Operating income - IFRS | 2,080,599 | 26,930 | 842 | 2,108,371 |
| Management view | | | | |
| Net sales | 11,723,883 | 333,892 | (332,504) | 11,725,270 |
| Operating income | 1,768,115 | 91,418 | (6,213) | 1,853,319 |
| Reconciliation items: | | | | |
| Differences in Cost of sales | | | | 541,492 |
| Effect of inflation adjustment (Note 4 (cc)) | | | | (286,440) |
| Operating income - IFRS | | | | 2,108,371 |
| Financial income (expense), net | | | | (179,576) |
| Equity in earnings (losses) of non-consolidated companies | | | | 102,772 |
| Income before income tax expense - IFRS | | | | 2,031,567 |
| Depreciation and amortization - IFRS | (537,885) | (51,415) | — | (589,299) |
| | Year ended December 31, 2017 | | | |
| | Steel | Mining | Inter- segment eliminations | Total |
| IFRS | | | | |
| Net sales | 9,700,260 | 271,477 | (271,441) | 9,700,296 |
| Cost of sales | (7,465,751) | (212,860) | 275,586 | (7,403,025) |
| Gross profit | 2,234,509 | 58,617 | 4,145 | 2,297,271 |
| Selling, general and administrative expenses | (811,487) | (12,760) | — | (824,247) |

Edgar Filing: Ternium S.A. - Form 6-K

| | | | | |
|---|------------|-----------|------------|------------|
| Other operating income, net | (17,011) | 771 | — | (16,240) |
| Operating income - IFRS | 1,406,011 | 46,628 | 4,145 | 1,456,784 |
| Management view | | | | |
| Net sales | 9,700,260 | 287,152 | (287,116) | 9,700,296 |
| Operating income | 1,065,605 | 66,694 | (1,291) | 1,131,008 |
| Reconciliation items: | | | | |
| Differences in Cost of sales | | | | 325,776 |
| Operating income - IFRS | | | | 1,456,784 |
| Financial income (expense), net | | | | (165,090) |
| Equity in earnings (losses) of non-consolidated companies | | | | 68,115 |
| Income before income tax expense - IFRS | | | | 1,359,809 |
| Depreciation and amortization - IFRS | (424,529) | (49,770) | — | (474,299) |

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

5. SEGMENT INFORMATION (continued)

| | Year ended December 31, 2016 | | | |
|---|------------------------------|-----------|-----------------------------------|-------------|
| | Steel | Mining | Inter- segment eliminations | Total |
| IFRS | | | | |
| Net sales | 7,221,751 | 204,894 | (202,670) | 7,223,975 |
| Cost of sales | (5,391,038) | (192,038) | 198,686 | (5,384,390) |
| Gross profit | 1,830,713 | 12,856 | (3,984) | 1,839,585 |
| Selling, general and administrative expenses | (677,007) | (10,935) | — | (687,942) |
| Other operating income, net | (9,543) | (382) | — | (9,925) |
| Operating income - IFRS | 1,144,163 | 1,539 | (3,984) | 1,141,718 |
| Management view | | | | |
| Net sales | 7,221,751 | 208,230 | (206,006) | 7,223,975 |
| Operating income | 936,164 | 3,871 | 269 | 940,303 |
| Reconciliation items: | | | | |
| Differences in Cost of sales | | | | 201,415 |
| Operating income - IFRS | | | | 1,141,718 |
| Financial income (expense), net | | | | (37,885) |
| Equity in earnings (losses) of non-consolidated companies | | | | 14,624 |
| Income before income tax expense - IFRS | | | | 1,118,457 |
| Depreciation and amortization - IFRS | (361,685) | (45,205) | — | (406,890) |

GEOGRAPHICAL INFORMATION

The Company has revenues attributable to the Company's country of incorporation (Luxembourg) related to a contract acquired as a part of the business combination disclosed in note 3.

For purposes of reporting geographical information, net sales are allocated based on the customer's location. Allocation of depreciation and amortization is based on the geographical location of the underlying assets.

| Year ended December 31, 2018 | | | |
|------------------------------|--------------------|--------------------------------|-------|
| Mexico | Southern region | Brazil and Other markets | Total |
| | | | (2) |

Edgar Filing: Ternium S.A. - Form 6-K

Net sales 6,345,137 1,941,168 3,168,502 11,454,807

Non-current assets (1) 4,093,288 1,071,705 1,665,140 6,830,133
Year ended December 31, 2017

| | Mexico | Southern region | Brazil and Other markets | Total |
|--|--------|--------------------|--------------------------------|-------|
| | | | (2) | |

Net sales 5,629,267 2,316,444 1,754,585 9,700,296

Non-current assets (1) 4,042,914 643,411 1,756,007 6,442,332
Year ended December 31, 2016

| | Mexico | Southern region | Other markets | Total |
|--|--------|--------------------|------------------|-------|
| | | | | |

Net sales 4,491,761 1,867,622 864,592 7,223,975

Non-current assets (1) 4,108,539 634,048 235,947 4,978,534

(1) Includes Property, plant and equipment and Intangible assets.

(2) Includes the assets related to the business acquisition disclosed in note 3.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

5. SEGMENT INFORMATION (continued)

REVENUES BY PRODUCT

| | Year ended December 31, | | |
|-----------------------------|-------------------------|-----------|-----------|
| | 2018 | 2017 | 2016 |
| Semi-finished (1) | 103,099 | 123,752 | 19,878 |
| Slabs | 1,818,235 | 715,513 | — |
| Hot rolled (2) | 3,961,144 | 3,366,697 | 2,763,403 |
| Cold rolled | 1,264,940 | 1,321,663 | 1,110,671 |
| Coated (3) | 3,506,040 | 3,391,328 | 2,900,009 |
| Roll-formed and tubular (4) | 437,514 | 472,253 | 413,991 |
| Other products (5) | 363,835 | 309,090 | 16,023 |

TOTAL SALES 11,454,807 9,700,296 7,223,975

(1) Semi-finished includes billets and round bars.

(2) Hot rolled includes hot rolled flat products, merchant bars, reinforcing bars, stirrups and rods.

(3) Coated includes tin plate and galvanized products.

(4) Roll-formed and tubular includes tubes, beams, insulated panels, roofing and cladding, roof tiles, steel decks and pre-engineered metal building systems.

(5) Other products include mainly sales of energy and pig iron.

6. COST OF SALES

| | Year ended December 31, | | |
|--|-------------------------|-----------|-----------|
| | 2018 | 2017 | 2016 |
| Inventories at the beginning of the year | 2,550,930 | 1,647,869 | 1,579,120 |
| Acquisition of business (Note 3) | — | 400,047 | — |
| Effect of initial inflation adjustment (Note 4 (cc)) | 191,708 | — | — |
| Translation differences | (413,436) | (97,148) | (82,515) |
| Plus: Charges for the year | | | |
| Raw materials and consumables used and other movements | 6,961,704 | 6,337,283 | 4,060,783 |
| Services and fees | 158,551 | 110,949 | 77,698 |
| Labor cost | 699,447 | 673,821 | 560,513 |
| Depreciation of property, plant and equipment | 456,522 | 348,415 | 314,649 |
| Amortization of intangible assets | 25,374 | 35,275 | 40,225 |
| Maintenance expenses | 519,625 | 480,496 | 457,734 |
| Office expenses | 8,586 | 7,350 | 7,112 |
| Insurance | 8,769 | 7,968 | 8,432 |
| Charge of obsolescence allowance | 17,322 | (4,028) | 4,600 |
| Recovery from sales of scrap and by-products | (27,744) | (25,973) | (21,010) |
| Others | 15,799 | 31,631 | 24,918 |

Edgar Filing: Ternium S.A. - Form 6-K

| | | | |
|--|-------------|-------------|-------------|
| Less: Inventories at the end of the year | (2,689,829) | (2,550,930) | (1,647,869) |
| Cost of Sales | 8,483,328 | 7,403,025 | 5,384,390 |

Page 45 of 87

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2017 and 2016
and for the years ended December 31, 2017, 2016 and 2015

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

| | Year ended December 31, | | |
|---|-------------------------|---------|---------|
| | 2018 | 2017 | 2016 |
| Services and fees (1) | 76,066 | 86,990 | 65,965 |
| Labor cost | 241,552 | 229,529 | 193,118 |
| Depreciation of property, plant and equipment | 13,561 | 12,345 | 13,589 |
| Amortization of intangible assets | 93,842 | 78,264 | 38,427 |
| Maintenance and expenses | 5,096 | 5,038 | 3,092 |
| Taxes | 95,072 | 98,786 | 90,166 |
| Office expenses | 35,663 | 35,922 | 36,223 |
| Freight and transportation | 300,676 | 259,898 | 234,801 |
| Increase of allowance for doubtful accounts | 1,629 | 685 | 288 |
| Others | 13,607 | 16,790 | 12,273 |
| Selling, general and administrative expenses | 876,764 | 824,247 | 687,942 |

(1) For the year ended December 31, 2018, it includes fees accrued for professional services rendered by PwC to Ternium S.A. and its subsidiaries that amounted to USD 4,704, including USD 3,937 for audit services, USD 61 for audit-related services, USD 281 for tax services and USD 425 for all other services.

For the year ended December 31, 2017, it includes fees accrued for professional services rendered by PwC to Ternium S.A. and its subsidiaries that amounted to USD 3,501, including USD 2,863 for audit services, USD 91 for audit-related services, USD 229 for tax services and USD 318 for all other services.

For the year ended December 31, 2016, it includes fees accrued for professional services rendered by PwC to Ternium S.A. and its subsidiaries that amounted to USD 3,385, including USD 2,869 for audit services, USD 99 for audit-related services, USD 251 for tax services and USD 166 for all other services.

8. LABOR COSTS (Included Cost of sales and Selling, General and Administrative expenses)

| | Year ended December 31, | | |
|---|-------------------------|---------|---------|
| | 2018 | 2017 | 2016 |
| Wages, salaries and social security costs | 884,536 | 849,354 | 698,825 |
| Termination benefits | 26,601 | 25,783 | 27,048 |
| Post-employment benefits (Note 21 (i)) | 29,862 | 28,213 | 27,758 |
| Labor costs | 940,999 | 903,350 | 753,631 |

As of December 31, 2018, 2017 and 2016, the quantity of employees was 20,660, 21,335 and 16,725, respectively.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2017 and 2016
and for the years ended December 31, 2017, 2016 and 2015

9. OTHER OPERATING INCOME (EXPENSES), NET

| | Year ended December 31, | | |
|--|-------------------------|----------|----------|
| | 2018 | 2017 | 2016 |
| Results of sundry assets | 1,895 | 1,190 | 1,270 |
| Provision for legal claims and other matters (Note 19 and 25 (ii)) | 7,625 | — | — |
| Other operating income | 4,136 | — | — |
| Other operating income | 13,656 | 1,190 | 1,270 |
| Provision for legal claims and other matters (Note 19 and 25 (ii)) | — | (2,783) | (1,678) |
| Other operating expense | — | (14,647) | (9,517) |
| Other operating expense | — | (17,430) | (11,195) |
| Other operating (expenses) income, net | 13,656 | (16,240) | (9,925) |

10. OTHER FINANCIAL INCOME (EXPENSES), NET

| | Year ended December 31, | | |
|--|-------------------------|-----------|----------|
| | 2018 | 2017 | 2016 |
| Interest expense | (131,172) | (114,583) | (89,971) |
| Finance expense | (131,172) | (114,583) | (89,971) |
| Interest income | 21,236 | 19,408 | 14,129 |
| Finance income | 21,236 | 19,408 | 14,129 |
| Net foreign exchange (loss) gain | (177,645) | (65,479) | 20,334 |
| Inflation adjustment results (Note 4 (cc)) | 191,427 | — | — |
| Change in fair value of financial assets | — | (1,057) | 7,663 |
| Derivative contract results | (99,259) | 4,132 | 11,614 |
| Others | 15,837 | (7,511) | (1,654) |
| Other financial income (expenses), net | (69,640) | (69,915) | 37,957 |

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2017 and 2016
and for the years ended December 31, 2017, 2016 and 2015

11. INCOME TAX EXPENSE

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

| | Year ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | 2018 | 2017 | 2016 |
| Current tax | | | |
| Current tax | (588,773) | (450,384) | (394,045) |
| Effect of changes in tax law (1) | (28,596) | — | — |
| Deferred tax (Note 20) | | | |
| Deferred tax | 232,485 | 106,047 | (16,821) |
| Effect of changes in tax law (1) | — | 7,455 | 2,028 |
| Withholding tax on dividend distributions (2) | — | — | (2,690) |
| Recovery of income tax (3) | 15,449 | — | — |
| Income tax expense | (369,435) | (336,882) | (411,528) |

(1) For 2018, it includes mainly the option exercised by the Company of the asset revaluation for tax purposes in Argentina, for which an amount of USD 28.6 million was included. The option could be formally presented until February 28, 2019.

