



**TERNIUM S.A.**

**Consolidated Condensed Interim Financial Statements  
as of March 31, 2017  
and for the three-month periods  
ended on March 31, 2017 and 2016**

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# TERNIUM S.A.

## Consolidated Condensed Interim Financial Statements as of March 31, 2017 and for the three-month periods ended March 31, 2017 and 2016

(All amounts in USD thousands)

### Consolidated Condensed Interim Income Statements

|  | Notes | Three-month period ended<br>March 31, |               |
|--|-------|---------------------------------------|---------------|
|  |       | 2017                                  | 2016          |
|  |       | (Unaudited)                           |               |
| Net sales  | 3     | 2,040,081                             | 1,655,502     |
| Cost of sales  | 3 & 4 | (1,496,435)                           | (1,286,809)   |
| Gross profit   | 3     | 543,646                               | 368,693       |
| Selling, general and administrative expenses   | 3 & 5 | (172,275)                             | (164,016)     |
| Other operating income (expenses), net   | 3     | (7,220)                               | (2,321)       |
| Operating income   | 3     | 364,151                               | 202,356       |
| Finance expense  | 6     | (21,382)                              | (12,656)      |
| Finance income   | 6     | 4,595                                 | 3,019         |
| Other financial income (expenses), net   | 6     | (23,151)                              | (12,206)      |
| Equity in earnings (losses) of non-consolidated companies  |       | 21,410                                | 2,442         |
| Profit before income tax expense   |       | 345,623                               | 182,955       |
| Income tax expense   |       | (35,234)                              | (59,373)      |
| Profit for the period  |       | 310,389                               | 123,582       |
| <b>Attributable to:</b>  |       |                                       |               |
| Owners of the parent   |       | 261,335                               | 94,389        |
| Non-controlling interest   |       | 49,054                                | 29,193        |
| Profit for the period  |       | 310,389                               | 123,582       |
| Weighted average number of shares outstanding  |       | 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) |       | 0.13                                  | 0.05          |

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 fiscal year ended December 31, 2016.

# TERNIUM S.A.

Consolidated Condensed Interim Financial Statements as of March 31, 2017  
and for the three-month periods ended March 31, 2017 and 2016

(All amounts in USD thousands)

## Consolidated Condensed Interim Statements of Comprehensive Income

|   | Three-month period ended<br>March 31, |          |
|---|---------------------------------------|----------|
|   | 2017                                  | 2016     |
|   | (Unaudited)                           |          |
| <b>Profit for the period</b>  | 310,389                               | 123,582  |
| <b>Items that may be reclassified subsequently to profit or loss:</b>                                 |                                       |          |
| Currency translation adjustment   | 23,047                                | (88,407) |
| Currency translation adjustment from participation in non-consolidated companies                      | 11,863                                | (271)    |
| Changes in the fair value of derivatives classified as cash flow hedges                               | (367)                                 | (1,225)  |
| Income tax relating to cash flow hedges   | (11)                                  | 367      |
| Other comprehensive income items  | 75                                    | -        |
| Other comprehensive income items from participation in non-consolidated companies                     | 115                                   | 254      |
| <b>Items that will not be reclassified subsequently to profit or loss:</b>                            |                                       |          |
| Remeasurement of post employment benefit obligations  | (499)                                 | -        |
| Remeasurement of post employment benefit obligations from participation in non-consolidated companies | 6,379                                 | (1,624)  |
| <b>Other comprehensive income (loss) for the period, net of tax</b>                                   | 40,602                                | (90,906) |
| <b>Total comprehensive income for the period</b>  | 350,991                               | 32,676   |
| <b>Attributable to:</b>   |                                       |          |
| Owners of the parent  | 291,742                               | 38,329   |
| Non-controlling interest  | 59,249                                | (5,653)  |
| <b>Total comprehensive income for the period</b>  | 350,991                               | 32,676   |

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 fiscal year ended December 31, 2016.

# TERNIUM S.A.

Consolidated Condensed Interim Financial Statements as of March 31, 2017  
and for the three-month periods ended March 31, 2017 and 2016

(All amounts in USD thousands)

