Ternium S.A.
Form 20-F
April 24, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)
o Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934

or
x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2017

or
o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

or
o Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number: 001-3132734

TERNIUM S.A.
(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant's name into English)

Grand Duchy of Luxembourg
(Jurisdiction of incorporation or organization)

29, Avenue de la Porte-Neuve – 3rd floor
L-2227 Luxembourg
(Address of principal executive offices)

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Tel. +352 26 68 31 52, Fax. +352 26 53 83 49, e-mail: luxembourg@ternium.com
(Name, Telephone, E-Mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
American Depositary Shares	New York Stock Exchange
Ordinary Shares, par value $1.00 per share	New York Stock Exchange*

*Ordinary shares of Ternium S.A. are not listed for trading but only in connection with the registration of American Depositary Shares which are evidenced by American Depositary Receipts.

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.
2,004,743,442 ordinary shares, par value USD1.00 per share
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No x
Note – checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):
Large accelerated filer x Accelerated Filer o Non-accelerated filer o
Emerging growth company o
If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. o
†The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:
U.S. GAAP o International Financial Reporting Standards as issued by the International Accounting Standards Board x Other o
If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow. Item 17 o Item 18 o
If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
Please send copies of notices and communications from the Securities and Exchange Commission to:

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TABLE OF CONTENTS

CERTAIN DEFINED TERMS

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

- References to the "Company" are exclusively to Ternium S.A., a Luxembourg public limited liability company (société anonyme);
- References in this annual report to "Ternium," "we," "us" or "our" are to Ternium S.A. and its consolidated subsidiaries;
- References to the "Ternium companies" are to the Company's manufacturing subsidiaries, namely Ternium México S.A. de C.V., or "Ternium Mexico," a Mexican corporation; Ternium Brasil Ltda., or "Ternium Brasil" (formerly, CSA Siderúrgica do Atlântico Ltda., or CSA), a Brazilian corporation; Ternium Argentina S.A., or "Ternium Argentina," (formerly Siderar S.A.I.C., or Siderar), an Argentine corporation, Ternium Colombia S.A.S., or "Ternium Colombia," formerly Ferrasa S.A.S., or Ferrasa), a Colombian corporation; Ternium Internacional Guatemala S.A., or "Ternium Guatemala," a Guatemalan corporation; Ternium USA Inc., or "Ternium USA", a Delaware corporation; Las Encinas S.A. de C.V., or "Las Encinas," a Mexican corporation; and Consorcio Minero Benito Juárez Peña Colorada S.A. de C.V., or "Consorcio Peña Colorada," a Mexican corporation, and their respective subsidiaries;
- References to "Tenaris" are to Tenaris S.A., a Luxembourg public limited liability company (société anonyme) and a significant shareholder of the Company;
- References to "San Faustin" are to San Faustin S.A., a Luxembourg corporation and the Company's indirect controlling shareholder;
- References to "Exiros" are to Exiros B.V., a Dutch corporation, and its subsidiaries under the brand "Exiros;"
- References to "Tecpetrol" are to Tecpetrol International S.A., a wholly owned subsidiary of San Faustin;
- References to "Tenigal" are to Tenigal S.R.L. de C.V., a Mexican company, 51% owned by Ternium and 49% owned by Nippon Steel & Sumitomo Metal Corporation, or NSSMC;
- References to "Usiminas" are to Usinas Siderúrgicas de Minas Gerais S.A. – USIMINAS, a Brazilian corporation in which we own a total of 242.6 million ordinary shares and 8.5 million preferred shares, representing 20.5% of Usiminas' capital. For further information on our investment in Usiminas, see Item 4. "Information on the Company—C. Organizational Structure—Other Investments-Usiminas", Item 5. "Operating and Financial Review and Prospects—G. Recent Developments," and note 3 to our consolidated financial statements included elsewhere in this annual report;
- References to "ADSs" are to the American Depositary Shares, which are evidenced by American Depositary Receipts, or ADRs;
- References to "finished steel products" when used in connection with production capacity are to finished steel products and semi-finished steel products intended to be sold to third parties;
- References to "tons" are to metric tons; one metric ton is equal to 1,000 kilograms, 2,204.62 pounds or 1.102 U.S. (short) tons;
- References to "billions" are to thousands of millions, or 1,000,000,000; and
- References to "Ternium Investments" are to Ternium Investments S.à r.l., a Luxembourg private limited liability company (société à responsabilité limitée), and a wholly owned subsidiary of the Company.