For 2017, it includes mainly the effects of the Argentine tax reform, which became effective starting January 1, 2018, including a reduction in the corporate income tax rate from 35% to 30% during the first two years (i.e., fiscal years starting on or after January 1, 2018 until December 31, 2019, inclusive) and to 25% going forward. Also, a one-time tax on an asset revaluation for tax purposes was approved.

It also includes the effects of the US tax reform, which among other provisions, reduced the US corporate tax rate from 35% to 21%, effective January 1, 2018. This required a revaluation of the deferred tax assets and liabilities and certain current tax payables to the newly enacted tax rates at the date of enactment. Consequently, the Company has recorded a net adjustment to deferred income tax benefit of USD 5.2 million for the year ended December 31, 2017. For 2016, it includes mainly the effects of the Colombian tax rate reform which introduced an increase from 39% to 40% in 2016, 42% in 2017 and 43% in 2018 and of the Mexican mining tax.

(2) It includes the 10% withholding tax on dividend distributions made by Argentine companies to foreign beneficiaries since 2013.

(3) It includes the recovery of tax credits in Ternium Brasil Ltda.

Income tax expense for the years ended December 31, 2018, 2017 and 2016 differed from the amount computed by applying the statutory income tax rate in force in each country in which the company operates to pre-tax income as a result of the following:

| | Year ended December 31, | | |
|--|-------------------------|------------|------------|
| | 2018 | 2017 | 2016 |
| Income before income tax | 2,031,567 | 1,359,809 | 1,118,457 |
| Income tax expense at statutory tax rate | (604,493) | (387,666) | (324,592) |
| Non taxable income | 102,870 | 16,232 | 606 |
| Non deductible expenses | (16,201) | (24,070) | (5,838) |
| Effect of currency translation on tax base (1) | 161,536 | 51,167 | (81,042) |

Edgar Filing: Ternium S.A. - Form 6-K

| | | | |
|---|-----------|-------|----------|
| Recovery of income tax | 15,449 | — | — |
| Withholding tax on dividend distributions | — | — | (2,690) |
| Effect of changes in tax law | (28,596) | 7,455 | 2,028 |

Income tax expense (369,435) (336,882) (411,528)

(1) Ternium applies the liability method to recognize deferred income tax on temporary differences between the tax bases of assets and their carrying amounts in the financial statements. By application of this method, Ternium recognizes gains and losses on deferred income tax due to the effect of the change in the value on the tax basis in subsidiaries, which have a functional currency different to their local currency, mainly Mexico.

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

12. PROPERTY, PLANT AND EQUIPMENT, NET

| | Year ended December 31, 2018 | | | | | | Total |
|--|------------------------------|----------------------------|----------------------|----------------------------------|------------------|-------------|--------------|
| | Land | Buildings and improvements | Production equipment | Vehicles, furniture and fixtures | Work in progress | Spare parts | |
| Values at the beginning of the year | | | | | | | |
| Cost | 562,042 | 2,096,959 | 4,927,478 | 151,883 | 456,021 | 113,188 | 8,307,571 |
| Accumulated depreciation | — | (563,523) | (2,286,828) | (104,303) | — | (3,164) | (2,957,818) |
| Net book value at January 1, 2018 | 562,042 | 1,533,436 | 2,640,650 | 47,580 | 456,021 | 110,024 | 5,349,753 |
| Opening net book value | 562,042 | 1,533,436 | 2,640,650 | 47,580 | 456,021 | 110,024 | 5,349,753 |
| Effect of initial inflation adjustment (Note 4 (cc)) | 19,646 | 434,683 | 282,577 | 5,698 | 25,568 | 19,858 | 788,030 |
| Translation differences | (2,217) | (140,879) | (124,066) | (5,102) | (29,005) | (10,836) | (312,105) |
| Additions | 1,888 | 4,083 | 3,647 | 3,569 | 446,002 | 23,880 | 483,069 |
| Capitalized borrowing costs | — | — | — | — | 7,368 | — | 7,368 |
| Disposals / Consumptions | — | (93) | (2,186) | (1,236) | (3,563) | (24,470) | (31,548) |
| Transfers | 5,815 | 80,197 | 187,284 | 11,726 | (284,441) | 2,543 | 3,124 |
| Depreciation charge | — | (129,229) | (315,952) | (14,847) | — | (10,055) | (470,083) |
| Closing net book value | 587,174 | 1,782,198 | 2,671,954 | 47,388 | 617,950 | 110,944 | 5,817,608 |
| Values at the end of the year | | | | | | | |
| Cost | 587,174 | 3,303,174 | 6,803,932 | 264,782 | 617,950 | 124,220 | 11,701,232 |
| Accumulated depreciation | — | (1,520,976) | (4,131,978) | (217,394) | — | (13,275) | (5,883,623) |
| Net book value at December 31, 2018 | 587,174 | 1,782,198 | 2,671,954 | 47,388 | 617,950 | 110,945 | 5,817,609 |
| | Year ended December 31, 2017 | | | | | | Total |
| | Land | Buildings and improvements | Production equipment | Vehicles, furniture and fixtures | Work in progress | Spare parts | |
| Values at the beginning of the year | | | | | | | |
| Cost | 528,991 | 1,590,063 | 4,238,201 | 165,590 | 337,814 | 82,652 | 6,943,311 |
| Accumulated depreciation | — | (538,548) | (2,146,874) | (121,912) | — | — | (2,807,334) |
| Net book value at January 1, 2017 | 528,991 | 1,051,515 | 2,091,327 | 43,678 | 337,814 | 82,652 | 4,135,977 |
| Opening net book value | 528,991 | 1,051,515 | 2,091,327 | 43,678 | 337,814 | 82,652 | 4,135,977 |
| Translation differences | (677) | (45,808) | (42,248) | (1,188) | (13,982) | (3,697) | (107,600) |
| Acquisition of business (note 3) | 32,187 | 505,339 | 602,654 | 4,102 | 80,878 | 31,878 | 1,257,038 |
| Additions | 2,778 | 9,385 | 84,035 | 2,307 | 341,575 | 16,274 | 456,354 |
| Capitalized borrowing costs | — | — | — | — | 563 | — | 563 |

Edgar Filing: Ternium S.A. - Form 6-K

| | | | | | | | |
|-------------------------------------|----------|------------|-------------|-----------|-----------|-----------|-------------|
| Disposals / Consumptions | (1,139) | (14,776) | (167) | (922) | (612) | (14,063) | (31,679) |
| Transfers | (98) | 101,661 | 174,321 | 13,501 | (290,215) | 690 | (140) |
| Depreciation charge | — | (73,880) | (269,272) | (13,898) | — | (3,710) | (360,760) |
| Closing net book value | 562,042 | 1,533,436 | 2,640,650 | 47,580 | 456,021 | 110,024 | 5,349,753 |
| Values at the end of the year | | | | | | | |
| Cost | 562,042 | 2,096,959 | 4,927,478 | 151,883 | 456,021 | 113,188 | 8,307,571 |
| Accumulated depreciation | — | (563,523) | (2,286,828) | (104,303) | — | (3,164) | (2,957,818) |
| Net book value at December 31, 2017 | 562,042 | 1,533,436 | 2,640,650 | 47,580 | 456,021 | 110,024 | 5,349,753 |

The Company has not registered any impairment charges in connection with Goodwill.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2017 and 2016
and for the years ended December 31, 2017, 2016 and 2015

13. INTANGIBLE ASSETS, NET

| | Year ended December 31, 2018 | | | | | | |
|--|------------------------------|---------------|----------------------------------|---|------------|----------|-----------|
| | Information system projects | Mining assets | Exploration and evaluation costs | Customer relationships and other contractual rights | Trademarks | Goodwill | Total |
| Values at the beginning of the year | | | | | | | |
| Cost | 249,379 | 216,196 | 10,333 | 604,931 | 73,935 | 662,307 | 1,817,081 |
| Accumulated depreciation | (188,470) | (121,859) | — | (340,238) | (73,935) | — | (724,502) |
| Net book value at January 1, 2018 | 60,909 | 94,337 | 10,333 | 264,693 | — | 662,307 | 1,092,579 |
| Opening net book value | 60,909 | 94,337 | 10,333 | 264,693 | — | 662,307 | 1,092,579 |
| Effect of initial inflation adjustment (Note 4 (cc)) | 4,966 | — | — | — | — | — | 4,966 |
| Translation differences | (6,674) | — | — | — | — | — | (6,674) |
| Additions | 27,594 | 10,243 | 2,641 | — | — | — | 40,478 |
| Disposals / Consumptions | (87) | — | — | — | — | — | (87) |
| Transfers | 480 | (10,237) | 10,235 | — | — | — | 478 |
| Depreciation charge | (15,427) | (18,055) | — | (85,734) | — | — | (119,216) |
| Closing net book value | 71,761 | 76,288 | 23,209 | 178,959 | — | 662,307 | 1,012,524 |
| Values at the end of the year | | | | | | | |
| Cost | 320,600 | 216,203 | 23,209 | 604,931 | 73,935 | 662,307 | 1,901,185 |
| Accumulated depreciation | (248,839) | (139,915) | — | (425,972) | (73,935) | — | (888,661) |
| Net book value at December 31, 2018 | 71,761 | 76,288 | 23,209 | 178,959 | — | 662,307 | 1,012,524 |
| | Year ended December 31, 2017 | | | | | | |
| | Information system projects | Mining assets | Exploration and evaluation costs | Customer relationships and other contractual rights | Trademarks | Goodwill | Total |
| Values at the beginning of the year | | | | | | | |
| Cost | 215,662 | 202,931 | 5,689 | 298,475 | 73,665 | 662,307 | 1,458,729 |
| Accumulated depreciation | (164,203) | (106,424) | — | (272,923) | (72,622) | — | (616,172) |
| Net book value at January 1, 2017 | 51,459 | 96,507 | 5,689 | 25,552 | 1,043 | 662,307 | 842,557 |
| Opening net book value | 51,459 | 96,507 | 5,689 | 25,552 | 1,043 | 662,307 | 842,557 |
| Translation differences | (1,730) | — | — | — | — | — | (1,730) |
| Acquisition of business (note 3) | 2,731 | — | — | 314,177 | — | — | 316,908 |
| Additions | 35,867 | 8,076 | 9,829 | — | — | — | 53,772 |
| Disposals / Consumptions | (32) | — | — | — | — | — | (32) |

Edgar Filing: Ternium S.A. - Form 6-K

| | | | | | | | |
|-------------------------------------|-----------|-----------|----------|------------|-----------|---------|------------|
| Transfers | (512) | 5,185 | (5,185) | (4,845) | — | — | (5,357) |
| Depreciation charge | (26,874) | (15,431) | — | (70,191) | (1,043) | — | (113,539) |
| Closing net book value | 60,909 | 94,337 | 10,333 | 264,693 | — | 662,307 | 1,092,579 |
| Values at the end of the year | | | | | | | |
| Cost | 249,379 | 216,196 | 10,333 | 604,931 | 73,935 | 662,307 | 1,817,081 |
| Accumulated depreciation | (188,470) | (121,859) | — | (340,238) | (73,935) | — | (724,502) |
| Net book value at December 31, 2017 | 60,909 | 94,337 | 10,333 | 264,693 | — | 662,307 | 1,092,579 |

Page 50 of 87

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2017 and 2016
and for the years ended December 31, 2017, 2016 and 2015

14. INVESTMENTS IN NON-CONSOLIDATED COMPANIES

| | As of December 31, | |
|---|-----------------------|----------|
| | 2018 | 2017 |
| At the beginning of the year | 478,348 | 418,379 |
| Equity in earnings (losses) of non-consolidated companies | 102,772 | 68,115 |
| Other comprehensive income | (77,042) | (4,786) |
| Dividends from non-consolidated companies | (8,837) | (3,360) |
| At the end of the year | 495,241 | 478,348 |

The principal investments in non-consolidated companies, all of which are unlisted, except for Usiminas, are:

| Company | Country of incorporation | Main activity | Voting rights at | | Value at | |
|---|-----------------------------|---|-------------------------|----------------------|-------------------------|----------------------|
| | | | December 31, 2018 | December 31, 2017 | December 31, 2018 | December 31, 2017 |
| Usinas Siderurgicas de Minas Gerais S.A. - USIMINAS | Brazil | Manufacturing and selling of steel products | 34.39 % | 34.39 % | 480,084 | 466,299 |
| Techgen S.A. de C.V. | Mexico | Provision of electric power | 48.00 % | 48.00 % | 10,291 | 6,862 |
| Other non-consolidated companies (1) | | | | | 4,866 | 5,187 |
| | | | | | 495,241 | 478,348 |

(1) It includes the investment held in Finma S.A.I.F., Arhsa S.A., Techinst S.A., Recrotek S.R.L. de C.V. and Gas Industrial de Monterrey S.A. de C.V.