## Consolidated Condensed Interim Statements of Financial Position

|   | Notes | Balances as of                |                   |
|---|-------|-------------------------------|-------------------|
|   |       | March 31, 2017<br>(Unaudited) | December 31, 2016 |
| <b>ASSETS</b>   |       |                               |                   |
| <b>Non-current assets</b>                                     |       |                               |                   |
| Property, plant and equipment, net                            | 7     | 4,221,994                     | 4,135,977         |
| Intangible assets, net  | 8     | 834,594                       | 842,557           |
| Investments in non-consolidated companies                     | 9     | 458,221                       | 418,379           |
| Other investments   |       | 4,852                         | 5,998             |
| Deferred tax assets   |       | 106,933                       | 85,795            |
| Receivables, net  |       | 142,217                       | 132,580           |
| Trade receivables, net  |       | 1,094                         | 1,270             |
|   |       | 5,769,905                     | 5,622,556         |
| <b>Current assets</b>   |       |                               |                   |
| Receivables, net  |       | 103,275                       | 79,820            |
| Derivative financial instruments                              |       | 13,195                        | 316               |
| Inventories, net  |       | 1,897,371                     | 1,647,869         |
| Trade receivables, net  |       | 830,242                       | 633,745           |
| Other investments   |       | 151,478                       | 144,853           |
| Cash and cash equivalents                                     |       | 285,967                       | 183,463           |
|   |       | 3,281,528                     | 2,690,066         |
| Non-current assets classified as held for sale                |       | 10,275                        | 10,248            |
|   |       | 3,291,803                     | 2,700,314         |
| <b>Total Assets</b>   |       | <b>9,061,708</b>              | <b>8,322,870</b>  |
| <b>EQUITY</b>   |       |                               |                   |
| Capital and reserves attributable to the owners of the parent |       | 4,683,040                     | 4,391,298         |
| Non-controlling interest                                      |       | 834,544                       | 775,295           |
| <b>Total Equity</b>   |       | <b>5,517,584</b>              | <b>5,166,593</b>  |
| <b>LIABILITIES</b>  |       |                               |                   |
| <b>Non-current liabilities</b>                                |       |                               |                   |
| Provisions  |       | 7,574                         | 6,950             |
| Deferred tax liabilities                                      |       | 515,284                       | 609,004           |
| Other liabilities   |       | 331,213                       | 302,784           |
| Trade payables  |       | 7,338                         | 9,305             |
| Finance lease liabilities                                     | 10    | 67,236                        | -                 |
| Borrowings  |       | 359,482                       | 396,742           |
|   |       | 1,288,127                     | 1,324,785         |
| <b>Current liabilities</b>                                    |       |                               |                   |
| Current income tax liabilities                                |       | 272,113                       | 178,112           |
| Other liabilities   |       | 269,880                       | 228,081           |
| Trade payables  |       | 707,289                       | 603,119           |
| Derivative financial instruments                              |       | 746                           | 287               |
| Finance lease liabilities                                     | 10    | 7,683                         | -                 |
| Borrowings  |       | 998,286                       | 821,893           |
|   |       | 2,255,997                     | 1,831,492         |
| <b>Total Liabilities</b>                                      |       | <b>3,544,124</b>              | <b>3,156,277</b>  |
| <b>Total Equity and Liabilities</b>                           |       | <b>9,061,708</b>              | <b>8,322,870</b>  |

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 fiscal year ended December 31, 2016.

## TERNIUM S.A.

### Consolidated Condensed Interim Financial Statements as of March 31, 2017 and for the three-month periods ended March 31, 2017 and 2016

(All amounts in USD thousands)

## Consolidated Condensed Interim Statements of Changes in Equity

|  | Attributable to the owners of the parent (1) |                     |                                  |              |                                  |                                 |                   | Non-controlling interest | Total Equity |           |
|--|--|---------------------|----------------------------------|--------------|----------------------------------|---------------------------------|-------------------|--------------------------|--------------|-----------|
|  | Capital stock (2)                            | Treasury shares (2) | Initial public offering expenses | Reserves (3) | Capital stock issue discount (4) | Currency translation adjustment | Retained earnings |                          |              | Total     |
| 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                                |  |                     |                                  |              |                                  |                                 | 261,335           | 261,335                  | 49,054       | 310,389   |
| Other comprehensive income (loss) for the period     |  |                     |                                  |              |                                  |                                 |                   |                          |              |           |
| Currency translation adjustment                      |  |                     |                                  |              |                                  | 25,215                          |                   | 25,215                   | 9,695        | 34,910    |
| Remeasurement of post employment benefit obligations |  |                     |                                  | 5,431        |                                  |                                 |                   | 5,431                    | 449          | 5,880     |
| Cash flow hedges and others, net of tax              |  |                     |                                  | (391)        |                                  |                                 |                   | (391)                    | 13           | (378)     |
| Others   |  |                     |                                  | 152          |                                  |                                 |                   | 152                      | 38           | 190       |
| Total comprehensive income for the period            | -  | -                   | -                                | 5,192        | -                                | 25,215                          | 261,335           | 291,742                  | 59,249       | 350,991   |
| Balance as of March 31, 2017 (unaudited)             | 2,004,743                                    | (150,000)           | (23,295)                         | 1,425,363    | (2,324,866)                      | (2,311,714)                     | 6,062,809         | 4,683,040                | 834,544      | 5,517,584 |

(1) Shareholders' equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 12 (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 March 31, 2017, there were 2,004,743,442 shares issued. All issued shares are fully paid. Also, as of March 31, 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 12 (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 fiscal year ended December 31, 2016.

## TERNIUM S.A.

Consolidated Condensed Interim Financial Statements as of March 31, 2017  
and for the three-month periods ended March 31, 2017 and 2016

(All amounts in USD thousands)

### Consolidated Condensed Interim Statements of Changes in Equity

|  | Attributable to the owners of the parent (1) |                     |                                      |              |                                  |                                 |                   |           | Non-controlling interest | Total Equity |
|--|--|---------------------|--------------------------------------|--------------|----------------------------------|---------------------------------|-------------------|-----------|--------------------------|--------------|
|  | Capital stock (2)                            | Treasury shares (2) | Initial public offering expenses (2) | Reserves (3) | Capital stock issue discount (4) | Currency translation adjustment | Retained earnings | Total     |                          |              |
| Balance as of January 1, 2016                        | 2,004,743                                    | (150,000)           | (23,295)                             | 1,444,394    | (2,324,866)                      | (2,300,335)                     | 5,382,507         | 4,033,148 | 769,849                  | 4,802,997    |
| Profit for the period                                |  |                     |                                      |              |                                  |                                 | 94,389            | 94,389    | 29,193                   | 123,582      |
| Other comprehensive (loss) income for the period     |  |                     |                                      |              |                                  |                                 |                   |           |                          |              |
| Currency translation adjustment                      |  |                     |                                      |              |                                  | (54,356)                        |                   | (54,356)  | (34,322)                 | (88,678)     |
| Remeasurement of post employment benefit obligations |  |                     |                                      | (1,510)      |                                  |                                 |                   | (1,510)   | (114)                    | (1,624)      |
| Cash flow hedges, net of tax                         |  |                     |                                      | (438)        |                                  |                                 |                   | (438)     | (420)                    | (858)        |
| Others   |  |                     |                                      | 244          |                                  |                                 |                   | 244       | 10                       | 254          |
| Total comprehensive income (loss) for the period     | -  | -                   | -                                    | (1,704)      | -                                | (54,356)                        | 94,389            | 38,329    | (5,653)                  | 32,676       |
| Dividends paid in cash to non-controlling interest   |  |                     |                                      |              |                                  |                                 |                   | -         | (50,829)                 | (50,829)     |
| Balance as of March 31, 2016 (unaudited)             | 2,004,743                                    | (150,000)           | (23,295)                             | 1,442,690    | (2,324,866)                      | (2,354,691)                     | 5,476,896         | 4,071,477 | 713,367                  | 4,784,844    |

(1) Shareholders' equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 12 (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 March 31, 2016, there were 2,004,743,442 shares issued. All issued shares are fully paid. Also, as of March 31, 2016, 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 (1.3) 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 12 (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 fiscal year ended December 31, 2016.

