

Ternium S.A.  
Form 6-K  
October 31, 2018

FORM 6 - K

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

As of 10/30/2018

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

Ternium S.A.  
29 Avenue de la Porte-Neuve – 3rd floor  
L-2227 Luxembourg  
(352) 2668-3152  
(Address of principal executive offices)

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

Form 20-F 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 June 30, 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: October 30, 2018

---

TERNIUM S.A.  
Consolidated Condensed Interim Financial Statements  
as of September 30, 2018  
and for the nine-month periods  
ended on September 30, 2018 and 2017

29 Avenue de la Porte-Neuve, 3<sup>rd</sup> floor  
L – 2227  
R.C.S. Luxembourg: B 98 668

---

TERNIUM S.A.  
 Consolidated  
 Condensed  
 Interim Financial  
 Statements as of  
 September 30,  
 2018  
 and for the  
 nine-month  
 periods ended  
 September 30,  
 2018 and 2017

INDEX

	Page
<u>Consolidated Condensed Interim Income Statements</u>	2
<u>Consolidated Condensed Interim Statements of Comprehensive Income</u>	3
Consolidated Condensed Interim Statements of Financial Position	4
Consolidated Condensed Interim Statements of Changes in Equity	5
Consolidated Condensed Interim Statements of Cash Flows	7
Notes to the Consolidated Condensed Interim Financial Statements	
1 General information and basis of presentation	8
2 Accounting policies	8
3 Segment information	9
4 Cost of sales	11
5 Selling, general and administrative expenses	12
6 Finance expense, Finance income and Other financial income (expenses), net	12
7 Property, plant and equipment, net	12
8 Intangible assets, net	13
9 Investments in non-consolidated companies	13
10 Distribution of dividends	16
11 Contingencies, commitments and restrictions on the distribution of profits	16
12 Acquisition of business	21
13 Related party transactions	25
14 Financial instruments by category and fair value measurement	26
15 Changes in accounting policies	27
16 Application of IAS 29 in financial reporting of Argentine subsidiaries and associates	30

TERNIUM S.A.  
Consolidated Condensed Interim  
Financial Statements as of  
September 30, 2018  
and for the nine-month periods  
ended September 30, 2018 and  
2017  
(All amounts in USD thousands)

## Consolidated Condensed Interim Income Statements

	Notes	Three-month period ended September 30, (Unaudited)		Nine- month period ended September 30, (Unaudited)	
		2018	2017	2018	2017
Net sales	3	2,903,050	2,535,024	8,551,932	6,932,788
Cost of sales	3 & 4	(2,012,636 )	(1,972,454 )	(6,211,599 )	(5,232,093 )
Gross profit	3	890,414	562,570	2,340,333	1,700,695
Selling, general and administrative expenses	3 & 5	(205,951 )	(211,249 )	(644,383 )	(572,572 )
Other operating income (expenses), net	3	4,833	(1,476 )	5,077	(21,305 )
Operating income	3	689,296	349,845	1,701,027	1,106,818
Finance expense	6	(36,701 )	(29,235 )	(94,531 )	(74,718 )
Finance income	6	5,035	5,251	15,141	14,346
Other financial income (expenses), net	6	(80,914 )	(4,842 )	(165,558 )	(75,465 )
Equity in earnings (losses) of non-consolidated companies	9	22,594	15,535	54,943	52,108
Profit before income tax expense		599,310	336,554	1,511,022	1,023,089
Income tax expense		(75,950 )	(103,823 )	(300,252 )	(198,180 )
Profit for the period		523,360	232,731	1,210,770	824,909
Attributable to:					
Owners of the parent		488,527	194,938	1,137,354	705,978
Non-controlling interest		34,833	37,793	73,416	118,931
Profit for the period		523,360	232,731	1,210,770	824,909
Weighted average number of shares outstanding		1,963,076,776	1,963,076,776	1,963,076,776	1,963,076,776

Basic and diluted earnings (losses) per share for profit (loss) attributable to the equity holders of the company (expressed in USD per share)	0.25	0.10	0.58	0.36
---	------	------	------	------

The accompanying notes are an integral part of these consolidated condensed interim financial statements. These consolidated condensed interim financial statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the year ended December 31, 2017.

TERNIUM S.A.  
 Consolidated Condensed Interim  
 Financial Statements as of  
 September 30, 2018  
 and for the nine-month periods  
 ended September 30, 2018 and  
 2017  
 (All amounts in USD thousands)