(a) Usinas Siderurgicas de Minas Gerais S.A. – USIMINAS

Ternium, through its subsidiaries Ternium Investments S.à r.l. (“Ternium Investments”), Ternium Argentina S.A. (“Ternium Argentina”) and Prosid Investments S.A. (“Prosid”), owns a total of 242.6 million ordinary shares and 8.5 million preferred shares, representing 20.5% of the issued and outstanding share capital of Usinas Siderurgicas de Minas Gerais S.A. - USIMINAS (“Usiminas”), the largest flat steel producer in Brazil for the energy, automotive and other industries.

Ternium Investments, Ternium Argentina and Prosid, together with Tenaris S.A.’s Brazilian subsidiary Confab Industrial S.A. (“TenarisConfab”), are part of Usiminas’ control group, comprising the so-called T/T Group. The other members of Usiminas’ control group are Previdência Usiminas (Usiminas’ employee pension fund) and the so-called NSSMC Group, comprising Nippon Steel & Sumitomo Metal Corporation Group (“NSSMC”), Nippon Usiminas Co., Ltd., Metal One Corporation and Mitsubishi Corporation do Brasil, S.A.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2017 and 2016
and for the years ended December 31, 2017, 2016 and 2015

14. INVESTMENTS IN NON-CONSOLIDATED COMPANIES (continued)

On April 10, 2018, the T/T Group, the NSSMC Group and Previdência Usiminas entered into a new shareholders' agreement (the "New SHA") to govern their relations as shareholders and members of the control group of Usiminas. The New SHA sets forth Usiminas' corporate governance rules, including, among others, an alternation mechanism for the nomination of each of the chief executive officer and the chairman of the board of directors, as well as a mechanism for the nomination of other members of Usiminas' executive board. The right to nominate Usiminas' chief executive officer and chairman will alternate between Ternium and NSSMC at every 4-year interval, comprising two consecutive 2-year terms. For the initial four years, Ternium will be entitled to nominate the CEO and NSSMC will be entitled to nominate the chairman. The executive board will be composed of six members, including the chief executive officer and five vice-presidents, with Ternium and NSSMC nominating three members each.

Usiminas' control group holds, in the aggregate, 483.6 million ordinary shares bound to the New SHA, representing approximately 68.6% of Usiminas' voting capital, with the T/T Group holding approximately 47.1% of the total shares held by the control group (39.5% corresponding to Ternium and the other 7.5% corresponding to TenarisConfab); the NSSMC Group holding approximately 45.9% of the total shares held by the control group; and Previdência Usiminas holding the remaining 7% of the total shares held by the control group.

The New SHA provides for an exit mechanism consisting of a buy-and-sell procedure, exercisable at any time during the term of the New SHA after November 16, 2022. Such exit mechanism shall apply with respect to shares held by the NSSMC Group and the T/T Group, and would allow either Ternium or NSSMC to purchase all or a majority of the Usiminas shares held by the other shareholder group.

The 51.4 million ordinary shares of Usiminas acquired by Ternium on October 30, 2014 and 6.7 million ordinary shares acquired by NSSMC prior to execution of the January 16, 2012 shareholders' agreement remain free from any transfer restrictions under the New SHA and will not be subject to the exit mechanism described above.

As of December 31, 2018, the closing price of the Usiminas ordinary and preferred shares, as quoted on the BM&F Bovespa Stock Exchange, was BRL 11.44 (approximately USD 2.95; December 31, 2017: BRL 10.83 - USD 3.27) per ordinary share and BRL 9.22 (approximately USD 2.38; December 31, 2017: BRL 9.10 - USD 2.75) per preferred share, respectively. Accordingly, as of December 31, 2018, Ternium's ownership stake had a market value of approximately USD 736.5 million and a carrying value of USD 480.1 million.

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 or its fair value less costs of disposal.

Usiminas financial restructuring process (that started in April 2016 with the capital increase) was completed by the end of August 2017. The completion of this process together with the higher share price since June 2016, and the improvement in business conditions may lead to an increase in the value of the investment in Usiminas in future periods.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

14. INVESTMENTS IN NON-CONSOLIDATED COMPANIES (continued)

As of December 31, 2018 and 2017, the value of the investment in Usiminas is comprised as follows:

| Value of investment | USIMINAS | |
|---------------------|-------------------------------|-------------------------------|
| | As of December 31, 2018 | As of December 31, 2017 |

| | | |
|------------------------------|-----------|----------|
| At the beginning of the year | 466,299 | 411,134 |
| Share of results (1) | 97,733 | 63,030 |
| Other comprehensive income | (75,195) | (4,570) |
| Dividends | (8,753) | (3,295) |

At the end of the year 480,084 466,299

(1) It includes the adjustment of the values associated to the purchase price allocation.

The investment in Usiminas is based in the following calculation:

| | |
|---|-----------|
| Usiminas' shareholders' equity | 3,681,815 |
| Percentage of interest of the Company over shareholders' equity | 20.43 % |

Interest of the Company over shareholders' equity 752,048

| | |
|---------------------------|------------|
| Purchase price allocation | 71,013 |
| Goodwill | 268,255 |
| Impairment | (611,232) |

Total Investment in Usiminas 480,084

On February 14, 2019, Usiminas approved its annual accounts as of and for the year ended December 31, 2018, which state that revenues, net profit from continuing operations and shareholders' equity amounted to USD 3,766 million, USD 193 million and USD 3,685 million, respectively.

| Summarized balance sheet (in million USD) | USIMINAS | |
|---|-------------------------------|-------------------------------|
| | As of December 31, 2018 | As of December 31, 2017 |

| | | |
|---------------------------|-------|-------|
| Assets | | |
| Non-current | 4,697 | 5,662 |
| Current | 1,711 | 1,494 |
| Other current investments | 151 | 164 |
| Cash and cash equivalents | 286 | 535 |

Total Assets 6,845 7,855

| | | |
|------------------------|-------|-------|
| Liabilities | | |
| Non-current | 544 | 637 |
| Non-current borrowings | 1,389 | 1,707 |
| Current | 740 | 622 |

Edgar Filing: Ternium S.A. - Form 6-K

| | | |
|--------------------------|-------|-------|
| Current borrowings | 121 | 299 |
| Total Liabilities | 2,794 | 3,265 |
| Non-controlling interest | 369 | 426 |
| Shareholders' equity | 3,682 | 4,164 |

Page 53 of 87

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

14. INVESTMENTS IN NON-CONSOLIDATED COMPANIES (continued)

| | USIMINAS | |
|---|--------------|--------------|
| | As of | As of |
| Summarized income statement (in million USD) | December 31, | December 31, |
| | 2018 | 2017 |
| Net sales | 3,766 | 3,368 |
| Cost of sales | (3,154) | (2,854) |
| Gross Profit | 612 | 514 |
| Selling, general and administrative expenses | (213) | (206) |
| Other operating income (loss), net | (153) | (78) |
| Operating income | 246 | 230 |
| Financial expenses, net | 15 | (145) |
| Equity in earnings of associated companies | 70 | 49 |
| Profit (Loss) before income tax | 331 | 134 |
| Income tax benefit | (110) | (34) |
| Net profit (loss) before non-controlling interest | 221 | 100 |
| Non-controlling interest in other subsidiaries | (28) | (26) |
| Net profit (loss) for the year | 193 | 74 |

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

Techgen is a Mexican natural gas-fired combined cycle electric power plant in the Pesquería area of the State of Nuevo León, Mexico. The company started producing energy on December 1st, 2016 and is fully operational. As of February 2017, Ternium, Tenaris, and Tecpetrol International S.A. (a wholly-owned subsidiary of San Faustin S.A., the controlling shareholder of both Ternium and Tenaris) completed their investments in Techgen. Techgen is currently owned 48% by Ternium, 30% by Tecpetrol and 22% by Tenaris. Ternium and Tenaris also 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 900 megawatts. During 2017 and 2016, Techgen's shareholders made additional investments in Techgen, in the form of subordinated loans, which in the case of Ternium amounted to USD 151.6 million as of December 31, 2018, and which are due in June 2020.

For commitments from Ternium in connection with Techgen, see note 25.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

15. RECEIVABLES, NET – NON CURRENT AND CURRENT

| | As of December 31, | |
|--|-----------------------|---------|
| | 2018 | 2017 |
| Receivables with related parties (Notes 26 and 14 (b)) | 151,388 | 126,859 |
| Employee advances and loans | 2,425 | 4,171 |
| Advances to suppliers for the purchase of property, plant and equipment | 74,741 | 27,734 |
| Advances to suppliers for the purchase of property, plant and equipment with related parties (Note 26) | 7,493 | 3,252 |
| Other receivables (note 3 (c)(iii)) | 264,683 | 311,394 |
| Tax credits | 146,711 | 202,853 |
| Others | 2,006 | 1,036 |
| Receivables, net – Non-current | 649,447 | 677,299 |
| | As of December 31, | |
| | 2018 | 2017 |
| Value added tax | 156,627 | 149,021 |
| Tax credits | 72,957 | 77,887 |
| Employee advances and loans | 4,701 | 6,429 |
| Advances to suppliers | 15,563 | 44,239 |
| Advances to suppliers with related parties (Note 26) | 2,854 | 3 |
| Expenses paid in advance | 15,862 | 13,244 |
| Government tax refunds on exports | 17,311 | 32,522 |
| Receivables with related parties (Note 26) | 9,536 | 29,190 |
| Others | 14,339 | 9,638 |
| Receivables, net – Current | 309,750 | 362,173 |

(1) The increase in tax credits and other receivables corresponds mainly to the business acquisition included in note 3 (a).

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

16. TRADE RECEIVABLES, NET – NON CURRENT AND CURRENT

| | As of December 31, | | |
|--|---|---------------------|-----------|
| | 2018 | 2017 | |
| Trade receivables | 4,766 | 4,832 | |
| Trade receivables, net – Non-current | 4,766 | 4,832 | |
| Current accounts | 1,096,072 | 926,310 | |
| Trade receivables with related parties (Note 26) | 46,744 | 96,831 | |
| Allowance for doubtful accounts (Note 19) | (14,346) | (16,543) | |
| Trade receivables, net - Current | 1,128,470 | 1,006,598 | |
| | Trade receivables, net as of December 31, 2018 | | |
| | Total | Fully performing | Past due |
| Guaranteed | 564,015 | 502,822 | 61,193 |
| Not guaranteed | 583,567 | 532,214 | 51,353 |
| Trade receivables | 1,147,582 | 1,035,036 | 112,546 |
| Allowance for doubtful accounts (Note 19) | (14,346) | — | (14,346) |
| Trade receivables, net | 1,133,236 | 1,035,036 | 98,200 |
| | Trade receivables, net as of December 31, 2017 | | |
| | Total | Fully performing | Past due |
| Guaranteed | 412,036 | 366,902 | 45,134 |
| Not guaranteed | 615,937 | 543,791 | 72,146 |
| Trade receivables | 1,027,973 | 910,693 | 117,280 |
| Allowance for doubtful accounts (Note 19) | (16,543) | — | (16,543) |
| Trade receivables, net | 1,011,430 | 910,693 | 100,737 |

17. INVENTORIES, NET

| | As of December 31, | |
|--|--------------------|-----------|
| | 2018 | 2017 |
| Raw materials, materials and spare parts | 850,182 | 616,870 |
| Goods in process | 1,187,071 | 1,251,779 |
| Finished goods | 464,154 | 423,372 |

Edgar Filing: Ternium S.A. - Form 6-K

| | | |
|----------------------------------|-----------|-----------|
| Goods in transit | 243,876 | 295,106 |
| Obsolescence allowance (Note 19) | (55,454) | (36,197) |
| Inventories, net | 2,689,829 | 2,550,930 |

Page 56 of 87

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

18. CASH, CASH EQUIVALENTS AND OTHER INVESTMENTS – NON CURRENT AND CURRENT

| | As of December 31, 2018 2017 | |
|--|---------------------------------------|---------|
| Investments in companies under cost method | 252 | 252 |
| Investments in debt instruments | 6,943 | 3,128 |
| Other investments, net – Non-current | 7,195 | 3,380 |
| | As of December 31, 2018 2017 | |
| (i) Other investments | | |
| Other deposits with maturity of more than three months | 44,529 | 132,736 |
| Other investments - Current | 44,529 | 132,736 |
| (ii) Cash and cash equivalents | | |
| Cash and banks | 87,863 | 100,739 |
| Restricted cash | 2,216 | 50 |
| Short-term bank deposits | 140,456 | 229,239 |
| Other deposits with maturity of less than three months | 20,006 | 7,751 |
| Cash and cash equivalents | 250,541 | 337,779 |