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Accounting Principles

We prepare our consolidated financial statements in conformity with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and adopted by the European Union ("EU"). IFRS differs in certain significant respects from generally accepted accounting principles in the United States, commonly referred to as U.S. GAAP.

This annual report includes our audited consolidated financial statements for the years ended December 31, 2017, 2016 and 2015.

Currencies

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

- "dollars," "U.S. dollars," "USD" or "US$" each refers to the United States of America dollar;
- "Mexican pesos" or "MXN" each refers to the Mexican peso;
- "Argentine pesos" or "ARS" each refers to the Argentine peso; and
- "Brazilian reais" or "BRL" each refers to the Brazilian real.
- "Colombian pesos" or "COP" each refers to the Colombian peso.

On December 31, 2017, the U.S. dollar sell exchange rate in Mexico (as published by Banco de México, or the Mexican Bank) was MXN19.6629=USD1.0000; the U.S. dollar sell exchange rate in Brazil (as published by Banco Central do Brasil, or the Brazilian Central Bank) was BRL3.3080=USD1.0000; the U.S. dollar sell exchange rate in Argentina (as published by Banco Central de la República Argentina, or the Argentine Central Bank) was ARS18.774=USD1.0000; and the U.S. dollar average exchange rate in Colombia (as published by Banco de la República, or Colombian Republic Bank) was COP2,984.00=USD1.0000. Those rates may differ from the actual rates used in preparation of the Company's consolidated financial statements. We do not represent that any of these currencies could have been or could be converted into U.S. dollars or that U.S. dollars could have been or could be converted into any of these currencies.

Rounding; Comparability of Data

Certain monetary amounts, percentages and other figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% or, as applicable, when aggregated may not be the arithmetic aggregation of the percentages that precede them.

Industry Data

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

Our Internet Site Is Not Part of this Annual Report

We maintain an Internet site at www.ternium.com. Information contained in or otherwise accessible through this website is not a part of this annual report. All references in this annual report to this Internet site are inactive textual references to this URL, or "uniform resource locator" and are for your informational reference only. We assume no responsibility for the information contained on this website.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This annual report and any other oral or written statements made by us to the public may contain "forward-looking statements" within the meaning of and subject to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and under applicable securities laws. This annual report contains forward-looking statements, including with respect to certain of our plans and current goals and expectations relating to Ternium's future financial condition and performance, which are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment in Ternium's securities.

Sections of this annual report that by their nature contain forward-looking statements include, but are not limited to, Item 3. "Key Information," Item 4. "Information on the Company," Item 5. "Operating and Financial Review and Prospects" and Item 11. "Quantitative and Qualitative Disclosures about Market Risk."

We use words such as "aim," "will continue," "will likely result," "contemplate," "seek to," "future," "objective," "goal," "sho pursue," "anticipate," "estimate," "expect," "project," "intend," "plan," "believe" and words and terms of similar substance to i forward-looking statements, but they are not the only way we identify such statements. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These factors include the risks related to our business discussed under Item 3. "Key Information—D. Risk Factors," and among them, the following:

- uncertainties about the behavior of steel consumers in the markets in which Ternium operates and sells its products;
- changes in the pricing environments in the countries in which Ternium operates;
- the impact in the markets in which Ternium operates of existing and new competitors whose presence may affect Ternium's customer mix, revenues and profitability;
- increases in the prices of raw materials, other inputs or energy or difficulties in acquiring raw materials or other inputs or energy supply cut-offs;
- the policies of, and the economic, political and social developments and conditions in, the countries in which Ternium owns facilities or other countries which have an impact on Ternium's business activities or investments;
- inflation or deflation and foreign exchange rates in the countries in which Ternium operates;
- volatility in interest rates;
- the performance of the financial markets globally and in the countries in which Ternium operates;
- the uncertainties associated with the performance of our investment in Usiminas (including those concerning the operating and financial performance of Usiminas and the Brazilian economy in general and the trading price of Usiminas' ordinary and preferred shares);
- changes in domestic and foreign laws and regulations, including changes relating to tax, trade and foreign exchange matters, or the imposition of tariffs, quotas or other trade barriers;
- regional or general changes in asset valuations;
- uncertainties as to the result of our iron ore exploration activities or the successful exploitation of our mines;
- our ability to successfully implement our business strategy or to grow through acquisitions, greenfield and brownfield projects, joint ventures and other investments; and
- other factors or trends affecting the steel and mining industries generally and our financial condition in particular.