## Consolidated Condensed Interim Statements of Comprehensive Income

	Three-month period ended September 30,		Nine- month period ended September 30,	
	2018	2017	2018	2017
	(Unaudited)		(Unaudited)	
Profit for the period	523,360	232,731	1,210,770	824,909
Items that may be reclassified subsequently to profit or loss:				
Currency translation adjustment	(103,514)	(24,389)	(369,410)	(47,578)
Currency translation adjustment from participation in non-consolidated companies	(16,372)	19,688	(87,314)	12,047
Changes in the fair value of financial instruments at fair value through other comprehensive income	(127)	—	(1,067)	—
Income tax related to financial instruments at fair value	31	—	142	—
Changes in the fair value of derivatives classified as cash flow hedges	50	(38,191)	293	849
Income tax related to cash flow hedges	(15)	(34)	(200)	9
Other comprehensive income items	—	20	(305)	92
Other comprehensive income items from participation in non-consolidated companies	13	(747)	498	(482)
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of post employment benefit obligations	—	121	1,099	(1,189)
Income tax relating to remeasurement of post employment benefit obligations	—	—	(297)	—
Remeasurement of post employment benefit obligations from participation in non-consolidated companies	(1,612)	(196)	(3,444)	5,985
Other comprehensive income (loss) for the period, net of tax	(121,546)	(43,728)	(460,005)	(30,267)
Total comprehensive income for the period	401,814	189,003	750,765	794,642
Attributable to:				
Owners of the parent	436,522	159,244	826,857	693,012
Non-controlling interest	(34,708)	29,759	(76,092)	101,630

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

Total comprehensive income for the period 401,814 189,003 750,765 794,642

The accompanying notes are an integral part of these consolidated condensed interim financial statements. These consolidated condensed interim financial statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the year ended December 31, 2017.



TERNIUM S.A.  
Consolidated Condensed Interim  
Financial Statements as of  
September 30, 2018  
and for the nine-month periods  
ended September 30, 2018 and  
2017  
(All amounts in USD thousands)

Consolidated Condensed Interim Statements of Financial Position

	Notes	Balances as of		
		September 30, 2018	December 31, 2017	
		(Unaudited)		
<b>ASSETS</b>				
Non-current assets				
Property, plant and equipment, net	7	5,594,881	5,349,753	
Intangible assets, net	8	1,006,113	1,092,579	
Investments in non-consolidated companies	9	442,970	478,348	
Other investments		14,899	3,380	
Derivative financial instruments		1,166	—	
Deferred tax assets		118,216	121,092	
Receivables, net		652,361	677,299	
Trade receivables, net		5,838	7,836,444	4,832 7,727,283
Current assets				
Receivables, net		266,377	362,173	
Derivative financial instruments		3,409	2,304	
Inventories, net		2,670,511	2,550,930	
Trade receivables, net		1,256,960	1,006,598	
Other investments		60,993	132,736	
Cash and cash equivalents		399,060	4,657,310	337,779 4,392,520
Non-current assets classified as held for sale			2,167	2,763
Total Assets			12,495,921	12,122,566
<b>EQUITY</b>				
Capital and reserves attributable to the owners of the parent			5,939,621	5,010,424
Non-controlling interest			939,099	842,347
Total Equity			6,878,720	5,852,771
<b>LIABILITIES</b>				

Non-current liabilities				
Provisions	632,366		768,517	
Deferred tax liabilities	530,905		513,357	
Other liabilities	378,335		373,046	
Trade payables	1,116		2,259	
Finance lease liabilities	66,621		69,005	
Borrowings	1,689,633	3,298,976	1,716,337	3,442,521
Current liabilities				
Current income tax liabilities	116,637		52,940	
Other liabilities	359,034		357,001	
Trade payables	957,816		897,732	
Derivative financial instruments	18,379		6,001	
Finance lease liabilities	8,724		8,030	
Borrowings	857,635	2,318,225	1,505,570	2,827,274
Total Liabilities		5,617,201		6,269,795
Total Equity and Liabilities		12,495,921		12,122,566

The accompanying notes are an integral part of these consolidated condensed interim financial statements. These consolidated condensed interim financial statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the year ended December 31, 2017.

TERNIUM  
S.A.  
Consolidated  
Condensed  
Interim  
Financial  
Statements  
as of  
September  
30, 2018  
and for the  
nine-month  
periods  
ended  
September  
30, 2018 and  
2017  
(All amounts  
in USD  
thousands)

Consolidated Condensed Interim 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-control interest	Total Equity
Balance as of 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 15)				450			(147)	303	204	507
Impact of adopting IAS 29 at January 1, 2018 (see note 16)							317,975	317,975	204,601	522,576
Adjusted Balance at January 1, 2018	2,004,743	(150,000)	(23,295)	1,416,571	(2,324,866)	(2,403,664)	6,809,213	5,328,702	1,047,151	6,375,853
Profit for the period Other comprehensive income (loss) for the period							1,137,354	1,137,354	73,416	1,210,770

Currency translation adjustment					(307,289 )		(307,289 )	(149,435 )	(456,724 )	
Remeasurement of post employment benefit obligations				(2,501 )			(2,501 )	(141 )	(2,642 )	
Cash flow hedges and others, net of tax				(136 )			(136 )	229	93	
Others				(571 )			(571 )	(161 )	(732 )	
Total comprehensive income for the period	—	—	—	(3,208 )	—	(307,289 )	1,137,354	826,857	(76,092 )	750,765
Dividends paid in cash (5)							(215,938 )	(215,938 )	—	(215,938 )
Dividends paid in cash to non-controlling interest							—	(29,006 )	(29,006 )	
Inflation effect on dividends paid to non-controlling interest							—	(2,955 )	(2,955 )	
Balance as of September 30, 2018 (unaudited)	2,004,743	(150,000)	(23,295)	1,413,363	(2,324,866)	(2,710,953)	7,730,629	5,939,621	939,099	6,878,720

(1) Shareholders' equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 11 (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 September 30, 2018, there were 2,004,743,442 shares issued. All issued shares are fully paid. Also, as of September 30, 2018, the Company held 41,666,666 shares as treasury shares.