19. ALLOWANCES AND PROVISIONS – NON CURRENT AND CURRENT

Provisions and allowances - Non current

| | Liabilities | Liabilities |
|--|---|-----------------------------------|
| | Legal claims and other matters | Asset retirement obligation |
| Year ended December 31, 2018 | | |
| Values at the beginning of the year | 768,517 | 27,829 |
| Effect of initial inflation adjustment (note 4 (cc)) | 1,315 | — |
| Translation differences | (113,571) | 82 |
| Additions | 6,438 | 5,383 |
| Reversals | (14,097) | (8,740) |
| Uses | (4,652) | — |
| At December 31, 2018 | 643,950 | 24,554 |

Year ended December 31, 2017

Edgar Filing: Ternium S.A. - Form 6-K

| | | |
|-------------------------------------|-----------|--------|
| Values at the beginning of the year | 6,950 | 18,301 |
| Translation differences | (39,757) | 853 |
| Acquisition of business (note 3) | 799,938 | — |
| Additions | 3,112 | 8,675 |
| Reversals | (329) | — |
| Uses | (1,397) | — |
| At December 31, 2017 | 768,517 | 27,829 |

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2016 and 2015
and for the years ended December 31, 2016, 2015 and 2014

19. ALLOWANCES AND PROVISIONS – NON CURRENT AND CURRENT (continued)

| Provisions and allowances - Current | Deducted from assets Allowance for doubtful accounts | Obsolescence allowance | Liabilities Asset retirement obligation |
|--|---|---------------------------|--|
| Year ended December 31, 2018 | | | |
| Values at the beginning of the year | 16,543 | 36,197 | 2,659 |
| Effect of initial inflation adjustment (note 4 (cc)) | 202 | 6,530 | — |
| Translation differences | (2,076) | (2,384) | (10) |
| Additions | 2,732 | 22,822 | 7,659 |
| Reversals | (1,103) | (5,500) | — |
| Uses | (1,952) | (2,211) | (457) |
| At December 31, 2018 | 14,346 | 55,454 | 9,851 |
| Year ended December 31, 2017 | | | |
| Values at the beginning of the year | 6,019 | 33,433 | 4,262 |
| Translation differences | (504) | (860) | 246 |
| Acquisition of business (note 3) | 10,822 | 12,385 | — |
| Additions | 1,365 | 9,959 | 443 |
| Reversals | (680) | (13,987) | — |
| Uses | (479) | (4,733) | (2,292) |
| At December 31, 2017 | 16,543 | 36,197 | 2,659 |

20. DEFERRED INCOME TAX

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

Changes in deferred income tax are as follows:

| | As of December 31, 2018 | 2017 |
|--|----------------------------|-----------|
| At the beginning of the year | (392,265) | (523,209) |
| Acquisition of business (note 3) | — | 13,686 |
| Translation differences | (7,201) | (1,052) |
| Effect of changes in tax law (note 11) | — | 7,455 |
| Effect of initial inflation adjustment | (182,773) | — |
| Credits (Charges) directly to other comprehensive income | 9,547 | 4,808 |
| Deferred tax (charge) credit (note 11) | 232,485 | 106,047 |
| At the end of the year | (340,207) | (392,265) |

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

20. DEFERRED INCOME TAX (continued)

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

| Deferred tax liabilities | PP&E | Inventories | Intangible assets | Other | Total at December 31, 2018 | | |
|--|-----------|-------------|-------------------|-------------------|----------------------------|-----------|----------------------------|
| At the beginning of the year | (539,839) | (57,006) | (18,692) | (2,056) | (617,593) | | |
| Translation differences | 9,726 | 527 | 497 | (688) | 10,062 | | |
| Effect of initial inflation adjustment | (161,044) | (20,967) | (762) | — | (182,773) | | |
| Income statement credit (charge) | 168,702 | 36,130 | 3,031 | 1,656 | 209,519 | | |
| At the end of the year | (522,455) | (41,316) | (15,926) | (1,088) | (580,785) | | |
| Deferred tax assets | | | Provisions | Trade receivables | Tax losses (1) | Other | Total at December 31, 2018 |
| At the beginning of the year | | | 61,101 | 8,200 | 43,355 | 112,672 | 225,328 |
| Translation differences | | | (6,036) | (1,089) | — | (10,137) | (17,263) |
| Credits (Charges) directly to other comprehensive income | | | — | — | — | 9,547 | 9,547 |
| Income statement credit (charge) | | | 17,882 | 4,154 | (9,973) | 10,903 | 22,966 |
| At the end of the year | | | 72,947 | 11,265 | 33,382 | 122,985 | 240,578 |

(1) As of December 31, 2018, the recognized deferred tax assets on tax losses amount to USD 33,383 and there are net unrecognized deferred tax assets of USD 0.7 billion and unrecognized tax losses amounting to USD 1.2 billion. These two last effects are connected to the acquisition of Ternium Brasil (see note 3).

| Deferred tax liabilities | PP&E | Inventories | Intangible assets | Other | Total at December 31, 2017 | | |
|--|-----------|-------------|-------------------|-------------------|----------------------------|--------|----------------------------|
| At the beginning of the year | (625,963) | (48,637) | (28,050) | (3,050) | (705,700) | | |
| Translation differences | 6,907 | (215) | 67 | (29) | 6,730 | | |
| Charges directly to other comprehensive income | — | — | — | (108) | (108) | | |
| Effect of changes in tax law | 17,293 | 185 | 352 | 11 | 17,841 | | |
| Income statement credit (charge) | 61,924 | (8,339) | 8,939 | 1,120 | 63,644 | | |
| At the end of the year | (539,839) | (57,006) | (18,692) | (2,056) | (617,593) | | |
| Deferred tax assets | | | Provisions | Trade receivables | Tax losses (2) | Other | Total at December 31, 2017 |
| At the beginning of the year | | | 53,188 | 7,488 | 56,297 | 65,518 | 182,491 |

Edgar Filing: Ternium S.A. - Form 6-K

| | | | | | |
|--|----------|--------|----------|----------|-----------|
| Translation differences | (501) | (273) | — | (7,008) | (7,782) |
| Acquisition of business (note 3) | — | — | — | 13,686 | 13,686 |
| Charges directly to other comprehensive income | — | — | — | 4,916 | 4,916 |
| Effect of changes in tax law | (2,692) | (238) | — | (7,456) | (10,386) |
| Income statement credit (charge) | 11,106 | 1,223 | (12,942) | 43,016 | 42,403 |

At the end of the year 61,101 8,200 43,355 112,672 225,328

(2) As of December 31, 2017, the recognized deferred tax assets on tax losses amount to USD 43,355 and there are net unrecognized deferred tax assets of USD 0.9 billion and unrecognized tax losses amounting to USD 1.5 billion. These two last effects are connected to the acquisition of Ternium Brasil (see note 3).

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

20. DEFERRED INCOME TAX (continued)

The amounts shown in the statement of financial position (prior to offsetting the balances within the same tax jurisdiction) include the following:

| | As of December 31, | |
|--|--------------------|-----------|
| | 2018 | 2017 |
| Deferred tax assets to be recovered after more than 12 months | 153,681 | 155,350 |
| Deferred tax assets to be recovered within 12 months | 86,897 | 69,978 |
| Deferred tax liabilities to be settled after more than 12 months | (538,854) | (558,890) |
| Deferred tax liabilities to be settled within 12 months | (41,931) | (58,703) |
| | (340,207) | (392,265) |

21. OTHER LIABILITIES – NON CURRENT AND CURRENT

As of December
31,
2018 2017

(i) Other liabilities - Non current

| | | |
|---|---------|---------|
| Post-employment benefits | 312,293 | 275,950 |
| Other employee benefits | 38,891 | 31,312 |
| Asset retirement obligation (note 19) (1) | 24,554 | 27,829 |
| Other | 38,803 | 37,955 |

Other liabilities – Non-current 414,541 373,046

(1) The asset in connection with this liability is included in Property, plant and equipment.

Post-employment benefits

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

| | Post-employment benefits | |
|---------------------------------------|-----------------------------|---------|
| | As of December 31, | |
| | 2018 | 2017 |
| Present value of unfunded obligations | 312,293 | 275,950 |

Liability in the statement of financial position 312,293 275,950

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

| | Post-employment benefits | |
|----------------------|-----------------------------|-------|
| | Year ended December 31, | |
| | 2018 | 2017 |
| Current service cost | 7,284 | 6,555 |

Interest cost 22,578 21,658

Total included in labor costs 29,862 28,213

Page 60 of 87

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

21. OTHER LIABILITIES – NON CURRENT AND CURRENT (continued)

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

| | Post-employment benefits As of December 31, | |
|---|--|-----------|
| | 2018 | 2017 |
| At the beginning of the year | 275,950 | 252,624 |
| Transfers, new participants and funding of the plan | (3,177) | 840 |
| Total expense | 29,862 | 28,213 |
| Remeasurements | 38,263 | 15,068 |
| Effect of changes in demographic assumptions | 22,575 | (4,950) |
| Effect of changes in financial assumptions | 2,272 | 14,110 |
| Effect of experience adjustments | 13,416 | 5,908 |
| Translation differences | (283) | 10,527 |
| Contributions paid | (28,322) | (31,322) |
| At the end of the year | 312,293 | 275,950 |

The principal actuarial assumptions used were as follows:

| | Year ended December 31, | |
|--------------------------|----------------------------|---------------|
| | 2018 | 2017 |
| Mexico | | |
| Discount rate | 8.75 | % 7.75 % |
| Compensation growth rate | 6.00% - 7.00% | 5.00 % |
| | Year ended December 31, | |
| Argentina | 2018 | 2017 |
| Discount rate | 6.00% - 7.00% | 6.00% - 7.00% |
| Compensation growth rate | 2.00% - 3.00% | 2.00% - 3.00% |

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is as follows:

| | Impact on defined benefit obligation | | | | |
|--------------------------|---|--------|---------------------------|------|------------------------------|
| | Change in assumption | | Increase in assumption | | Decrease in assumption |
| Discount rate | 1.00 | % -8.4 | % | 10.1 | % |
| Compensation growth rate | 1.00 | % 1.4 | % | -4.2 | % |
| Pension growth rate | 1.00 | % -1.5 | % | 1.8 | % |
| Life expectancy | 1 year | 3.8 | % | -3.8 | % |

The estimated future payments for the next five years will be between 23.8 and 29.9 million per year.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

21. OTHER LIABILITIES – NON CURRENT AND CURRENT (continued)

| | As of December 31, | |
|---------------------------------------|-----------------------|---------|
| | 2018 | 2017 |
| (ii) Other liabilities - Current | | |
| Payroll and social security payable | 177,407 | 183,249 |
| VAT liabilities | 79,060 | 79,085 |
| Other tax liabilities | 36,203 | 30,927 |
| Termination benefits | 1,501 | 1,816 |
| Related Parties (Note 26) | 3,341 | 6,215 |
| Asset retirement obligation (Note 19) | 9,851 | 2,659 |
| Others | 43,853 | 53,050 |
| Other liabilities – Current | 351,216 | 357,001 |

22. DERIVATIVE FINANCIAL INSTRUMENTS

Net fair values of derivative financial instruments

The net fair values of derivative financial instruments at December 31, 2018 and 2017 were as follows:

| | As of December 31, | |
|------------------------------------|-----------------------|---------|
| | 2018 | 2017 |
| Contracts with positive fair value | | |
| Interest rate swap contracts | 818 | 302 |
| Foreign exchange contracts | 770 | 2,002 |
| | 1,588 | 2,304 |
| Contracts with negative fair value | | |
| Foreign exchange contracts | (12,981) | (6,001) |
| | (12,981) | (6,001) |

Derivative financial instruments breakdown is as follows:

(a) Interest rate contracts

Fluctuations in market interest rates create a degree of risk by affecting the amount of the Company's interest payments and the value of its floating-rate debt. As of December 31, 2018, most of the Company's long-term borrowings were at variable rates.

During 2012 and 2013, Ternium entered into several forward starting interest rate swap agreements in order to fix the interest rate to be paid over an aggregate amount of USD 100 million, at an average rate of 1.92%. These agreements are effective from July 2014, will due on July 2022 and have been accounted for as cash flow hedges. As of December 31, 2018, the after-tax cash flow hedge reserve related to these agreements amounted to USD 0.5 million.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Changes in fair value of derivative instruments designated as cash flow hedges for each of the years presented are included below:

| | Cash flow hedges | | |
|--------------------------------------|------------------|------------|-------|
| | Gross amount | Income tax | Total |
| At December 31, 2016 | 75 | (22) | 53 |
| (Decrease) / Increase | 363 | 3 | 366 |
| Reclassification to income statement | 372 | (110) | 262 |
| At December 31, 2017 | 810 | (129) | 681 |
| (Decrease) / Increase | (14) | (108) | (122) |
| Reclassification to income statement | (117) | 35 | (82) |
| At December 31, 2018 | 679 | (202) | 477 |

The gross amount of the pre-tax reserve recorded in other comprehensive income at December 31, 2018 (amounting to a gain of USD 0.7 million) is expected to be reclassified to the income statements in accordance to the payments of interests in connection with the borrowings hedged by these derivative contracts, during 2019 and up to the end of the life of the borrowing in 2022.