# TERNIUM S.A.

## Consolidated Condensed Interim Financial Statements as of March 31, 2017 and for the three-month periods ended March 31, 2017 and 2016

(All amounts in USD thousands)

### Consolidated Condensed Interim Statements of Cash Flows

|  | Notes | Three-month period ended<br>March 31, |           |
|--|-------|---------------------------------------|-----------|
|  |       | 2017                                  | 2016      |
|  |       | (Unaudited)                           |           |
| <b>Cash flows from operating activities</b>                |       |                                       |           |
| <b>Profit for the period</b>                               |       | 310,389                               | 123,582   |
| Adjustments for:   |       |                                       |           |
| Depreciation and amortization                              | 7 & 8 | 100,602                               | 100,668   |
| Income tax accruals less payments                          |       | (31,621)                              | (2,928)   |
| Equity in earnings of non-consolidated companies           |       | (21,410)                              | (2,442)   |
| Interest accruals less payments                            |       | (1,028)                               | 2,633     |
| Changes in provisions                                      |       | 636                                   | 135       |
| Changes in working capital (1)                             |       | (317,838)                             | (1,920)   |
| Net foreign exchange results and others                    |       | 46,030                                | 17,690    |
| <b>Net cash provided by operating activities</b>           |       | 85,760                                | 237,418   |
| <b>Cash flows from investing activities</b>                |       |                                       |           |
| Capital expenditures                                       | 7 & 8 | (83,871)                              | (97,817)  |
| Loans to non-consolidated companies                        |       | (23,904)                              | (22,656)  |
| (Increase) Decrease in other investments                   |       | (5,479)                               | 2,473     |
| Proceeds from the sale of property, plant and equipment    |       | 61                                    | 214       |
| Dividends received from non-consolidated companies         |       | -                                     | 60        |
| <b>Net cash used in investing activities</b>               |       | (113,193)                             | (117,726) |
| <b>Cash flows from financing activities</b>                |       |                                       |           |
| Finance lease payments                                     | 10    | (1,083)                               | -         |
| Proceeds from borrowings                                   |       | 338,927                               | 207,350   |
| Repayments of borrowings                                   |       | (208,302)                             | (292,854) |
| <b>Net cash provided by (used in) financing activities</b> |       | 129,542                               | (85,504)  |
| <b>Increase in cash and cash equivalents</b>               |       | 102,109                               | 34,188    |
| <b>Movement in cash and cash equivalents</b>               |       |                                       |           |
| At January 1,  |       | 183,463                               | 151,491   |
| Effect of exchange rate changes                            |       | 395                                   | (2,061)   |
| <b>Increase in cash and cash equivalents</b>               |       | 102,109                               | 34,188    |
| <b>Cash and cash equivalents as of March 31, (2)</b>       |       | 285,967                               | 183,618   |
| <b>Non-cash transactions:</b>                              |       |                                       |           |
| Acquisition of PP&E under lease contract agreements        | 10    | 74,919                                | -         |

(1) The working capital is impacted by non-cash movement of USD 11.9 million as of March 31, 2017 (USD (37.2) million as of March 31, 2016) 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 82 and USD 86 as of March 31, 2017 and 2016, respectively. In addition, the Company had other investments with a maturity of more than three months for USD 156,330 and USD 234,717 as of March 31, 2017 and 2016, 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 fiscal year ended December 31, 2016.



## 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 March 31, 2017, there were 2,004,743,442 shares issued. All issued shares are fully paid.

Following a corporate reorganization carried out during fiscal year 2005, in January 2006 the Company successfully completed its registration process with the United States Securities and Exchange Commission (“SEC”). Ternium’s ADSs began trading on the New York Stock Exchange under the symbol “TX” on February 1, 2006. The Company’s initial public offering was settled on February 6, 2006.

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 condensed interim 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.

## 1. GENERAL INFORMATION AND BASIS OF PRESENTATION (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, 2016 and 2015, this special reserve amounted to USD 6.9 billion and USD 7.1 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.

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, 2016.

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, 2016, 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".

These Consolidated Condensed Interim Financial Statements have been approved for issue by the Board of Directors of Ternium on April 25, 2017.

## 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, 2016, 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.

## 2. ACCOUNTING POLICIES (continued)

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, 2016. Given that the Company has entered into a new leasing agreement that qualifies as finance leasing (see note 10), and the related accounting policy was not disclosed in the Consolidated Financial Statements as of December 31, 2016, as the Company did not have any financial leasing at such date, the accounting policy is detailed below:

### 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.

None of the accounting pronouncements issued after December 31, 2016, 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.

The Steel segment comprises three operating segments: Mexico, Southern Region 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 Other markets operating segment includes businesses mainly in United States, Colombia, Guatemala, Costa Rica, El Salvador, Nicaragua and Honduras.

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.