(3) Include 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 0.8 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) See Note 10.

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 condensed interim financial statements may not be wholly distributable. See Note 11 (iii).

The accompanying notes are an integral part of these consolidated condensed interim financial statements. These consolidated condensed interim financial statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the year ended December 31, 2017.

Page 5 of 31

---

TERNIUM  
S.A.  
Consolidated  
Condensed  
Interim  
Financial  
Statements  
as of  
September  
30, 2018  
and for the  
nine-month  
periods  
ended  
September  
30, 2018 and  
2017  
(All amounts  
in USD  
thousands)

Consolidated Condensed Interim 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-control- ling interest	Total Equity
Balance as of January 1, 2017	2,004,743	(150,000)	(23,295)	1,420,171	(2,324,866)	(2,336,929)	5,801,474	4,391,298	775,295	5,166,593
Profit for the period							705,978	705,978	118,931	824,909
Other comprehensive (loss) income for the period										
Currency translation adjustment						(17,905 )		(17,905 )	(17,626 )	(35,531 )
Remeasurement of post employment benefit obligations				4,463				4,463	333	4,796
Cash flow hedges, net of tax				868				868	(10 )	858
Others				(392 )				(392 )	2	(390 )
	—	—	—	4,939	—	(17,905 )	705,978	693,012	101,630	794,642

Total  
comprehensive  
income (loss)  
for the period

Dividends paid  
in cash  
Dividends paid  
in cash to  
non-controlling  
interest

(196,308 ) (196,308 ) — (196,308 )

— (30,573 ) (30,573 )

Balance as of  
September 30,  
2017  
(unaudited)

2,004,743 (150,000) (23,295) 1,425,110 (2,324,866) (2,354,834) 6,311,144 4,888,002 846,352 5,734,354

(1) Shareholders' equity 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 September 30, 2017, there were 2,004,743,442 shares issued. All issued shares are fully paid. Also, as of September 30, 2017, the Company held 41,666,666 shares as treasury shares.

(3) Include 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.

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 condensed interim financial statements may not be wholly distributable. See Note 11 (iii).

The accompanying notes are an integral part of these consolidated condensed interim financial statements. These consolidated condensed interim financial statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the year ended December 31, 2017.

TERNIUM S.A.  
 Consolidated  
 Condensed  
 Interim Financial  
 Statements as of  
 September 30,  
 2018  
 and for the  
 nine-month  
 periods ended  
 September 30,  
 2018 and 2017  
 (All amounts in  
 USD thousands)

## Consolidated Condensed Interim Statements of Cash Flows

	Notes	Nine- month period ended September 30, (Unaudited)	
		2018	2017
Cash flows from operating activities			
Profit for the period		1,210,770	824,909
Adjustments for:			
Depreciation and amortization	7 & 8	443,867	321,932
Income tax accruals less payments		(89,697 )	(316,997 )
Equity in earnings of non-consolidated companies	9	(54,943 )	(52,108 )
Interest accruals less payments		(12,956 )	7,880
Changes in provisions		1,347	1,896
Changes in working capital (1)		(394,822 )	(555,257 )
Net foreign exchange results and others		87,962	119,495
Net cash provided by operating activities		1,191,528	351,750
Cash flows from investing activities			
Capital expenditures	7 & 8	(344,398 )	(282,873 )
Loans to non-consolidated companies		(24,480 )	(23,904 )
Decrease (Increase) in other investments		58,643	(9,492 )
Proceeds from the sale of property, plant and equipment		607	747
Dividends received from non-consolidated companies		—	65
Acquisition of business			
Purchase consideration	13	—	(1,890,989)
Cash acquired	13	—	278,162
Net cash used in investing activities		(309,628 )	(1,928,284)
Cash flows from financing activities			
Dividends paid in cash to company's shareholders	10	(215,938 )	(196,308 )
Dividends paid in cash to non-controlling interest		(31,961 )	(30,573 )
Finance lease payments		(5,006 )	(1,083 )
Proceeds from borrowings		1,105,203	2,812,231
Repayments of borrowings		(1,648,233)	(806,274 )
Net cash (used in) provided by financing activities		(795,935 )	1,777,993
Decrease in cash and cash equivalents		85,965	201,459
Movement in cash and cash equivalents			
At January 1,		337,779	183,463



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

Effect of exchange rate changes and initial inflation adjustment	16	(24,684	) (1,108	)
Increase in cash and cash equivalents		85,965	201,459	
Cash and cash equivalents as of September 30, (2)		399,060	383,814	

Non-cash transactions:

Acquisition of PP&E under lease contract agreements	—	77,436		
---	---	--------	--	--

(1) The working capital is impacted by non-cash movement of USD (189.7) million as of September 30, 2018 (USD (36.7) million as of September 30, 2017) 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 nil and USD 80 as of September 30, 2018 and 2017, respectively. In addition, the Company had other investments with a maturity of more than three months for USD 75,640 and USD 157,151 as of September 30, 2018 and 2017, respectively.