(b) Foreign exchange contracts

From time to time, Ternium's subsidiaries enter into derivative agreements to manage their exposure to currencies other than the USD, in accordance with the Company's policy for derivative instruments.

During 2018, 2017 and 2016, Prosid Investments entered into several non-deliverable forward agreements in order to manage the exchange rate exposure generated by Ternium Argentina's debt in ARS. As of December 31, 2018, there were no outstanding agreements.

Furthermore, during 2018, 2017 and 2016, Ternium Colombia S.A.S. has entered into non-deliverable forward agreements to manage the exposure of certain trade receivables denominated in its local currency. As of December 31, 2018, the notional amount on these agreements amounted to USD 30.0 million.

As part of the acquisition of the subsidiary in Brazil, the Company maintained several non-deliverable forward agreements which were entered into to manage the exchange rate exposure generated by financial debt in BRL. As of December 31, 2018, the outstanding notional amounts in USD are offset on these agreements.

During 2018 and 2017, Ternium Mexico entered into a forward agreement in order to manage the exchange rate exposure generated by future payables in EUR related to the investment plan. As of December 31, 2018, the notional amount on this agreement amounted to USD 228.2 million.

During 2018, Ternium Investments S.à r.l., entered into a several non-deliverable forward and forward agreements in order to manage the exchange rate exposure generated by Ternium Argentina's debt in ARS, future payables in EUR

related to the investment plan of Ternium Colombia and future receivables in EUR related to sales of Ternium Internacional España. As of December 31, 2018, the notional amount on these agreements amounted to USD 28.7 million.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The net fair values of the exchange rate derivative contracts as of December 31, 2018 and December 31, 2017 were as follows:

| Currencies Contract | Notional amount | Fair value at December 31, | |
|-------------------------------|-------------------|-------------------------------|---------|
| | | 2018 | 2017 |
| EUR/USD ND Forward - Buy EUR | 212.9 million EUR | (12,954) | 224 |
| BRL/USD ND Forward - Buy BRL | 34.5 million BRL | (493) | 1,514 |
| EUR/USD ND Forward - Sell EUR | 1.9 million EUR | (27) | — |
| BRL/USD ND Forward - Sell BRL | 32.0 million BRL | 1,154 | 247 |
| COP/USD ND Forward - Sell COP | 194.9 billion COP | 109 | 17 |
| ARS/USD ND Forward - Buy ARS | 6.4 billion ARS | — | (6,534) |
| ARS/USD ND Forward - Sell ARS | 187.0 million ARS | — | 533 |
| | | (12,211) | (3,999) |

ARS: Argentine pesos; COP: Colombian pesos; EUR: Euros; USD: US dollars; BRL: Brazilian reais.

23. FINANCE LEASES

As of December 31, 2018, the Company is part to a contract that qualifies as financial lease agreement with Air Liquide Argentina S.A., being the object of the lease a plant for the provision of industrial gas located in the Company's plant in San Nicolas, Argentina. This contract does not consider a purchase option of the related asset on its expiry date. The total commitment generated a current finance lease liability of USD 8.0 million (2017: USD 8.0 million) and a non-current finance lease liability of USD 65.8 million (2017: USD 69.0 million). The total finance lease liability to be paid on expiry of the lease contract amounts to USD 73.8 million (2017: USD 77.0 million).

The reconciliation of the minimum future payments and the present value of the contract are as follows:

| | As of December 31, 2018 | As of December 31, 2017 |
|---|-------------------------------|-------------------------------|
| Commitments in relation to finance leases are payable as follows: | | |
| Within one year | 8,328 | 8,328 |
| Later than one year but not later than five years | 33,312 | 33,312 |
| Later than five years | 71,482 | 79,810 |
| Minimum lease payments | 113,122 | 121,450 |
| Future finance charges | (39,294) | (44,415) |
| Total Financial lease liabilities | 73,828 | 77,035 |

The present value of finance lease liabilities is as follows:

| | | |
|---|--------|--------|
| Within one year | 8,030 | 8,030 |
| Later than one year but not later than five years | 27,208 | 27,208 |
| Later than five years | 38,590 | 41,797 |

Total minimum lease payments 73,828 77,035

Property, plant and equipment include a net book value of USD 25.3 million (2017: USD 61.4 million) in connection with assets leased to the Company under this finance lease. The lease term is 15 years and the amortization period of the related asset is 15 years as well.

Page 64 of 87

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

24. BORROWINGS

As of December 31,
2018 2017

(i) Non-current

| | | |
|------------------------|-----------|-----------|
| Bank borrowings | 1,648,124 | 1,724,454 |
| Less: debt issue costs | (11,023) | (8,117) |
| | 1,637,101 | 1,716,337 |

(ii) Current

| | | |
|------------------------|----------|-----------|
| Bank borrowings | 404,390 | 1,510,820 |
| Less: debt issue costs | (4,534) | (5,250) |
| | 399,856 | 1,505,570 |

| | | |
|------------------|-----------|-----------|
| Total Borrowings | 2,036,957 | 3,221,907 |
|------------------|-----------|-----------|

The maturity of borrowings is as follows:

| | Expected Maturity Date | | | | |
|---------------|------------------------|---------|---------------------|----------------------|-----------|
| | 2019 | 2020 | 2021 and thereafter | At December 31, 2018 | (1) 2017 |
| Fixed Rate | 269,908 | 19,975 | — | 289,883 | 1,146,631 |
| Floating Rate | 129,948 | 508,098 | 1,109,028 | 1,747,074 | 2,075,276 |
| Total | 399,856 | 528,073 | 1,109,028 | 2,036,957 | 3,221,907 |

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

The weighted average interest rates - which incorporate instruments denominated mainly in US dollars and Argentine pesos and which do not include the effect of derivative financial instruments nor the devaluation of these local currencies - at year-end were as follows:

As of
December 31,
2018 2017

Bank borrowings 3.65% 4.76%

The nominal average interest rates shown above were calculated using the rates set for each instrument in its corresponding currency and weighted using the dollar-equivalent outstanding principal amount of said instruments at December 31, 2018 and 2017, respectively.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

24. BORROWINGS (continued)

Breakdown of borrowings by currency is as follows:

| | | As of December 31, | |
|------------|----------|--------------------|-----------|
| Currencies | Contract | 2018 | 2017 |
| USD | Floating | 1,747,074 | 2,061,106 |
| USD | Fixed | 262,873 | 791,158 |
| ARS | Floating | — | 2,377 |
| ARS | Fixed | — | 328,060 |
| COP | Floating | — | 11,793 |
| COP | Fixed | 17,009 | 18,500 |
| GTQ | Fixed | 10,001 | 8,913 |

2,036,957 3,221,907

USD: US dollars; ARS: Argentine pesos; COP: Colombian pesos; GTQ: Guatemalan quetzales.

Ternium's most significant borrowings as of December 31, 2018, were those incurred under Ternium México's syndicated loan facilities, in order to improve its maturity profile in 2013 and under Tenigal's syndicated loan facility, in order to finance the construction of its hot-dipped galvanizing mill in Pesquería, Mexico, and under Ternium Investments S.à r.l., in order to finance the acquisition of Ternium Brasil:

| Date | Borrower | Type | In USD million | | Maturity |
|---------------------|------------------------------|---------------------|---------------------------|--|----------------|
| | | | Original principal amount | Outstanding principal amount as of December 31, 2018 | |
| November 2013 | Ternium Mexico | Syndicated loan | 800 | — | November 2018 |
| Years 2012 and 2013 | Tenigal | Syndicated loan | 200 | 100 | July 2022 |
| September 2017 | Ternium Investments S.à r.l. | Syndicated loan | 1,500 | 1,125 | September 2022 |
| June 2018 | Ternium Mexico | Syndicated loan (1) | 1,000 | 400 | June 2023 |

(1) From the original principal amount of USD 1,000 million, USD 400 million were disbursed as of December 31, 2018. The remainder USD 600 million are available to be drawn until June 2019.

The main covenants on these loan agreements are limitations on liens and encumbrances, limitations on the sale of certain assets and compliance with financial ratios (i.e. leverage ratio and interest coverage ratio). As of December 31, 2018, Ternium was in compliance with all of its covenants.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

25. CONTINGENCIES, COMMITMENTS AND RESTRICTIONS ON THE DISTRIBUTION OF PROFITS

Ternium is involved in litigation arising from time to time in the ordinary course of business. The Company recorded a provision for those cases in which there is a probable cash outflow and the outcome can be reliably estimated. Based on management's assessment and the advice of legal counsel, it is not anticipated that the ultimate resolution of existing litigation would be material to Ternium's consolidated financial position, results of operations or liquidity. For the contingencies related to Ternium Brasil, please refer to note 3.

(i) Tax claims and other contingencies

(a) Companhia Siderúrgica Nacional (CSN) - Tender offer litigation

In 2013, the Company was notified of a lawsuit filed in Brazil by Companhia Siderúrgica Nacional (CSN) and various entities affiliated with CSN against Ternium Investments S.à r.l., its subsidiary Ternium Argentina S.A., and Confab Industrial S.A., a Brazilian subsidiary of Tenaris S.A. The entities named in the CSN lawsuit had acquired a participation in Usinas Siderúrgicas de Minas Gerais S.A. - USIMINAS (Usiminas) in January 2012. The CSN lawsuit alleges that, under applicable Brazilian laws and rules, the acquirers were required to launch a tag-along tender offer to all non-controlling holders of Usiminas ordinary shares for a price per share equal to 80% of the price per share paid in such acquisition, or BRL 28.8, and seeks an order to compel the acquirers to launch an offer at that price plus interest. If so ordered, the offer would need to be made to 182,609,851 ordinary shares of Usiminas not belonging to Usiminas' control group; Ternium Investments and Siderar's respective shares in the offer would be 60.6% and 21.5%.

On September 23, 2013, the first instance court dismissed the CSN lawsuit, and on February 8, 2017, the court of appeals of São Paulo maintained the understanding of the first instance court. On March 6, 2017, CSN filed a motion for clarification against the decision of the court of appeals, which was rejected on July 19, 2017. On August 18, 2017, CSN filed with the court of appeals an appeal seeking the review and reversal by the Superior Court of Justice of the decision issued by the court of appeals. On March 5, 2018, the court of appeals ruled that CSN's appeal did not meet the requirements for submission to the Superior Court of Justice and rejected such appeal. On May 8, 2018, CSN appealed against such ruling and on January 22, 2019, the court of appeals rejected it and ordered that the case be submitted to the Superior Court of Justice. The Superior Court of Justice will also review admissibility of CSN's appeal, and, if declared admissible, will then render a decision on the merits. The Superior Court of Justice is restricted to the analysis of alleged violations to federal laws and cannot assess matters of fact.

Ternium continues to believe that all of CSN's claims and allegations are groundless and without merit, as confirmed by several opinions of Brazilian legal counsel, two decisions issued by the Brazilian securities regulator (CVM) in February 2012 and December 2016, and the first and second instance court decisions referred to above. Accordingly, no provision was recorded in these Consolidated Financial Statements.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

25. CONTINGENCIES, COMMITMENTS AND RESTRICTIONS ON THE DISTRIBUTION OF PROFITS
(continued)

(b) Shareholder claims relating to the October 2014 acquisition of Usiminas shares

On April 14, 2015, the staff of the CVM determined that an acquisition of additional ordinary shares of Usiminas by Ternium Investments made in October 2014, triggered a requirement under applicable Brazilian laws and regulations for Usiminas' controlling shareholders to launch a tender offer to all non-controlling holders of Usiminas ordinary shares. The CVM staff's determination was made further to a request by Nippon Steel & Sumitomo Metal Corporation (NSSMC) and its affiliates, who alleged that Ternium's 2014 acquisition had exceeded a threshold that triggers the tender offer requirement. In the CVM staff's view, the 2014 acquisition exceeded the applicable threshold by 5.2 million shares. On April 29, 2015, Ternium filed an appeal to be submitted to the CVM's Board of Commissioners. On May 5, 2015, the CVM staff confirmed that the appeal would be submitted to the Board of Commissioners and that the effects of the staff's decision would be stayed until such Board rules on the matter.

On June 15, 2015, upon an appeal filed by NSSMC, the CVM staff changed its earlier decision and stated that the obligation to launch a tender offer would fall exclusively on Ternium. Ternium's appeal has been submitted to the CVM's Board of Commissioners and it is currently expected that such Board will rule on the appeal in 2018. In addition, on April 18, 2018, Ternium filed a petition with the CVM's reporting Commissioner requesting that the applicable threshold for the tender offer requirement be recalculated taking into account the new ordinary shares issued by Usiminas in connection with its 2016 BRL1 billion capital increase and that, in light of the replenishment of the threshold that would result from such recalculation, the CVM's staff 2015 determination be set aside. In the event the appeal is not successful, under applicable CVM rules Ternium may elect to sell to third parties the 5.2 million shares allegedly acquired in excess of the threshold, in which case no tender offer would be required.