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## 3. SEGMENT INFORMATION (continued)

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 CODM (CEO).

|  | Three-month period ended March 31, 2017 (Unaudited) |                |                            |                |
|--|---|----------------|----------------------------|----------------|
|  | Steel   | Mining         | Inter-segment eliminations | Total          |
| <b>IFRS</b>  |   |                |                            |                |
| Net sales  | 2,040,069   | 62,611         | (62,599)                   | 2,040,081      |
| Cost of sales  | (1,514,233)   | (48,620)       | 66,418                     | (1,496,435)    |
| <b>Gross profit</b>  | <b>525,836</b>                                      | <b>13,991</b>  | <b>3,819</b>               | <b>543,646</b> |
| Selling, general and administrative expenses               | (169,940)   | (2,335)        | -                          | (172,275)      |
| Other operating income, net                                | (7,404)   | 184            | -                          | (7,220)        |
| <b>Operating income - IFRS</b>                             | <b>348,492</b>                                      | <b>11,840</b>  | <b>3,819</b>               | <b>364,151</b> |
| <b>Management view</b>                                     |   |                |                            |                |
| Net sales  | 2,040,069   | 74,999         | (74,987)                   | 2,040,081      |
| Operating income   | 190,789   | 25,333         | 1,541                      | 217,663        |
| <b>Reconciliation items:</b>                               |   |                |                            |                |
| Differences in Cost of sales                               |   |                |                            | 146,488        |
| <b>Operating income - IFRS</b>                             |   |                |                            | <b>364,151</b> |
| Financial income (expense), net                            |   |                |                            | (39,938)       |
| Equity in earnings of non-consolidated companies           |   |                |                            | 21,410         |
| <b>Income before income tax expense - IFRS</b>             |   |                |                            | <b>345,623</b> |
| Depreciation and amortization - IFRS                       | (89,176)  | (11,426)       | -                          | (100,602)      |
| <b>Three-month period ended March 31, 2016 (Unaudited)</b> |   |                |                            |                |
|  | Steel   | Mining         | Inter-segment eliminations | Total          |
| <b>IFRS</b>  |   |                |                            |                |
| Net sales  | 1,655,060   | 43,841         | (43,399)                   | 1,655,502      |
| Cost of sales  | (1,282,999)   | (48,008)       | 44,198                     | (1,286,809)    |
| <b>Gross profit</b>  | <b>372,061</b>                                      | <b>(4,167)</b> | <b>799</b>                 | <b>368,693</b> |
| Selling, general and administrative expenses               | (161,287)   | (2,729)        | -                          | (164,016)      |
| Other operating income, net                                | (961)   | (1,360)        | -                          | (2,321)        |
| <b>Operating income - IFRS</b>                             | <b>209,813</b>                                      | <b>(8,256)</b> | <b>799</b>                 | <b>202,356</b> |
| <b>Management view</b>                                     |   |                |                            |                |
| Net sales  | 1,655,060   | 46,545         | (46,103)                   | 1,655,502      |
| Operating income   | 218,044   | (3,747)        | 2,730                      | 217,027        |
| <b>Reconciliation items:</b>                               |   |                |                            |                |
| Differences in Cost of sales                               |   |                |                            | (14,671)       |
| <b>Operating income - IFRS</b>                             |   |                |                            | <b>202,356</b> |
| Financial income (expense), net                            |   |                |                            | (21,843)       |
| Equity in losses of non-consolidated companies             |   |                |                            | 2,442          |
| <b>Income before income tax expense - IFRS</b>             |   |                |                            | <b>182,955</b> |
| Depreciation and amortization - IFRS                       | (89,042)  | (11,626)       | -                          | (100,668)      |

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### 3. SEGMENT INFORMATION (continued)

#### GEOGRAPHICAL INFORMATION

There are no revenues from external customers attributable to the Company's country of incorporation (Luxembourg).

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.

|                        | Three-month period ended March 31, 2017 (Unaudited) |                 |               |           |
|------------------------|---|-----------------|---------------|-----------|
|                        | Mexico  | Southern region | Other markets | Total     |
| Net sales              | 1,304,357   | 511,792         | 223,932       | 2,040,081 |
| Non-current assets (1) | 4,077,192   | 745,389         | 234,007       | 5,056,588 |
|                        | Three-month period ended March 31, 2016 (Unaudited) |                 |               |           |
|                        | Mexico  | Southern region | Other markets | Total     |
| Net sales              | 994,923   | 464,553         | 196,026       | 1,655,502 |
| Non-current assets (1) | 4,145,906   | 617,155         | 244,939       | 5,008,000 |

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

### 4. COST OF SALES

|  | Three-month period ended<br>March 31, |                    |
|--|---------------------------------------|--------------------|
|  | 2017                                  | 2016               |
|  | (Unaudited)                           |                    |
| <b>Inventories at the beginning of the year</b>        | <b>1,647,869</b>                      | <b>1,579,120</b>   |
| Translation differences                                | 16,644                                | (46,419)           |
| <b>Plus: Charges for the period</b>                    |                                       |                    |
| Raw materials and consumables used and other movements | 1,373,533                             | 871,255            |
| Services and fees                                      | 21,721                                | 20,582             |
| Labor cost   | 139,817                               | 122,186            |
| Depreciation of property, plant and equipment          | 78,172                                | 79,018             |
| Amortization of intangible assets                      | 10,155                                | 9,026              |
| Maintenance expenses                                   | 101,531                               | 100,822            |
| Office expenses  | 1,647                                 | 1,467              |
| Insurance  | 2,114                                 | 2,208              |
| Change of obsolescence allowance                       | 1,251                                 | 2,059              |
| Recovery from sales of scrap and by-products           | (6,908)                               | (5,356)            |
| Others   | 6,260                                 | 6,162              |
| <b>Less: Inventories at the end of the period</b>      | <b>(1,897,371)</b>                    | <b>(1,455,321)</b> |
| <b>Cost of Sales</b>                                   | <b>1,496,435</b>                      | <b>1,286,809</b>   |