The accompanying notes are an integral part of these consolidated condensed interim financial statements. These consolidated condensed interim financial statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the year ended December 31, 2017.

TERNIUM S.A.  
Consolidated  
Condensed  
Interim Financial  
Statements as of  
September 30,  
2018  
and for the  
nine-month  
periods ended  
September 30,  
2018 and 2017

Notes to the Consolidated Condensed Interim Financial Statements

## 1. GENERAL INFORMATION AND BASIS OF PRESENTATION

### a) General information and basis of presentation

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 September 30, 2018, there were 2,004,743,442 shares issued. All issued shares are fully paid.

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

The name and percentage of ownership of subsidiaries that have been included in consolidation in these Consolidated Condensed Interim Financial Statements is disclosed in Note 2 to the audited Consolidated Financial Statements for the year ended December 31, 2017.

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

The preparation of Consolidated Condensed Interim Financial Statements requires management to make estimates and assumptions that might affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the statement of financial position, and also the reported amounts of revenues and expenses for the reported periods. Actual results may differ from these estimates. The main assumptions and estimates were disclosed in the Consolidated Financial Statements for the year ended December 31, 2017, without significant changes since its publication.

Material intercompany transactions and balances have been eliminated in consolidation. However, the fact that the functional currency of the Company’s subsidiaries differs, results in the generation of foreign exchange gains and losses that are included in the Consolidated Condensed Interim Income Statement under “Other financial income (expenses), net”.

## 2. ACCOUNTING POLICIES

These Consolidated Condensed Interim Financial Statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” and are unaudited. These Consolidated Condensed Interim Financial Statements should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2017, which have

been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and in conformity with International Financial Reporting Standards as adopted by the European Union (“EU”). Recently issued accounting pronouncements were applied by the Company as from their respective dates.

These Consolidated Condensed Interim Financial Statements have been prepared following the same accounting policies used in the preparation of the audited Consolidated Financial Statements for the year ended December 31, 2017, except for the changes explained in Notes 15 and 16 of these Consolidated Condensed Interim Financial Statements.

TERNIUM S.A.  
Consolidated  
Condensed  
Interim Financial  
Statements as of  
September 30,  
2018  
and for the  
nine-month  
periods ended  
September 30,  
2018 and 2017

## 2. ACCOUNTING POLICIES (continued)

None of the accounting pronouncements issued after December 31, 2017, and as of the date of these Consolidated Condensed Interim Financial Statements have a material effect on the Company's financial condition or result or operations.

## 3. 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 three 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:

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

- 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 CODM (CEO).



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

Management view				
Net sales	6,782,237	215,663	(215,639 )	6,782,261
Operating income	792,893	53,339	868	847,100
Reconciliation items:				
Differences in Cost of sales				259,718
Operating income - IFRS				1,106,818
Financial income (expense), net				(135,837 )
Equity in earnings of non-consolidated companies				52,108
Income before income tax expense - IFRS				1,023,089
Depreciation and amortization - IFRS	(285,530 )	(36,402 )	—	(321,932 )

TERNIUM S.A.  
 Consolidated  
 Condensed  
 Interim Financial  
 Statements as of  
 September 30,  
 2018  
 and for the  
 nine-month  
 periods ended  
 September 30,  
 2018 and 2017

### 3. SEGMENT INFORMATION (continued)

#### GEOGRAPHICAL INFORMATION

For purposes of reporting geographical information, net sales are allocated based on the customer's location. Allocation of non-current assets is based on the geographical location of the underlying assets.

Nine- month period ended September 30,  
 2018 (Unaudited)

	Mexico	Southern region	Brazil and Other markets (2)	Total
Net sales	4,869,687	1,203,633	2,478,612	8,551,932
Non-current assets (1)	4,042,274	893,459	1,665,261	6,600,994

Nine- month period ended September 30,  
 2017 (Unaudited)

	Mexico	Southern region	Brazil and Other markets (2)	Total
Net sales	4,233,860	1,694,916	1,004,012	6,932,788
Non-current assets (1)	4,038,473	685,723	1,432,016	6,156,212

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

(2) Includes the assets related to the business acquisition disclosed in note 12.