(c) Potential Mexican income tax adjustment

In March 2015, the Mexican tax authorities, as part of a tax audit to Ternium Mexico with respect to fiscal year 2008, challenged the deduction by Ternium Mexico's predecessor IMSA Acero of a tax loss arising from an intercompany sale of shares in December 2008. Although the tax authorities have not yet determined the amount of their claim, they have indicated in a preliminary report that they have observations that may result in an income tax adjustment currently estimated at approximately USD 57.8 million, including interest and fines. Additionally, in September 2018, the Mexican tax authority, as a result of a tax audit for the fiscal year 2011 to Ternium Mexico, as predecessor of APM, objected mainly the deduction of the tax loss remaining for the year 2008, for which the estimated income tax adjustment would be of approximately USD 25.4 million, including interest and fines.

Ternium Mexico requested an injunction from the Mexican courts against the audit observations for the year 2008 and the fiscal credit of the year 2011, and also filed its defense and supporting documents with the Mexican tax authorities. The Company, based on the advice of counsel, believes that an unfavorable outcome in connection with this matter is not probable and, accordingly, no provision has been recorded in its financial statements.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

25. CONTINGENCIES, COMMITMENTS AND RESTRICTIONS ON THE DISTRIBUTION OF PROFITS
(continued)

(d) Class action

The Company is aware that, following its November 27, 2018 announcement that its chairman Paolo Rocca was included in an Argentine court investigation known as the Notebooks Case, a putative class action complaint was filed in the U.S. District Court for the Eastern District of New York purportedly on behalf of purchasers of Ternium securities from May 1, 2014 through November 27, 2018. The individual defendants named in the complaint are our chairman, our former CEO, our current CEO and our CFO. That complaint alleges that during the class period (May 2014-November 2018), the Company and the individual defendants inflated the price of Ternium's ADSs by failing to disclose that sale proceeds received by Ternium when Sidor was expropriated by Venezuela were received or expedited as a result of alleged improper payments made to Argentine officials. The complaint does not specify the damages that plaintiff is seeking.

(ii) Commitments

(a) The following are Ternium's main off-balance sheet commitments: Ternium Argentina signed agreements to cover 80% of its required iron ore, pellets and iron ore fines volumes until December 31, 2021, for an estimated total amount of USD 764.0 million. Although they do not set a minimum amount or a minimum commitment to purchase a fixed volume, under certain circumstances a penalty is established for the party that fails of:

– 7% in case the annual operated volume is between 70% and 75% of the total volume of purchases of the Company; such percentage is applied over the difference between the actual purchased volume and the 80% of the total volume of purchases.

– 15% in case the annual operated volume is lower than 70% of the total volume of purchases of the Company; such percentage is applied over the difference between the actual purchased volume and the 80% of the total volume of purchases.

(b) Ternium Argentina also signed various contracts for the provision of natural gas, including Tecpetrol, a related company of Ternium, assuming firm commitments for a total of USD 33.7 million payable until April 2019.

(c) Ternium Argentina signed an agreement with Air Liquide Argentina S.A. for the supply of oxygen, nitrogen and argon until 2021, for an aggregate amount of USD 21.9 million, which is due to terminate in 2032.

(d) On April 24, 2017, Ternium Mexico entered into a 25-year contract (effective as of December 1, 2016, through December 1, 2041) with Techgen, S.A. de C.V. for the supply of 699 MW (which represents 78% of Techgen's capacity) and covers most of Ternium Mexico's facilities electricity needs. Monthly payments are determined on the basis of capacity charges, operation costs, back-up power charges, and transmission charges. As of the seventh contract year (as long as Techgen's existing or replacing bank facility has been repaid in full), Ternium Mexico has the right to suspend or early terminate the contract if the rate payable under the agreement is higher than the rate charged by Comisión Federal de Electricidad ("CFE") or its successors. Ternium Mexico may instruct Techgen to sell to any affiliate of Ternium Mexico, to CFE, or to any other third party all or any part of unused contracted energy under the agreement and Ternium Mexico will benefit from the proceeds of such sale.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

25. CONTINGENCIES, COMMITMENTS AND RESTRICTIONS ON THE DISTRIBUTION OF PROFITS
(continued)

(e) On December 20, 2000, Hylsa (Ternium Mexico's predecessor) entered into a 25-year contract with Iberdrola Energía Monterrey, S.A. de C.V. ("Iberdrola"), a Mexican subsidiary of Iberdrola Energía, S.A., for the supply of energy to four of Ternium Mexico's plants. On March 31, 2008, two of those plants were terminated by Iberdrola. The contracted electrical demand as of December 31, 2018, is 51.7 MW. Iberdrola currently supplies approximately 8.5% of Ternium Mexico's electricity needs under this contract. Although the contract was to be effective through 2027, on April 28, 2014, Ternium Mexico and Iberdrola entered into a new supply contract and terminated the previous one. In consideration of the termination of the previous contract, Iberdrola has granted Ternium Mexico a credit of USD 750 thousand per MW of the 111.2 MW originally contracted capacity, resulting over time in a total value of USD 83.4 million. In addition, Iberdrola agreed to recognize to Ternium México USD 15.0 million through discounted rates. As a result of the above mentioned credit and discount, the company expects to incur in electricity rates comparable to those obtained in the past under the previous contract's terms for a period that is estimated to be approximately 7 months. Following such period, Ternium Mexico's rates under the contract will increase to market rates with a 2.5% discount; however, Ternium Mexico will be entitled to terminate the contract without penalty.

(f) Following the maturity of a previously existing railroad freight services agreement during 2013, in April 2014, Ternium México and Ferrocarril Mexicano, S. A. de C. V. ("Ferromex") entered into a new railroad freight services agreement pursuant to which Ferromex will transport Ternium Mexico's products through railroads operated by Ferromex for a term of five years through 2019. Subject to Ternium's board approval, both Ternium Mexico and Ferromex would be required to make (within a period of 36 months) certain investments to improve the loading and unloading of gondolas. The total investment commitment of Ternium México and Ferromex was already invested as of December 31, 2018. Under the agreement, Ternium Mexico has guaranteed to Ferromex its services for the minimum average transport load of 200,000 metric tons per month in any six-month period. In the event that the actual per-month average transport loads in any six-month period were lower than such guaranteed minimum, Ternium Mexico would be required to compensate Ferromex for the shortfall so that Ferromex receives a rate equivalent to a total transport load of 1,200,000 metric tons for such six-month period. However, any such compensation will not be payable if the lower transport loads were due to adverse market conditions, or to adverse operating conditions at Ternium Mexico's facilities.

(g) Ternium México issued a guarantee letter covering up to approximately USD 25.0 million of the obligations of Gas Industrial de Monterrey, S.A. de C.V. ("GIMSA"), under the natural gas trading agreement between GIMSA and BP Energía México ("BPEM"). The credit line granted by BPEM in connection with this natural gas trading agreement amounted to approximately USD 25.0 million. As of December 31, 2018, the outstanding amount under the natural gas trading agreement was USD 16.7 million, which is below the amount included in the guarantee letter issued by Ternium México.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

25. CONTINGENCIES, COMMITMENTS AND RESTRICTIONS ON THE DISTRIBUTION OF PROFITS
(continued)

(h) On June, 2018, Ternium Mexico entered into a loan agreement with a syndicate of banks for a USD 1,000 million syndicated loan facility for the purpose of financing capital expenditures, the repayment or prepayment of existing debt, and other general corporate purposes. The loan has a one year availability period in which Ternium Mexico can disburse in one or several drawings. The Company entered the Facility on June 12, 2018, and the final maturity date is on June 12, 2023, being payable in eight consecutive and equal semi-annual installments commencing on December 13, 2019. The main financial covenant that the Facility requires to meet is the consolidated net senior leverage ratio to be not greater than 3.5 to 1.00. As of December 31, 2018, USD 400 million were disbursed under the facility and the Company complied with the aforementioned financial covenant.

(i) Ternium Mexico issued a guarantee letter covering up to approximately USD 60.8 million of the obligations of Techgen, S.A. de C.V. (“Techgen”), under the Clean Energy Certificates trading agreement between Techgen and Enel Green Power (“ENEL”). The amount equals the remnant balance if Techgen decides to terminate the agreement prior to the expiration date (and decreases as time of the contract passes). The contract was signed in May 25, 2018 and terminates on June 30, 2041.

(j) Techgen is a party to gas transportation capacity agreements 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 the whole transportation capacity starting on August 1, 2016 and ending during the second half of 2036. As of December 31, 2018, the outstanding value of this commitment was approximately USD 250 million. Ternium’s exposure under the guarantee in connection with these agreements amounts to USD 120 million, corresponding to the 48% of the agreements’ outstanding value as of December 31, 2018.

(k) Ternium issued a Corporate Guarantee covering 48% of the obligations of Techgen under a syndicated loan agreement between Techgen and several banks led by Citigroup Global Markets Inc., Credit Agricole Corporate and Investment Bank, and Natixis, New York Branch acting as joint bookrunners. The loan agreement amounted to USD 800 million and the proceeds were used by Techgen in the construction of the facility. As of December 31, 2018, the outstanding amount under the loan agreement was USD 600 million, as a result the amount guaranteed by Ternium was approximately USD 288 million. The main covenants under the Corporate Guarantee are limitations to the sale of certain assets and compliance with financial ratios (e.g. leverage ratio). As of December 31, 2018, Techgen and Ternium, as guarantor, were in compliance with all of their covenants.

(l) During 2006, CSA, the predecessor of Ternium Brasil, has entered into a 15-year contract denominated “Contrato de comercialização de energia elétrica no ambiente regulado - CCEAR por disponibilidade” to provide electric energy to 24 distributors starting on 2011. Under this contract, Ternium Brasil has to provide 200 MW average per year and the price is adjusted by the Brazilian inflation index. The penalty for not delivering the volume of energy of the contract is the difference between the spot price and the unit variable cost (calculated and published by the Agência Nacional de Energia Elétrica), calculated per hour.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

25. CONTINGENCIES, COMMITMENTS AND RESTRICTIONS ON THE DISTRIBUTION OF PROFITS
(continued)

(m) Ternium Brasil signed an exclusivity agreement with Vale S.A. for the purchase of iron ore (pellets, sinter feed and lump ore), which is due to terminate in 2029. The total purchased volume, in accordance with the actual production capacity, is of approximately 8.0 million tons per year. Ternium Brasil has not the obligation to take or pay the mentioned volume and only should pay logistic costs in case of not purchasing the contracted volume.

(n) Ternium Brasil, for its activity of energy generation through gas and steam turbines, signed on March 2017 a contract with GE Global Parts and Products GMBH, General Electric International Inc. and Alstom Energia Térmica e Indústria Ltda. for the maintenance services of such turbines (including the supply of spare parts) for a period of 20 years. As of December 31, 2018, the outstanding amount of this commitment was USD 129.8 million.

(o) Ternium Brasil also signed on November 2007 a contract with Primetals Technologies Brazil Ltda. for the provision of maintenance services at a central workshop for the entire steel mill complex, including caster maintenance for the steel plant. As of December 31, 2018, the outstanding amount of the mentioned services was approximately USD 223.5 million and is due to terminate on November 2024. Ternium Brasil is currently using more hours than the minimum quantity of contracted hours.

(p) Ternium Brasil is a party to a long-term contract with the Consortium formed by Air Liquide Brasil Ltda., AirSteel Ltda., White Martins Gases Industriais Ltda., White Martins Steel Ltda. and ThyssenKrupp MinEnergy GmbH for the supply of air, oxygen, nitrogen and argon to satisfy the requirements up to January 2029. The outstanding amount was approximately USD 343.3 million as of December 31, 2018. The contract has minimum daily-required volumes.

(q) Ternium Brasil signed on January 2015 a contract with Companhia Distribuidora de Gás do Rio de Janeiro for the supply of natural gas. This agreement is due to terminate on December 2019 and it totals an aggregate amount of USD 33.9 million per year or 61.3 million m³ per year. Ternium Brasil is currently purchasing more than the minimum volume required by the contract, which is 85% of the volume mentioned before.

(r) Ternium Brasil signed on May 2016 a contract with Stahllog Solução Logísticas Ltda. for logistic services. This agreement is due to terminate on May 2021 and the outstanding amount was USD 26.8 million as of December 31, 2018. The contract has minimum required volumes.

(iii) Restrictions on the distribution of profits

Under Luxembourg law, at least 5% of net income per year calculated in accordance with Luxembourg law and regulations must be allocated to a reserve until such reserve has reached an amount equal to 10% of the share capital. At December 31, 2018, this reserve reached the above-mentioned threshold.