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

|  | Three-month period ended<br>March 31, |                |
|--|---------------------------------------|----------------|
|  | 2017                                  | 2016           |
|  | (Unaudited)                           |                |
| Services and fees                                      | 16,962                                | 13,419         |
| Labor cost   | 48,506                                | 44,960         |
| Depreciation of property, plant and equipment          | 2,848                                 | 3,335          |
| Amortization of intangible assets                      | 9,427                                 | 9,289          |
| Maintenance and expenses                               | 740                                   | 868            |
| Taxes  | 24,557                                | 24,381         |
| Office expenses  | 8,131                                 | 7,685          |
| Freight and transportation                             | 58,420                                | 56,352         |
| Increase (decrease) of allowance for doubtful accounts | 1                                     | 237            |
| Others   | 2,683                                 | 3,490          |
| <b>Selling, general and administrative expenses</b>    | <b>172,275</b>                        | <b>164,016</b> |

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

|   | Three-month period ended<br>March 31, |                 |
|---|---------------------------------------|-----------------|
|   | 2017                                  | 2016            |
|   | (Unaudited)                           |                 |
| Interest expense                              | (21,382)                              | (12,656)        |
| <b>Finance expense</b>                        | <b>(21,382)</b>                       | <b>(12,656)</b> |
| Interest income                               | 4,595                                 | 3,019           |
| <b>Finance income</b>                         | <b>4,595</b>                          | <b>3,019</b>    |
| Net foreign exchange gain (loss)              | (41,693)                              | (19,113)        |
| Change in fair value of financial assets      | (255)                                 | 4,999           |
| Derivative contract results                   | 19,582                                | 2,526           |
| Others  | (785)                                 | (618)           |
| <b>Other financial income (expenses), net</b> | <b>(23,151)</b>                       | <b>(12,206)</b> |

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

|                                  | Three-month period ended<br>March 31, |                  |
|----------------------------------|---------------------------------------|------------------|
|                                  | 2017                                  | 2016             |
|                                  | (Unaudited)                           |                  |
| At the beginning of the year     | 4,135,977                             | 4,207,566        |
| Currency translation differences | 21,678                                | (75,151)         |
| Additions                        | 148,426                               | 93,061           |
| Disposals                        | (3,067)                               | (4,282)          |
| Depreciation charge              | (81,020)                              | (82,353)         |
| Transfers and reclassifications  | -                                     | (4,791)          |
| <b>At the end of the period</b>  | <b>4,221,994</b>                      | <b>4,134,050</b> |

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### 8. INTANGIBLE ASSETS, NET

|                                  | Three-month period ended<br>March 31, |          |
|----------------------------------|---------------------------------------|----------|
|                                  | 2017                                  | 2016     |
|                                  | (Unaudited)                           |          |
| At the beginning of the year     | 842,557                               | 888,206  |
| Currency translation differences | 171                                   | (697)    |
| Additions                        | 11,448                                | 4,756    |
| Amortization charge              | (19,582)                              | (18,315) |
| At the end of the period         | 834,594                               | 873,950  |

### 9. INVESTMENTS IN NON-CONSOLIDATED COMPANIES

| Company   | Country of<br>incorporation | Main activity                               | Voting rights as of |                      | Value as of       |                      |
|---|-----------------------------|---|---------------------|----------------------|-------------------|----------------------|
|   |                             |   | March 31,<br>2017   | December<br>31, 2016 | March 31,<br>2017 | December<br>31, 2016 |
| Usinas Siderurgicas de Minas Gerais S.A. - USIMINAS | Brazil                      | Manufacturing and selling of steel products | 34.39%              | 34.39%               | 447,383           | 411,134              |
| Other non-consolidated companies (1)                |                             |   |                     |                      | 10,838            | 7,245                |
|   |                             |   |                     |                      | 458,221           | 418,379              |

(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

On January 16, 2012, the Company's wholly-owned Luxembourg subsidiary Ternium Investments S.à r.l. ("Ternium Investments"), together with the Company's Argentine majority-owned subsidiary Siderar S.A.I.C. ("Siderar"), Siderar's wholly-owned Uruguayan subsidiary Prosid Investments S.A. ("Prosid"), and Confab Industrial S.A., a Brazilian subsidiary of Tenaris S.A. ("TenarisConfab"), joined Usiminas' existing control group through the acquisition of 84.7, 30.0, and 25.0 million ordinary shares, respectively. The rights and obligations of the control group members are governed by a shareholders' agreement. As a result of these transactions, the control group, which holds ordinary shares representing the majority of Usiminas' voting rights, is formed as follows: Nippon Steel & Sumitomo Metal Corporation Group ("NSSMC", formerly Nippon Group), with 46.1% of the voting rights within the control group; T/T Group (comprising TenarisConfab, Prosid, Siderar and Ternium Investments), with 43.3%; and Previdência Usiminas (Usiminas' employee pension fund), with the remainder 10.6%.

On October 2, 2014, Ternium Investments entered into a purchase agreement with Caixa de Previdência dos Funcionários do Banco do Brasil – PREVI for the acquisition of 51.4 million ordinary shares of Usiminas at a price of BRL 12 per share, for a total amount of BRL 616.7 million. On October 30, 2014, Ternium Investments completed the acquisition. These additional shares are not subject to the Usiminas shareholders agreement, but must be voted in accordance with the control group decisions.

On April 20, 2016, Ternium (through Ternium Investments, Siderar and Prosid) subscribed, in the aggregate, to 8.5 million preferred shares for a total subscription price of BRL 10.9 million (approximately USD 3.1 million). These preferred shares were issued on June 3, 2016.