#### 4. COST OF SALES



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

	Nine- month period ended September 30, 2018      2017 (Unaudited)	
Inventories at the beginning of the year	2,550,930	1,647,869
Acquisition of business (Note 12)	—	344,532
Effect of initial inflation adjustment (Note 16)	132,610	—
Translation differences	(454,874 )	(49,626 )
Plus: Charges for the period		
Raw materials and consumables used and other movements	5,318,446	4,488,926
Services and fees	116,158	71,321
Labor cost	504,563	472,838
Depreciation of property, plant and equipment	328,110	249,596
Amortization of intangible assets	19,945	29,219
Maintenance expenses	357,477	325,197
Office expenses	5,990	5,100
Insurance	6,098	6,096
Change of obsolescence allowance	5,934	(2,313 )
Recovery from sales of scrap and by-products	(19,876 )	(20,055 )
Others	10,599	20,610
Less: Inventories at the end of the period	(2,670,511)	(2,357,217)
Cost of Sales	6,211,599	5,232,093

Page 11 of 31

---

TERNIUM S.A.  
 Consolidated  
 Condensed  
 Interim Financial  
 Statements as of  
 September 30,  
 2018  
 and for the  
 nine-month  
 periods ended  
 September 30,  
 2018 and 2017

#### 5. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Nine- month period ended September 30, 2018 2017 (Unaudited)	
Services and fees	49,290	62,625
Labor cost	178,426	167,657
Depreciation of property, plant and equipment	9,843	9,145
Amortization of intangible assets	85,969	33,972
Maintenance and expenses	3,928	3,554
Taxes	58,325	68,204
Office expenses	26,740	25,992
Freight and transportation	220,378	191,429
Increase (decrease) of allowance for doubtful accounts	1,053	(26 )
Others	10,431	10,020
Selling, general and administrative expenses	644,383	572,572

#### 6. FINANCE EXPENSE, FINANCE INCOME AND OTHER FINANCIAL INCOME (EXPENSES), NET

	Nine- month period ended September 30, 2018 2017 (Unaudited)	
Interest expense	(94,531 )	(74,718)
Finance expense	(94,531 )	(74,718)
Interest income	15,141	14,346
Finance income	15,141	14,346
Net foreign exchange gain (loss)	(170,227)	(84,999)
Inflation adjustment results (Note 16)	97,945	—
Change in fair value of financial assets	—	(650 )

Derivative contract results	(103,055)	12,958
Others	9,779	(2,774 )

Other financial income (expenses), net (165,558) (75,465)

#### 7. PROPERTY, PLANT AND EQUIPMENT, NET

	Nine- month period ended September 30, 2018      2017 (Unaudited)	
At the beginning of the year	5,349,753	4,135,977
Effect of initial inflation adjustment (Note 16)	613,849	—
Acquisition of business (Note 12)	—	892,856
Currency translation differences	(334,408)	(58,952)
Additions	321,385	337,759
Disposals	(17,499)	(25,027)
Depreciation charge	(337,953)	(258,741)
Transfers and reclassifications	(246)	(123)
At the end of the period	5,594,881	5,023,749

TERNIUM S.A.  
 Consolidated  
 Condensed  
 Interim Financial  
 Statements as of  
 September 30,  
 2018  
 and for the  
 nine-month  
 periods ended  
 September 30,  
 2018 and 2017

## 8. INTANGIBLE ASSETS, NET

	Nine- month period ended September 30, 2018      2017 (Unaudited)	
At the beginning of the year	1,092,579	842,557
Effect of initial inflation adjustment (Note 16)	3,429	—
Acquisition of business (Note 12)	—	316,908
Currency translation differences	(7,239)	(828)
Additions	23,013	37,017
Amortization charge	(105,914)	(63,191)
Transfers/Disposals	245	—
At the end of the period	1,006,113	1,132,463

## 9. INVESTMENTS IN NON-CONSOLIDATED COMPANIES

Company	Country of incorporation	Main activity	Voting rights as of		Value as of	
			September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Usinas Siderurgicas de Minas Gerais S.A. - USIMINAS	Brazil	Manufacturing and selling of steel products	34.39%	34.39%	429,596	466,299
Other non-consolidated companies (1)					13,374	12,049
					442,970	478,348

(1) It includes the investments held in Techgen S.A. de C.V., 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.

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.

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.

TERNIUM S.A.  
 Consolidated  
 Condensed  
 Interim Financial  
 Statements as of  
 September 30,  
 2018  
 and for the  
 nine-month  
 periods ended  
 September 30,  
 2018 and 2017

9. INVESTMENTS IN NON-CONSOLIDATED COMPANIES (continued)

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 September 30, 2018, the closing price of the Usiminas ordinary and preferred shares, as quoted on the BM&F Bovespa Stock Exchange, was BRL 11.37 (approximately USD 2.84; December 31, 2017: BRL 10.83 - USD 3.27) per ordinary share and BRL 8.32 (approximately USD 2.08; December 31, 2017: BRL 9.10 - USD 2.75) per preferred share, respectively. Accordingly, as of September 30, 2018, Ternium's ownership stake had a market value of approximately USD 706.6 million and a carrying value of USD 429.6 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.