As of December 31, 2018, Ternium may pay dividends up to USD 2.9 billion in accordance with Luxembourg law and regulations.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

25. CONTINGENCIES, COMMITMENTS AND RESTRICTIONS ON THE DISTRIBUTION OF PROFITS
(continued)

| | As of December 31, 2018 |
|---------------------------------------|-------------------------------|
| Share capital | 2,004,743 |
| Legal reserve | 200,474 |
| Non distributable reserves | 1,414,122 |
| Reserve for own shares | 59,600 |
| Accumulated profit at January 1, 2018 | 2,887,918 |
| Loss for the year | (20,620) |

Total shareholders' equity under Luxembourg GAAP 6,546,237

26. RELATED PARTY TRANSACTIONS

As of December 31, 2018, Techint Holdings S.à r.l. ("Techint") owned 62.02% of the Company's share capital and Tenaris Investments S.à r.l. ("Tenaris") held 11.46% of the Company's share capital. Each of Techint and Tenaris were controlled by San Faustin S.A., a Luxembourg company ("San Faustin"). Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin ("RP STAK"), a Dutch private foundation (Stichting), held voting shares in San Faustin sufficient in number to control San Faustin. No person or group of persons controls RP STAK.

For commitments with Related parties, see note 25.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

26. RELATED PARTY TRANSACTIONS (continued)

The following transactions were carried out with related parties:

| | Year ended December 31, | | |
|---|-------------------------|--------------------|---------|
| | 2018 | 2017 | 2016 |
| (i) Transactions | | | |
| (a) Sales of goods and services | | | |
| Sales of goods to non-consolidated parties | 774,526 | 453,551 | — |
| Sales of goods to other related parties | 141,230 | 164,694 | 29,480 |
| Sales of services and others to non-consolidated parties | 176 | 177 | 737 |
| Sales of services and others to other related parties | 1,286 | 660 | 654 |
| | 917,218 | 619,082 | 30,871 |
| (b) Purchases of goods and services | | | |
| Purchases of goods from non-consolidated parties | 483,182 | 404,891 | 144,673 |
| Purchases of goods from other related parties | 50,928 | 57,941 | 58,929 |
| Purchases of services and others from non-consolidated parties | 10,266 | 13,126 | 12,836 |
| Purchases of services and others from other related parties | 90,536 | 111,439 | 126,859 |
| | 634,912 | 587,397 | 343,297 |
| (c) Financial results | | | |
| Income with non-consolidated parties | 9,330 | 7,611 | 3,507 |
| | 9,330 | 7,611 | 3,507 |
| (d) Dividends received | | | |
| Dividends received from non-consolidated parties | 8,837 | 3,360 | 183 |
| | 8,837 | 3,360 | 183 |
| (e) Other income and expenses | | | |
| Income (expenses), net with non-consolidated parties | 1,012 | 2,723 | 1,660 |
| Income (expenses), net with other related parties | 492 | 247 | 712 |
| | 1,504 | 2,970 | 2,372 |
| | | As of December 31, | |
| | | 2018 | 2017 |
| (ii) Year-end balances | | | |
| (a) Arising from sales/purchases of goods/services and other transactions | | | |
| Receivables from non-consolidated parties | 201,693 | 223,847 | |
| Receivables from other related parties | 5,975 | 29,033 | |
| Advances from non-consolidated parties | 2,812 | — | |
| Advances to suppliers with other related parties | 7,534 | 3,255 | |
| Payables to non-consolidated parties | (37,384) | (24,570) | |
| Payables to other related parties | (23,495) | (21,547) | |

157,135 210,018

(iii) Officers and Directors' compensation

During the year ended December 31, 2018, the cash compensation of Officers and Directors amounted to USD 16,205 (2017: USD 23,031). In addition, Officers received 894,000 Units for a total amount of USD 2,851 (2017: USD 2,069) in connection with the incentive retention program mentioned in note 4 (o)(3).

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

27. OTHER REQUIRED DISCLOSURES

(a) Statement of comprehensive income

| | Cash flow hedges | | | Currency translation |
|--------------------------------------|------------------|-------------------------|-------|-------------------------|
| | Gross | Income amount tax | Total | adjustment |
| At December 31, 2016 | 75 | (22) | 53 | (3,152,645) |
| (Decrease) / Increase | 363 | 3 | 366 | (104,393) |
| Reclassification to income statement | 372 | (110) | 262 | — |
| At December 31, 2017 | 810 | (129) | 681 | (3,257,038) |
| (Decrease) / Increase | (14) | (108) | (122) | (449,981) |
| Reclassification to income statement | (117) | 35 | (82) | — |
| At December 31, 2018 | 679 | (202) | 477 | (3,707,019) |

(b) Statement of cash flows

| | Year ended December 31, | | |
|---------------------------------------|-------------------------|-----------|-----------|
| | 2018 | 2017 | 2016 |
| (i) Changes in working capital (1) | | | |
| Inventories | (186,409) | (540,162) | (151,263) |
| Receivables and others | 8,652 | (108,257) | 488 |
| Trade receivables | (123,388) | (303,114) | (161,670) |
| Other liabilities | 17,138 | 40,230 | 89,032 |
| Trade payables | 55,430 | 46,333 | 61,040 |
| | (228,577) | (864,970) | (162,373) |
| (ii) Income tax accrual less payments | | | |
| Tax accrued (Note 11) | 369,435 | 336,882 | 411,528 |
| Taxes paid | (523,801) | (610,325) | (229,196) |
| | (154,366) | (273,443) | 182,332 |
| (iii) Interest accruals less payments | | | |
| Interest accrued (Note 10) | 131,172 | 114,583 | 89,971 |
| Interest paid | (144,186) | (95,099) | (77,272) |
| | (13,014) | 19,484 | 12,699 |

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

27. OTHER REQUIRED DISCLOSURES (continued)

(c) Financial debt reconciliation

| | Financial debt | | | |
|-------------------------------|---------------------------|-----------------------|----------------------|-------------|
| | Finance lease liabilities | Short term borrowings | Long term borrowings | Total |
| As of December 31, 2016 | — | (821,893) | (396,742) | (1,218,635) |
| Cash flows | 364 | (540,918) | (1,511,860) | (2,052,414) |
| Reclassifications | — | (192,547) | 192,547 | — |
| Acquisitions - finance leases | (76,879) | — | — | (76,879) |
| Foreign exchange adjustments | (14,949) | (32,574) | (371) | (47,894) |
| Other non cash movements | 14,429 | 82,362 | 89 | 96,880 |
| As of December 31, 2017 | (77,035) | (1,505,570) | (1,716,337) | (3,298,942) |
| Cash flows | 7,565 | 1,492,568 | (401,725) | 1,098,408 |
| Reclassifications | — | (459,520) | 459,520 | — |
| Foreign exchange adjustments | (47,390) | (121,801) | — | (169,191) |
| Other non cash movements | 43,032 | 194,467 | 21,441 | 258,940 |
| As of December 31, 2018 | (73,828) | (399,856) | (1,637,101) | (2,110,785) |

28. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The following amendments, standards and interpretations have been applied on the year starting January 1, 2018:

International Financial Reporting Standard 9, "Financial instruments"

In July 2014, the IASB issued IFRS 9, "Financial instruments", which replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities, as well as an expected credit losses model that replaces the current incurred loss impairment model.

IFRS 9 was adopted without restating comparative. The reclassifications and the adjustments arising from the new impairment rules are directly recognized in the opening balance sheet on January 1, 2018. The Company has also updated its accounting policies accordingly.

| | Reserves | Retained earnings |
|---|-----------|-------------------|
| Closing balance as of December 31, 2017 - IAS 39 | 1,416,121 | 6,491,385 |
| Financial instruments | 733 | (658) |
| Income tax related to Financial instruments | (124) | 124 |
| Allowance for impairment of trade receivables | — | 569 |
| Income tax related to Allowance for impairment of trade receivables | — | (137) |
| Effect on Minority interest related to the adoption of IFRS 9 | (159) | (45) |
| Opening balance as of January 1, 2018 - IFRS 9 | 1,416,571 | 6,491,238 |

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

28. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (continued)

IFRS 9 replaces the provisions of IAS 39 related to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting,

The adoption of IFRS 9 Financial Instruments from January 1, 2018, resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements.

The total impact on the Company's financial instruments as of January 1, 2018 is as follows:

| | Fair value through profit or loss | Fair value through other comprehensive income | Held to maturity | Amortized cost (Loans and receivables 2017) |
|--|-----------------------------------|---|------------------|---|
| Closing balance as of December 31, 2017 - IAS 39 | 332,143 | — | 6,129 | 131,675 |
| Reclassification of Investments in bonds from Held to maturity to Fair value through other comprehensive income | — | 6,129 | (6,129) | — |
| Reclassification of Investments in bonds from Fair value through profit or loss to Fair value through other comprehensive income | (78,258) | 78,258 | — | — |
| Reclassification of Other financial Instruments from Fair value through profit or loss to Amortized cost | (28,343) | — | — | 28,343 |
| Adjustment of Other comprehensive income from adoption of IFRS 9 | — | 75 | — | — |
| Opening balance as of January 1, 2018 - IFRS 9 | 225,542 | 84,462 | — | 160,018 |

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. On that basis, the loss allowance as of January 1, 2018, was determined as follows for trade receivables:

| | Fully performing | Past due between 1 and 90 days | Past due 91 and 360 days | Past due more than 360 days |
|--|------------------|--------------------------------|--------------------------|-----------------------------|
| Expected loss rate | 0,12% | 0,93% | 8,08% | 99,54% |
| Non-guaranteed trade receivables - Gross carrying amount | 543,792 | 51,669 | 6,080 | 14,397 |
| Allowance for trade receivables | (668) | (483) | (491) | (14,331) |

International Financial Reporting Standard 15, "Revenue from contracts with customers"

In May 2014, the IASB issued IFRS 15, "Revenue from contracts with customers", which sets out the requirements in accounting for revenue arising from contracts with customers and which is based on the principle that revenue is recognized when control of a good or service is transferred to the customer.

The Company has adopted IFRS 15 Revenue from Contracts with Customers, which resulted in no changes in accounting policies and adjustments to the amounts recognized in the financial statements. The Company's revenues are mainly recognized at a point of time from sales to direct customers. At December 2018, 2017 and 2016, the

Company recognized customer advances in the amount of USD 40.3, 39.2 and 31.5 million, respectively. These amounts related to years 2017 and 2016 were reclassified to revenues during the subsequent year. In these periods, no adjustment in revenues were performed related to performance obligations previously satisfied.

Page 77 of 87

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

28. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (continued)

The following standards, amendments to standards and interpretations are not mandatory for the financial year beginning January 1, 2018 and have not been early adopted:

International Financial Reporting Standard 16, "Leases"

In January 2016, the IASB issued IFRS 16, "Leases", which will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. IFRS 16 must be applied on annual periods beginning on or after January 1, 2019.

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

29. FINANCIAL RISK MANAGEMENT

1) Financial risk factors

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

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

1.1) Market Risk

(i) Foreign exchange rate risk

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

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

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

The following table shows a breakdown of Ternium's assessed financial position exposure to currency risk as of December 31, 2018. These balances include intercompany positions where the intervening parties have different functional currencies.

| USD million Exposure to | Functional currency | |
|-------------------------|------------------------|-------|
| | USD | ARS |
| US dollar (USD) | — | (210) |
| EU euro (EUR) | 40 | 2 |
| Argentine peso (ARS) | — | — |
| Mexican peso (MXN) | (575) | — |
| Brazilian reais (BRL) | (150) | (4) |
| Colombian peso (COP) | 24 | — |
| Other currencies | (3) | — |

TERNIUM S.A

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

29. FINANCIAL RISK MANAGEMENT (continued)

The main relevant exposures correspond to:

(a) Argentine peso vs. US dollar

The cumulative devaluation for the Argentine peso during 2018 was 50.5% (2017: 14.8%). The devaluation generated a negative effect of USD 387 million (2017: USD 97 million), included as currency translation adjustment in Other comprehensive income in connection with the valuation of Ternium's Argentine subsidiaries' equities (mainly Ternium Argentina S.A.), and a loss of USD 188 million (2017: USD 47 million), included as net foreign exchange results in the Income Statement, partially offset by the positive impact of the inflation adjustment of USD 173 million.

If the Argentine peso had weakened by 1% against the US dollar, it would have generated a pre-tax loss of USD 2.1 million as of December 31, 2018, and a pre-tax loss of USD 1.1 million as of December 31, 2017.

(b) Mexican peso vs. US dollar

If the Mexican peso had weakened by 1% against the US dollar, it would have generated a pre-tax gain of USD 5.8 million and USD 4.3 million as of December 31, 2018 and 2017, respectively.

(c) Colombian peso vs. US dollar

If the Colombian peso had weakened by 1% against the US dollar, it would have generated a pre-tax loss of 0.2 million and USD 0.2 million as of December 31, 2018 and 2017, respectively.

(d) Brazilian real vs. US dollar

If the Brazilian real had weakened by 1% against the US dollar, it would have generated a pre-tax gain of USD 1.5 million and a pre-tax gain of USD 1.9 million as of December 31, 2018 and 2017, respectively.