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

On April 18, 2016, Usiminas' extraordinary general shareholders' meeting approved an issuance of 200 million ordinary shares for an aggregate amount of BRL 1 billion and Usiminas launched a multi-round subscription process. On July 19, 2016, following the completion of the subscription process, Usiminas' extraordinary general shareholders' meeting homologated the capital increase, and Ternium (through Ternium Investments, Siderar and Prosid) was issued, in the aggregate, 76.4 million ordinary shares for a total subscription price of BRL 382.2 million (approximately USD 110.9 million). Following the issuance of these ordinary shares, Ternium (through Ternium Investments, Siderar and Prosid) owns a total of 242.6 million ordinary shares and 8.5 million preferred shares, representing 20.5% of Usiminas' capital, and the T/T Group owns 39.6% of Usiminas' ordinary shares and 1.8% of Usiminas' preferred shares. Ternium continues to hold 35.6% of Usiminas' voting rights within the control group and has a participation in Usiminas' results of 20.5%.

As of March 31, 2017, the closing price of the Usiminas ordinary and preferred shares, as quoted on the BM&F Bovespa Stock Exchange, was BRL 8,38 (approximately USD 2,64) per ordinary share and BRL 4,44 (approximately USD 1,40) per preferred share, respectively. Accordingly, as of March 31, 2017, Ternium's ownership stake had a market value of approximately USD 653.5 million and a carrying value of USD 447.4 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.

Management expects that Usiminas financial restructuring process (that started in April 2016 with the capital increase) will be completed in the next months. The completion of this process together with the improvement in the share price since June 2016 may lead to an improvement in the value of the investment in Usiminas in future periods.

As of March 31, 2017, the value of the investment in Usiminas is comprised as follows:

| Value of investment        | USIMINAS |
|----------------------------|----------|
| As of January 1, 2017      | 411,134  |
| Share of results (1)       | 18,136   |
| Other comprehensive income | 18,113   |
| As of March 31, 2017       | 447,383  |

(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                                  | 4,331,658 |
| Percentage of interest of the Company over shareholders' equity | 20.47%    |
| Interest of the Company over shareholders' equity               | 886,514   |
| Purchase price allocation                                       | 81,964    |
| Goodwill  | 328,062   |
| Impairment  | (849,157) |
| Total Investment in Usiminas                                    | 447,383   |



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

On April 19, 2017, Usiminas approved its consolidated interim accounts as of and for the three-month period ended March 31, 2017, which state that revenues, net profit from continuing operations and shareholders' equity amounted to USD 747 million, USD 34 million and USD 4,331 million, respectively.

|   | USIMINAS                                   |
|---|--|
|   | As of March 31, 2017                       |
| <b>Summarized balance sheet (in million USD)</b>    |  |
| <b>Assets</b>                                       |  |
| Non-current   | 6,126                                      |
| Current   | 1,413                                      |
| Other current investments                           | 162  |
| Cash and cash equivalents                           | 601  |
| <b>Total Assets</b>                                 | <b>8,302</b>                               |
| <b>Liabilities</b>                                  |  |
| Non-current   | 690  |
| Non-current borrowings                              | 1,976                                      |
| Current   | 586  |
| Current borrowings                                  | 190  |
| <b>Total Liabilities</b>                            | <b>3,442</b>                               |
| Minority interest                                   | 529  |
| Shareholders' equity                                | 4,331                                      |
|   | <b>USIMINAS</b>                            |
|   | Three-month period<br>ended March 31, 2017 |
| <b>Summarized income statement (in million USD)</b> |  |
| Net sales   | 747  |
| Cost of sales                                       | (595)                                      |
| <b>Gross Profit</b>                                 | <b>152</b>                                 |
| Selling, general and administrative expenses        | (46)                                       |
| Other operating income, net                         | (48)                                       |
| <b>Operating income</b>                             | <b>58</b>                                  |
| Financial expenses, net                             | (17)                                       |
| Equity in earnings of associated companies          | 12   |
| <b>Profit before income tax</b>                     | <b>53</b>                                  |
| Income tax expense                                  | (19)                                       |
| <b>Net profit before minority interest</b>          | <b>34</b>                                  |
| Minority interest in other subsidiaries             | (6)  |
| <b>Net profit for the period</b>                    | <b>28</b>                                  |

(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 2016 and 2017, Techgen's shareholders made additional investments in Techgen, in the form of subordinated loans, which in the case of Ternium amounted to USD 128.7 million, which are due in June 2020.

For commitments from Ternium in connection with Techgen, see note 12.

**10. FINANCE LEASES**

As of March 31, 2017, the Company has 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 7.7 million and a non-current finance lease liability of USD 67.2 million. The total finance lease liability to be paid on expiry of the lease contract amounts to USD 74.9 million.

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

|  | As of March 31,<br>2017 |
|--|-------------------------|
| <b>Commitments in relation to finance leases are payable as follows:</b> |                         |
| Within one year  | 7,967                   |
| Later than one year but not later than five years                        | 31,870                  |
| Later than five years  | 79,674                  |
| Minimum lease payments   | 119,511                 |
| Future finance charges   | (44,592)                |
| <b>Total Financial lease liabilities</b>                                 | <b>74,919</b>           |
| <b>The present value of finance lease liabilities is as follows:</b>     |                         |
| Within one year  | 7,683                   |
| Later than one year but not later than five years                        | 26,030                  |
| Later than five years  | 41,206                  |
| <b>Total minimum lease payments</b>                                      | <b>74,919</b>           |

Property, plant and equipment include a net book value of USD 76.0 million in connection with assets leased to the Company under this finance lease. The duration of the lease contract is 15 years and the amortization period of the related asset is 15 years as well.