As of September 30, 2018 the value of the investment in Usiminas is comprised as follows:

Value of investment	USIMINAS
As of January 1, 2018	466,299
Share of results (1)	51,787

Other comprehensive income (88,490 )

As of September 30, 2018 429,596

(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	3,521,544
Percentage of interest of the Company over shareholders' equity	20.47 %
Interest of the Company over shareholders' equity	719,688
Purchase price allocation	69,203
Goodwill	259,605
Impairment	(618,900 )
Total Investment in Usiminas	429,596

TERNIUM S.A.  
 Consolidated  
 Condensed  
 Interim Financial  
 Statements as of  
 September 30,  
 2018  
 and for the  
 nine-month  
 periods ended  
 September 30,  
 2018 and 2017

#### 9. INVESTMENTS IN NON-CONSOLIDATED COMPANIES (continued)

On October 25, 2018, Usiminas issued its consolidated interim accounts as of and for the nine-month period ended September 30, 2018, which state that revenues, net profit from continuing operations and shareholders' equity amounted to USD 2,866 million, USD 101 million and USD 3,523 million, respectively.

	USIMINAS
Summarized balance sheet (in million USD)	As of September 30, 2018
Assets	
Non-current	4,596
Current	1,503
Other current investments	146
Cash and cash equivalents	274
 Total Assets	 6,519
Liabilities	
Non-current	539
Non-current borrowings	1,466
Current	633
Current borrowings	5
 Total Liabilities	 2,643
 Minority interest	 353
 Shareholders' equity	 3,523
	 USIMINAS
Summarized income statement (in million USD)	Nine-month period ended September 30, 2018
Net sales	2,866
Cost of sales	(2,353)
Gross Profit	513
Selling, general and administrative expenses	(151)
Other operating income, net	(115)
Operating income	247
Financial expenses, net	(152)
Equity in earnings of associated companies	40



Profit before income tax	135
Income tax expense	(19)
Net profit before minority interest	116
Minority interest in other subsidiaries	(15)
Net profit for the period	101

(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, 2017 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 153.9 million as of September 30, 2018, and which are due in June 2020.

For commitments from Ternium in connection with Techgen, see note 11.

TERNIUM S.A.  
Consolidated  
Condensed  
Interim Financial  
Statements as of  
September 30,  
2018  
and for the  
nine-month  
periods ended  
September 30,  
2018 and 2017

#### 10. DISTRIBUTION OF DIVIDENDS

During the annual shareholders' meeting held on May 2, 2018, the shareholders approved a distribution of dividends of USD 0.11 per share (USD 1.10 per ADS), or approximately USD 220.5 million in the aggregate. The dividend was paid on May 10, 2018.

#### 11. CONTINGENCIES, COMMITMENTS AND RESTRICTIONS ON THE DISTRIBUTION OF PROFITS

This note should be read in conjunction with Note 25 to the Company's audited Consolidated Financial Statements for the year ended December 31, 2017. The main contingencies and commitments are as follows:

(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 Ternium Argentina'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. If CSN's appeals is granted, the Superior Court of Justice will also review admissibility, 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 Condensed Interim Financial Statements.

TERNIUM S.A.  
Consolidated  
Condensed  
Interim Financial  
Statements as of  
September 30,  
2018  
and for the  
nine-month  
periods ended  
September 30,  
2018 and 2017

11. 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 that both the appeal and the petition are 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 59.3 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 26 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.

(ii) Commitments

The following are Ternium's main off-balance sheet commitments:

(a) 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 USD829.5 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:

TERNIUM S.A.  
Consolidated  
Condensed  
Interim Financial  
Statements as of  
September 30,  
2018  
and for the  
nine-month  
periods ended  
September 30,  
2018 and 2017

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

-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 entered into a contract with Tenaris, a related company of Ternium, for the supply of steam generated at the power generation facility that Tenaris owns in the compound of the Ramallo facility of Ternium Argentina. Under this contract, Tenaris has to provide 250 tn/hour of steam, and Ternium Argentina has the obligation to take or pay this volume. The amount of this outsourcing agreement totals USD 1.2 million and is due to terminate in 2018.

(c) 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 39.7 million payable until April 2019.

(d) 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 23.1 million, which is due to terminate in 2032.

(e) 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.

(f) 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 September 30, 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 10 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.

TERNIUM S.A.  
Consolidated  
Condensed  
Interim Financial  
Statements as of  
September 30,  
2018  
and for the  
nine-month  
periods ended  
September 30,  
2018 and 2017

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

(g) Following the maturity of a previously existing railroad freight services agreement during 2013, in April 2014, Ternium Mexico 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 Mexico’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 Mexico and Ferromex was already invested as of September 30, 2018. Under the agreement, Ternium Mexico has guaranteed to Ferromex its service 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.

(h) Ternium Mexico 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 September 30, 2018, the outstanding amount under the natural gas trading agreement was USD 9.5 million, which is below the amount included in the guarantee letter issued by Ternium México.

(i) 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 September 30, 2018, there had been no disbursement under the facility and the Company complied with the aforementioned financial covenant.

(j) Ternium Mexico issued a guarantee letter covering up to approximately USD 77 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.

(k) 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 September 30, 2018, the outstanding value of this commitment was approximately USD 254 million. Ternium's exposure under the guarantee in connection with these agreements amounts to USD 122 million, corresponding to the 48% of the agreements' outstanding value as of September 30, 2018.