We estimate that if the Argentine peso, Mexican peso, Colombian peso and Brazilian real had weakened simultaneously by 1% against the US dollar with all other variables held constant, total pre-tax income for the year would have been USD 5.0 million higher (USD 4.9 million higher as of December 31, 2017), as a result of foreign exchange gains/losses on translation of US dollar-denominated financial position, mainly trade receivables, trade payables, borrowings and other liabilities.

Considering the same variation of the currencies against the US dollar of all net investments in foreign operations amounting to USD 1.8 billion, the currency translation adjustment included in total equity would have been USD 17.7 million lower (USD 11.9 million lower as of December 31, 2017), arising mainly from the adjustment on translation of the equity related to the Argentine peso and the Brazilian real.

(ii) Interest rate risk

Ternium manages its exposure to interest rate volatility through its financing alternatives and hedging instruments. Borrowings issued at variable rates expose the Company to the risk of increased interest expense in the event of a raise in market interest rates, while borrowings issued at fixed rates expose the Company to a variation in its fair value. The Company's interest-rate risk mainly arises from long-term borrowings that bear variable-rate interest that is partially fixed through different derivative transactions, such as interest rate swaps.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

29. FINANCIAL RISK MANAGEMENT (continued)

Ternium's nominal weighted average interest rate for its debt instruments, which do not include neither the effect of derivative financial instruments, nor the devaluation of the local currencies, was 3.65% and 4.76% for 2018 and 2017, respectively. These rates were calculated using the rates set for each instrument in its corresponding currency and weighted using the dollar-equivalent outstanding principal amount of each instrument as of December 31, 2018 and 2017, respectively.

Ternium's total variable interest rate debt amounted to USD 1,747 million (85.8% of total borrowings) at December 31, 2018 and USD 2,075 million (64.4% of total borrowings) at December 31, 2017.

If interest rates on the aggregate average notional of US dollar denominated borrowings held during 2018, excluding borrowings with derivatives contracts mentioned in Note 22 (a), had been 100 basis points higher with all other variables held constant, total pre-tax income for the year ended December 31, 2018 would have been USD 26.8 million lower (USD 20.5 million lower as of December 31, 2017).

1.2) Credit risk

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

Ternium invests in financial assets with a minimum credit rating of investment grade established by an international qualification agency renowned in the financial market, in line with corporate investment portfolio policies. Approximately 82.6% of the Company's liquid financial assets correspond to investment grade rated instruments as of December 31, 2018, in comparison with approximately 75.7% as of December 31, 2017.

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

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

As of December 31, 2018, trade receivables total USD 1,133.2 million (USD 1,011.4 million as of December 31, 2017). These trade receivables are collateralized by guarantees under letter of credit and other bank guarantees of USD 23.3 million (USD 2.6 million as of December 31, 2017), credit insurance of USD 506.8 million (USD 380.0 million as of December 31, 2017) and other guarantees of USD 18.6 million (USD 15.0 million as of December 31, 2017).

As of December 31, 2018, trade receivables of USD 1,035.0 million (USD 910.7 million as of December 31, 2017) were fully performing.

TERNIUM S.A

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

29. FINANCIAL RISK MANAGEMENT (continued)

As of December 31, 2018, trade receivables of USD 112.5 million (USD 117.3 million as of December 31, 2017) were past due (mainly up to 180 days).

The amount of the allowance for doubtful accounts was USD 14.3 million as of December 31, 2018 (USD 16.5 million as of December 31, 2017).

The carrying amounts of the Company's trade and other receivables as of December 31, 2018, are denominated in the following currencies:

| Currency | USD million |
|-----------------------|----------------|
| US dollar (USD) | 1,059 |
| EU euro (EUR) | 60 |
| Argentine peso (ARS) | 8 |
| Mexican peso (MXN) | 171 |
| Brazilian reais (BRL) | 444 |
| Colombian peso (COP) | 83 |
| Other currencies | 1 |
| | 1,828 |

1.3) Liquidity risk

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

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

| USD million | 2019 | 2020 | 2021 | 2022 | Thereafter |
|--------------------------------------|-------|------|------|------|------------|
| Borrowings | 400 | 528 | 509 | 510 | 90 |
| Interests to be accrued (1) | 70 | 55 | 35 | 15 | 4 |
| Trade payables and other liabilities | 907 | 14 | 13 | 14 | 22 |
| Total | 1,377 | 597 | 557 | 539 | 116 |

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

As of December 31, 2018, total borrowings less cash and cash equivalents and other current and non-current investments amounted to USD 1,734.9 million.

1.4) Capital risk

Ternium seeks to maintain an adequate debt/equity ratio considering the industry and the markets where it operates. The year-end ratio debt over debt plus equity is 0.21 and 0.36 as of December 31, 2018 and 2017, respectively. The Company does not have to comply with regulatory capital adequacy requirements as known in the financial services industry.

TERNIUM S.A

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

29. FINANCIAL RISK MANAGEMENT (continued)

2) Financial instruments by category and fair value hierarchy level

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

| As of December 31, 2018 (in USD thousands) | Amortized cost | Assets at fair value through profit and loss | Assets at fair value through OCI | Total |
|---|---|--|--|-----------|
| (i) Assets as per statement of financial position | | | | |
| Receivables | 449,077 | — | — | 449,077 |
| Derivative financial instruments | — | 1,588 | — | 1,588 |
| Trade receivables | 1,133,236 | — | — | 1,133,236 |
| Other investments | 14,843 | — | 36,630 | 51,473 |
| Cash and cash equivalents | 110,086 | 140,455 | — | 250,541 |
| Total | 1,707,242 | 142,043 | 36,630 | 1,885,915 |
| (ii) Liabilities as per statement of financial position | | | | |
| As of December 31, 2018 (in USD thousands) | Liabilities at fair value through profit or loss | Amortized cost | Total | |
| (i) Liabilities as per statement of financial position | | | | |
| Other liabilities | — | 105,659 | 105,659 | |
| Trade payables | — | 864,827 | 864,827 | |
| Derivative financial instruments | 12,981 | — | 12,981 | |
| Finance lease liabilities | — | 73,828 | 73,828 | |
| Borrowings | — | 2,036,957 | 2,036,957 | |
| Total | 12,981 | 3,081,271 | 3,094,252 | |
| (i) Assets as per statement of financial position | | | | |
| As of December 31, 2017 (in thousands) | Loans and receivables | Assets at fair value through profit and loss | Held to maturity | Total |
| Receivables | 488,718 | — | — | 488,718 |

Edgar Filing: Ternium S.A. - Form 6-K

| | | | | | |
|---|-----------|-------------|-----------------------------------|---------------------|-------|
| Derivative financial instruments | — | 2,304 | — | 2,304 | |
| Trade receivables | 1,011,430 | — | — | 1,011,430 | |
| Other investments | 30,231 | 99,505 | 6,129 | 135,865 | |
| Cash and cash equivalents | 101,444 | 236,335 | — | 337,779 | |
| Total | 1,631,823 | 338,144 | 6,129 | 1,976,096 | |
| As of December 31, 2017 (in thousands) | | Derivatives | Other financial liabilities | Held to maturity | Total |
| (ii) Liabilities as per statement of financial position | | | | | |
| Other liabilities | — | 116,549 | — | 116,549 | |
| Trade payables | — | 860,767 | — | 860,767 | |
| Derivative financial instruments | 6,001 | — | — | 6,001 | |
| Finance lease liabilities | — | 77,035 | — | 77,035 | |
| Borrowings | — | 3,221,907 | — | 3,221,907 | |
| Total | 6,001 | 4,276,258 | — | 4,282,259 | |

Page 83 of 87

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

29. FINANCIAL RISK MANAGEMENT (continued)

Fair Value by Hierarchy

Following the requirements contained in IFRS 13, Ternium categorizes each class of financial instrument measured at fair value in the statement of financial position into three levels, depending on the significance of the judgment associated with the inputs used in making the fair value measurements:

Level 1 comprises financial assets and financial liabilities whose fair values have been determined on the basis of quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 includes financial assets and financial liabilities for which fair values have been estimated using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 comprises financial instruments for which inputs to estimate fair value of the assets or liabilities are not based on observable market data (unobservable inputs).

The following table presents the assets and liabilities that are measured at fair value as of December 31, 2018 and 2017:

| Description | Fair value measurements as of December 31, 2018 (in USD thousands): | | |
|--|--|---------|------------|
| | Total | Level 1 | Level 2 |
| Financial assets at fair value through profit or loss / OCI | | | |
| Cash and cash equivalents | 140,455 | 140,455 | — |
| Other investments | 36,630 | 36,630 | — |
| Derivative financial instruments | 1,588 | — | 1,588 |
| Total assets | 178,673 | 177,085 | 1,588 |
| Financial liabilities at fair value through profit or loss / OCI | | | |
| Derivative financial instruments | 12,981 | — | 12,981 |
| Total liabilities | 12,981 | — | 12,981 |
| Description | Fair value measurements as of December 31, 2017 (in USD thousands): | | |
| | Total | Level 1 | Level 2 |
| Financial assets at fair value through profit or loss | | | |
| Cash and cash equivalents | 236,335 | 236,335 | — |
| Other investments | 99,505 | 99,505 | — |

Edgar Filing: Ternium S.A. - Form 6-K

| | | | |
|--|---------|---------|-------|
| Derivative financial instruments | 2,304 | — | 2,304 |
| Total assets | 338,144 | 335,840 | 2,304 |
| Financial liabilities at fair value through profit or loss | | | |
| Derivative financial instruments | 6,001 | — | 6,001 |
| Total liabilities | 6,001 | — | 6,001 |

Page 84 of 87

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

29. FINANCIAL RISK MANAGEMENT (continued)

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by Ternium is the current mid price. These instruments are included in Level 1 and comprise primarily corporate and sovereign debt securities.

The fair value of financial instruments that are not traded in an active market (such as certain debt securities, certificates of deposits with original maturity of more than three months, forward and interest rate derivative instruments) is determined by using valuation techniques which maximize the use of observable market data when available and rely as little as possible on entity specific estimates. If all significant inputs required to value an instrument are observable, the instrument is included in Level 2. Ternium values its assets and liabilities included in this level using mid prices, interest rate curves, broker quotations, current exchange rates and forward rates volatilities obtained from market contributors as of the valuation date.

If one or more of the significant inputs are not based on observable market data, the instruments are included in Level 3. Ternium values its assets and liabilities in this level using observable market inputs and management assumptions which reflect the Company's best estimate on how market participants would price the asset or liability at measurement date.

3) Accounting for derivative financial instruments and hedging activities

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

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

29. FINANCIAL RISK MANAGEMENT (continued)

For transactions designated and qualifying for hedge accounting, Ternium documents at inception the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. At December 31, 2018, the effective portion of designated cash flow hedges amounts to USD 0.5 million (net of taxes) and is included as “Cash flow hedges” line item in the statement of comprehensive income.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 22. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

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

4) Fair value estimation

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

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

As most borrowings incorporate floating rates that approximate market rates and the contractual repricing occurs mostly every 1 month, the fair value of the borrowings approximates their carrying amount and it is not disclosed separately.

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

30. SUBSEQUENT EVENTS - TECHGEN REFINANCING

On February 13, 2019, Techgen entered into a USD 640 million loan agreement with several banks to refinance its obligations under the existing syndicated loan. Techgen’s obligations under the new facility, which is non-recourse on the sponsors, will be guaranteed by a Mexican security trust covering Techgen’ shares, assets and accounts as well as Techgen’s affiliates rights under certain contracts. In addition, Techgen’s collection and payment accounts not subject to the trust have been pledged in favor of the lenders under the new loan agreement, and certain direct agreements -customary for these type of transactions- have been entered into with third parties and affiliates, including in connection with the agreements for the sale of energy produced by the project and the agreements for the provision of gas and long-term maintenance services to Techgen. The commercial terms and conditions governing the purchase, by

the Company's Mexican subsidiaries, of the energy generated by the project remain unchanged.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

30. SUBSEQUENT EVENTS - TECHGEN REFINANCING (continued)

Under the loan agreement, Techgen is committed to maintain a debt service reserve account covering debt service becoming due during two consecutive quarters; such account is funded by stand-by letters of credit issued for the account of Techgen's sponsors in proportion to their respective participations in Techgen. Accordingly, the Company and its Luxembourg subsidiaries Ternium S.A. and Ternium Investments S.à r.l. applied for stand-by letters of credit covering 48% of the debt service coverage ratio, which as of the date hereof amounts to USD 21.4 million.

The proceeds of the new loan, which is expected to be drawn on or about February 26, 2019, will be used to repay all loans outstanding under the existing facility. Upon repayment of such loans, Ternium's corporate guarantee thereunder will be automatically released.

Pablo Brizzio
Chief Financial Officer

Page 87 of 87