**11. DISTRIBUTION OF DIVIDENDS**

On February 21, 2017, the Board of Directors proposed a dividend distribution of USD 0.10 per share (USD 1.00 per ADS), or approximately USD 196.3 million in the aggregate, which is subject to shareholders' approval at the Company's annual general shareholders' meeting to be held on May 3, 2017. If the annual dividend is approved at the shareholders' meeting, it will be paid on May 12, 2017, with record-date of May 9, 2017.

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

This note should be read in conjunction with Note 24 to the Company's audited Consolidated Financial Statements for the year ended December 31, 2016. The main contingencies and commitments are as follows:

(i) Tax claims and other contingencies

*(a) Companhia Siderúrgica Nacional (CSN) – Tender offer litigation*

Following a January 2012 acquisition of a significant participation in Usinas Siderúrgicas de Minas Gerais S.A. – USIMINAS (Usiminas) by Ternium Investments S.à r.l. (Ternium Investments), its subsidiary Siderar, and Confab Industrial S.A. --a Brazilian subsidiary of Tenaris S.A.--, Companhia Siderúrgica Nacional (CSN) and various entities affiliated with CSN initiated a lawsuit against the acquirers. 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 of 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 maintained the understanding of the first instance court. CSN has already filed a motion for clarification against the decision of the court of appeals, and may still appeal to the Superior Court of Justice or the Federal Supreme Court. For further information on the CSN lawsuit, see note 24 to Ternium's Consolidated Financial Statement for the year ended December 31, 2016.

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 (the Comissão de Valores Mobiliários, or CVM) in February 2012 and December 2016 in connection with the acquisition, and the first and second instance court decisions referred to above. Accordingly, no provision was recorded in these Consolidated Condensed Interim Financial Statements.

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

On April 14, 2015, the staff of the CVM determined that a second acquisition of ordinary shares of Usiminas by Ternium Investments, completed 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 the first half of 2017. 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.

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

### *(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 million, including interest and fines.

Ternium Mexico requested an injunction from the Mexican courts against the audit observations, 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.

### *(d) Tax claim on Argentine personal assets tax for 2008, 2009 and 2010*

On June 28, 2016, Siderar was notified of a tax assessment by the Argentine tax authorities (AFIP) for allegedly omitted taxes in its capacity as substitute obligor for the personal assets tax for 2008, 2009 and 2010 over the investment held by its shareholder Ternium España S.L.U. In its assessment, AFIP challenged the availability of the benefits contemplated under the double taxation treaty between Argentina and Spain then in effect and required Siderar to pay taxes and related interest for approximately USD 15.9 million as of such date. On August 4, 2016, Siderar appealed AFIP's assessment before the National Tax Court.

In March 2017, Ternium decided to include this tax assessment in an official fiscal plan, which condoned part of the related interest and the whole amount in connection with fines. The total payment, which also included the principal and interest for the fiscal periods 2011 and 2012, amounted to USD 12.8 million, extinguishing all the liabilities related to this tax claim.

### *(ii) Commitments*

(a) Siderar 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 Siderar. Under this contract, Tenaris has to provide 250 tn/hour of steam, and Siderar has the obligation to take or pay this volume. The amount of this outsourcing agreement totals USD 21.7 million and is due to terminate in 2018.

Siderar also signed various contracts for the provision of natural gas, assuming firm commitments for a total of USD 12.7 million payable during the 2017 financial year.

(b) Siderar, within the investment plan, has entered into several commitments to acquire new production equipment for a total consideration of USD 16.0 million.

(c) Siderar 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 26.1 million.

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

(d) 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 to four of Ternium Mexico's plants of a contracted electrical demand of 111.2 MW. Iberdrola currently supplies approximately 24% 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 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 1.5 years. 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.

(e) Several Ternium Mexico's subsidiaries which have facilities throughout the Mexican territory are parties to a long term energy purchase agreement for purchased capacity of electricity with Tractebel Energía de Monterrey, S. de R.L. de C.V., distributed among each plant defined as a capacity user. Each capacity user is committed to pay Tractebel for the purchased capacity and for the net energy delivered. Ternium Mexico is required to provide its best estimate of its expected nomination for capacity and energy under the specific limits and timelines. The monthly payments are calculated considering the capacity charges, energy charges, back-up power charges, and transmission charges, less any steam credits. The contracted amount is of USD 33.0 million and the contract will terminate in April 2018.

(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 March 31, 2017. Under the agreement, Ternium Mexico has guaranteed to Ferromex a 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) 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 March 31, 2017, the outstanding value of this commitment was approximately USD 275 million. Ternium's exposure under the guarantee in connection with these agreements amounts to USD 132.0 million, corresponding to the 48% of the agreements' outstanding value as of March 31, 2017.

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

(h) 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 will be used by Techgen in the construction of the facility. As of March 31, 2017, the outstanding amount under the loan agreement was USD 760 million, as a result the amount guaranteed by Ternium was approximately USD 365 million. The main covenants under the Corporate Guarantee are limitations on the sale of certain assets and compliance with financial ratios (e.g. leverage ratio). As of March 31, 2017, Techgen and Ternium, as guarantor, were in compliance with all of their covenants.

(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, 2016, Ternium may pay dividends up to USD 3.4 billion in accordance with Luxembourg law and regulations.

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

|   | As of December 31,<br>2016 |
|---|----------------------------|
| 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, 2016                   | 3,353,166                  |
| Loss for the year                                       | (20,990)                   |
| <b>Total shareholders' equity under Luxembourg GAAP</b> | <b>7,011,115</b>           |

**13. AGREEMENT FOR THE ACQUISITION OF CSA SIDERÚRGICA DO ATLÂNTICO LTDA.**

On February 21, 2017, the company's wholly-owned Luxembourg subsidiary Ternium Investments S.à r.l. entered into a definitive agreement with thyssenkrupp AG ("tkAG") to acquire a 100% ownership interest in thyssenkrupp Slab International B.V. ("tkSI") and its wholly-owned subsidiary CSA Siderúrgica do Atlântico Ltda. ("CSA"). In addition, tkAG will assign to Ternium a 2.0 million tons per year agreement to supply slabs to thyssenkrupp's former Calvert re-rolling facility in Alabama, U.S.. The price of the transaction was set using EUR1.5 billion as enterprise value and September 30, 2016, as a locked-box date, and is subject to agreed-upon adjustments at closing. The transaction, which will require antitrust clearance in several jurisdictions, including Brazil, Germany and the U.S., and other conditions, is expected to close on or before September 30, 2017.