TERNIUM S.A.  
Consolidated  
Condensed  
Interim Financial  
Statements as of  
September 30,  
2018  
and for the  
nine-month  
periods ended  
September 30,  
2018 and 2017

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

(l) 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 September 30, 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 September 30, 2018, Techgen and Ternium, as guarantor, were in compliance with all of their covenants.

(m) 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.

(n) 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.

(o) 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. The amount of the entire contract totals USD 184.7 million.

(p) 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. The amount of the mentioned services totals approximately USD 44.0 million per year and is due to terminate on November 2024. Ternium Brasil is currently using more hours than the minimum quantity of contracted hours.

(q) 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 for an aggregate amount of USD 45.5 million per year to satisfy the requirements up to January 2029. The contract has minimum daily-required volumes.

(r) 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 28.0 million per year or 61.3 million m<sup>3</sup> per year. Ternium Brasil is currently purchasing more than the minimum volume required by the contract, which is 85% of the volume mentioned before.

TERNIUM S.A.  
 Consolidated  
 Condensed  
 Interim Financial  
 Statements as of  
 September 30,  
 2018  
 and for the  
 nine-month  
 periods ended  
 September 30,  
 2018 and 2017

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

(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 equals 10% of the share capital. At December 31, 2013, this reserve reached the above-mentioned threshold.

As of December 31, 2017, Ternium may pay dividends up to USD 3.1 billion in accordance with Luxembourg law and regulations.

Shareholders' equity under Luxembourg law and regulations comprises the following captions:

	As of December 31, 2017
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, 2017	3,135,868
Loss for the year	(32,012)
Total shareholders' equity under Luxembourg GAAP	6,782,795

12. ACQUISITION OF BUSINESS

Acquisition of 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.

TERNIUM S.A.  
 Consolidated  
 Condensed  
 Interim Financial  
 Statements as of  
 September 30,  
 2018  
 and for the  
 nine-month  
 periods ended  
 September 30,  
 2018 and 2017

## 12. ACQUISITION OF BUSINESS (continued)

### (b) Fair value of net assets acquired

The application of the purchase method requires 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 are based mainly on discounted cash flows and other valuation techniques.

The allocation of the fair values determined for the assets and liabilities arising from the acquisition is 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.

### (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 19.3 million as of September 30, 2018).

TERNIUM S.A.  
Consolidated  
Condensed  
Interim Financial  
Statements as of  
September 30,  
2018  
and for the  
nine-month  
periods ended  
September 30,  
2018 and 2017

## 12. 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 45.3 million as of September 30, 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 were 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. 46.378, 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  
Condensed  
Interim Financial  
Statements as of  
September 30,  
2018  
and for the  
nine-month  
periods ended  
September 30,  
2018 and 2017

12. ACQUISITION OF BUSINESS (continued)

As of the date of these consolidated condensed interim financial statements, Brazil's Federal Supreme Court has not yet ruled on the unconstitutionality claim against Rio de Janeiro's March 31, 2005 State Law No. 4.529.

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 512.3 million and USD 256.1 million, respectively, as of September 30, 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.àr.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. As of September 30, 2018, the borrower and the guarantor were in compliance with all of its covenants.

TERNIUM S.A.  
 Consolidated  
 Condensed  
 Interim Financial  
 Statements as of  
 September 30,  
 2018  
 and for the  
 nine-month  
 periods ended  
 September 30,  
 2018 and 2017

### 13. RELATED PARTY TRANSACTIONS

As of September 30, 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.

The following transactions were carried out with related parties:

	Nine- month period ended September 30, 2018 2017 (Unaudited)	
(i) Transactions		
(a) Sales of goods and services		
Sales of goods to non-consolidated parties	602,794	215,899
Sales of goods to other related parties	126,534	113,220
Sales of services and others to non-consolidated parties	132	133
Sales of services and others to other related parties	919	413
	730,379	329,665
(b) Purchases of goods and services		
Purchases of goods from non-consolidated parties	353,632	295,264
Purchases of goods from other related parties	29,987	46,032
Purchases of services and others from non-consolidated parties	6,389	9,727
Purchases of services and others from other related parties	60,402	83,330
	450,410	434,353
(c) Financial results		
Income with non-consolidated parties	6,538	5,610
	6,538	5,610
(d) Dividends received		
Dividends received from non-consolidated parties	—	65
	—	65

## (e) Other income and expenses

Income (expenses), net with non-consolidated parties	409	2,287
Income (expenses), net with other related parties	509	428
	918	2,715

September 30, December 31,  
2018                      2017  
(Unaudited)

## (ii) Period-end balances

## (a) Arising from sales/purchases of goods/services

Receivables from non-consolidated parties	233,307	223,847
Receivables from other related parties	31,878	29,033
Advances from non-consolidated parties	4,062	—
Advances to suppliers with other related parties	1,094	3,255
Payables to non-consolidated parties	(31,270)	(24,570)
Payables to other related parties	(18,806)	(21,547)
	220,265	210,018