The assets to be acquired had in calendar year 2016 consolidated annual sales of EUR 1.6 billion, shipments of 4.3 million tons and EBITDA of EUR256 million. CSA is a steel slab producer with a steelmaking facility located in the state of Rio de Janeiro, Brazil, and has an annual production capacity of 5 million tons of high-end steel slabs, a deep-water harbor and a 490 MW combined cycle power plant.

Ternium anticipates that it will finance the acquisition with bank debt, and that it will begin consolidating tkSI's balance sheet and results of operations as from the third quarter of 2017.

## 14. RELATED PARTY TRANSACTIONS

As of March 31, 2017, 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:

|  | Three-month period ended<br>March 31, |                     |
|--|---------------------------------------|---------------------|
|  | 2017                                  | 2016                |
|  | (Unaudited)                           |                     |
| <b>(i) Transactions</b>  |                                       |                     |
| <b>(a) Sales of goods and services</b>                         |                                       |                     |
| Sales of goods to other related parties                        | 27,022                                | 6,135               |
| Sales of services and others to non-consolidated parties       | 43                                    | 264                 |
| Sales of services and others to other related parties          | 120                                   | 210                 |
|  | <b>27,185</b>                         | <b>6,609</b>        |
| <b>(b) Purchases of goods and services</b>                     |                                       |                     |
| Purchases of goods from non-consolidated parties               | 52,285                                | 39,455              |
| Purchases of goods from other related parties                  | 12,713                                | 12,406              |
| Purchases of services and others from non-consolidated parties | 2,591                                 | 2,354               |
| Purchases of services and others from other related parties    | 31,220                                | 25,439              |
|  | <b>98,809</b>                         | <b>79,654</b>       |
| <b>(c) Financial results</b>                                   |                                       |                     |
| Income with non-consolidated parties                           | 1,696                                 | 400                 |
|  | <b>1,696</b>                          | <b>400</b>          |
| <b>(d) Dividends received</b>                                  |                                       |                     |
| Dividends received from non-consolidated parties               | -                                     | 60                  |
|  | <b>-</b>                              | <b>60</b>           |
| <b>(e) Other income and expenses</b>                           |                                       |                     |
| Income (expenses), net with non-consolidated parties           | 1,733                                 | 415                 |
| Income (expenses), net with other related parties              | 151                                   | 140                 |
|  | <b>1,884</b>                          | <b>555</b>          |
|  | <b>March 31, 2017</b>                 | <b>December 31,</b> |
|  | (Unaudited)                           |                     |
| <b>(ii) Period-end balances</b>                                |                                       |                     |
| <b>(a) Arising from sales/purchases of goods/services</b>      |                                       |                     |
| Receivables from non-consolidated parties                      | 128,874                               | 103,333             |
| Receivables from other related parties                         | 19,397                                | 7,043               |
| Advances from non-consolidated parties                         | 7                                     | -                   |
| Advances to suppliers with other related parties               | 461                                   | 283                 |
| Payables to non-consolidated parties                           | (9,247)                               | (25,889)            |
| Payables to other related parties                              | (30,047)                              | (26,313)            |
|  | <b>109,445</b>                        | <b>58,457</b>       |

## TERNIUM S.A.

Consolidated Condensed Interim Financial Statements as of March 31, 2017  
and for the three-month periods ended March 31, 2017 and 2016

### 15. FAIR VALUE MEASUREMENT

IFRS 13 requires for financial instruments that are measured at fair value, a disclosure of fair value measurements by level. See note 28 of the Consolidated Financial Statements as of December 31, 2016 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 March 31, 2017<br>(in USD thousands): |                |               |
|---|--|----------------|---------------|
|   | Total  | Level 1        | Level 2       |
| <b>Financial assets at fair value through profit or loss</b>      |  |                |               |
| Cash and cash equivalents   | 228,397  | 228,397        | -             |
| Other investments   | 105,068  | 100,056        | 5,012         |
| Derivative financial instruments                                  | 13,195   | -              | 13,195        |
| <b>Total assets</b>   | <b>346,660</b>   | <b>328,453</b> | <b>18,207</b> |
| <b>Financial liabilities at fair value through profit or loss</b> |  |                |               |
| Derivative financial instruments                                  | 746  | -              | 746           |
| <b>Total liabilities</b>  | <b>746</b>   | <b>-</b>       | <b>746</b>    |

  

| Description   | Fair value measurement as of December 31, 2016<br>(in USD thousands): |                |              |
|---|---|----------------|--------------|
|   | Total   | Level 1        | Level 2      |
| <b>Financial assets at fair value through profit or loss</b>      |   |                |              |
| Cash and cash equivalents   | 100,026   | 100,026        | -            |
| Other investments   | 83,117  | 78,105         | 5,012        |
| Derivative financial instruments                                  | 316   | -              | 316          |
| <b>Total assets</b>   | <b>183,459</b>  | <b>178,131</b> | <b>5,328</b> |
| <b>Financial liabilities at fair value through profit or loss</b> |   |                |              |
| Derivative financial instruments                                  | 287   | -              | 287          |
| <b>Total liabilities</b>  | <b>287</b>  | <b>-</b>       | <b>287</b>   |

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.



Pablo Brizzio  
Chief Financial Officer