TERNIUM S.A.  
 Consolidated  
 Condensed  
 Interim Financial  
 Statements as of  
 September 30,  
 2018  
 and for the  
 nine-month  
 periods ended  
 September 30,  
 2018 and 2017

#### 14. FINANCIAL INSTRUMENTS BY CATEGORY AND FAIR VALUE MEASUREMENT

##### 1) Financial instruments by category

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 September 30, 2018 (in USD thousands)	Amortized cost	Assets at fair value through profit or loss	Assets at fair value through OCI	Total
(i) Assets as per statement of financial position				
Receivables	440,381	—	—	440,381
Derivative financial instruments	—	4,575	—	4,575
Trade receivables	1,262,798	—	—	1,262,798
Other investments	9,180	—	66,460	75,640
Cash and cash equivalents	176,424	222,636	—	399,060
<b>Total</b>	<b>1,888,783</b>	<b>227,211</b>	<b>66,460</b>	<b>2,182,454</b>

As of September 30, 2018 (in USD thousands)	Amortized cost	Liabilities at fair value through profit or loss	Total
(ii) Liabilities as per statement of financial position			
Other liabilities	102,437	—	102,437
Trade payables	929,739	—	929,739
Derivative financial instruments	—	18,379	18,379
Finance lease liabilities	75,345	—	75,345
Borrowings	2,547,268	—	2,547,268
<b>Total</b>	<b>3,654,789</b>	<b>18,379</b>	<b>3,673,168</b>



TERNIUM S.A.  
 Consolidated  
 Condensed  
 Interim Financial  
 Statements as of  
 September 30,  
 2018  
 and for the  
 nine-month  
 periods ended  
 September 30,  
 2018 and 2017

#### 14. FINANCIAL INSTRUMENTS BY CATEGORY AND FAIR VALUE MEASUREMENT (continued)

##### 2) Fair Value by Hierarchy

IFRS 13 requires for financial instruments that are measured at fair value, a disclosure of fair value measurements by level. See note 29 of the Consolidated Financial Statements as of December 31, 2017 for definitions of levels of fair values and figures at that date.

The following table presents the assets and liabilities that are measured at fair value:

Description	Fair value measurement as of September 30, 2018 (in USD thousands):		
	Total	Level 1	Level 2
Financial assets at fair value through profit or loss / OCI			
Cash and cash equivalents	222,637	222,637	—
Other investments	66,460	66,460	—
Derivative financial instruments	4,575	—	4,575
Total assets	293,672	289,097	4,575
Financial liabilities at fair value through profit or loss / OCI			
Derivative financial instruments	18,379	—	18,379
Total liabilities	18,379	—	18,379
Description	Fair value measurement 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	—

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

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.

## 15. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Company's financial statements and also discloses the new accounting policies that have been applied from January 1, 2018, where they are different to those applied in prior periods.

### (a) Impact on the financial statements

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.



TERNIUM S.A.  
 Consolidated  
 Condensed  
 Interim Financial  
 Statements as of  
 September 30,  
 2018  
 and for the  
 nine-month  
 periods ended  
 September 30,  
 2018 and 2017

15. CHANGES IN ACCOUNTING POLICIES (continued)

	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

(b)IFRS 9 Financial Instruments - Impact of adoption

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.

TERNIUM S.A.  
 Consolidated  
 Condensed  
 Interim Financial  
 Statements as of  
 September 30,  
 2018  
 and for the  
 nine-month  
 periods ended  
 September 30,  
 2018 and 2017

#### 15. CHANGES IN ACCOUNTING POLICIES (continued)

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 between 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)	

#### (c) IFRS 9 Financial Instruments - Accounting policies applied from January 1, 2018

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

(i) Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method.

(ii) Fair value through other comprehensive income (“FVOCI”): 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.

(iii) Fair value through profit or loss (“FVPL”): Assets 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 assets and the contractual terms of the cash flows.

For assets 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 asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets 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.

TERNIUM S.A.  
Consolidated  
Condensed  
Interim Financial  
Statements as of  
September 30,  
2018  
and for the  
nine-month  
periods ended  
September 30,  
2018 and 2017

15. CHANGES IN ACCOUNTING POLICIES (continued)

(d) IFRS 15 Revenue from Contracts with Customers - Impact of adoption

The Company has adopted IFRS 15 Revenue from Contracts with Customers from January 1, 2018, which resulted in no changes in accounting policies and adjustments to the amounts recognized in the financial statements.

16. 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 three-month period ended September 30, 2018, was 1.14 and the year-over-year change in the index was 1.32.

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  
Condensed  
Interim Financial  
Statements as of  
September 30,  
2018  
and for the  
nine-month  
periods ended  
September 30,  
2018 and 2017

16. APPLICATION OF IAS 29 IN FINANCIAL REPORTING OF ARGENTINE SUBSIDIARIES AND ASSOCIATES (continued)

The ongoing application of the re-translation of comparative amounts to closing exchange 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 condensed interim 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.

Pablo Brizzio  
Chief Financial Officer