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses that may affect Ternium's financial condition and results of operations could differ materially from those that have been estimated. You should not place undue reliance on the forward-looking statements, which speak only as of the date of this annual report. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of changes of circumstances or management's estimates or opinions, new information, future events or otherwise.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The selected consolidated financial data set forth below have been derived from our consolidated financial statements for each of the years and at the dates indicated herein. The consolidated financial statements for the years 2017, 2016 and 2015 are included in this annual report, and the consolidated financial statements for the years 2014 and 2013 are not included in this annual report.

Our consolidated financial statements were prepared in accordance with IFRS, and were audited by PricewaterhouseCoopers, société coopérative, Cabinet de révision agréé, or "PwC Luxembourg," an independent registered public accounting firm that is a member firm of the PwC International Ltd. network.

For a discussion of the currencies used in this annual report, exchange rates and accounting principles affecting the financial information contained in this annual report, see "Presentation of Certain Financial and Other Information—Accounting Principles" and "Currencies."

In thousands of U.S. dollars (except number of shares and per share data)	For the year ended December 31, (*) 2017	2016	2015	2014	2013
Selected consolidated income statement data					
Net sales	9,700,296	7,223,975	7,877,449	8,726,057	8,530,012
Cost of sales	(7,403,025)	(5,384,390)	(6,477,272)	(6,925,169)	(6,600,292)
Gross profit	2,297,271	1,839,585	1,400,177	1,800,888	1,929,720
Selling, general and administrative expenses	(824,247)	(687,942)	(770,292)	(816,478)	(843,311)
Other operating income (expenses), net	(16,240)	(9,925)	9,454	71,751	23,014
Operating income	1,456,784	1,141,718	639,339	1,056,161	1,109,423
Finance expense	(114,583)	(89,971)	(89,489)	(117,866)	(132,113)
Finance income	19,408	14,129	7,981	7,685	9,517
Other financial income (expenses), net	(69,915)	37,957	(17,922)	40,731	(12,879)
Equity in earnings (losses) of non-consolidated companies [1]	68,115	14,624	(272,810)	(751,787)	(31,609)
Profit before income tax expense	1,359,809	1,118,457	267,099	234,924	942,339
Income tax expense	(336,882)	(411,528)	(207,320)	(339,105)	(349,426)
Profit (Loss) for the year	1,022,927	706,929	59,779	(104,181)	592,913
Attributable to:					
Owners of the parent	886,219	595,644	8,127	(198,751)	455,425
Non-controlling interest	136,708	111,285	51,652	94,570	137,488
Profit (Loss) for the year	1,022,927	706,929	59,779	(104,181)	592,913
Depreciation and amortization	474,299	406,890	433,788	414,797	377,133
Weighted average number of shares outstanding [2]	1,963,076,776	1,963,076,776	1,963,076,776	1,963,076,776	1,963,076,776
Basic earnings (losses) per share (in USD per share) [3] [4]	0.45	0.30	—	(0.10)	0.23
Basic earnings (losses) per ADS (in USD per ADS) [3] [4]	4.51	3.03	0.04	(1.01)	2.32
Dividends per share (in USD per share)	0.110	0.100	0.090	0.090	0.075
Dividends per ADS (in USD per ADS)	1.10	1.00	0.90	0.90	0.75

(1) Equity in earnings (losses) of non-consolidated companies include write downs of our investment in Usiminas, as a result of the performance of impairment tests, of USD739.8 million in 2014, and USD191.9 million in 2015, with no write downs in 2013, 2016 and 2017.

(2) Of the 2,004,743,442 shares issued as of December 31, 2017, the Company held 41,666,666 that were repurchased from Usiminas on February 15, 2011. Such shares were not considered outstanding for purposes of the calculation of the weighted average number of shares.

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

(4) Diluted earnings per share and per ADS (expressed in USD per share or ADS), equals basic earnings per share or ADS, respectively.

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

In thousands U.S. dollars (except number of shares and per share data)	At December 31, 2017	(*) 2016	2015	2014	2013
Selected consolidated balance sheet data					
Non-current assets	7,727,283	5,622,556	5,480,389	6,341,290	7,153,162
Property, plant and equipment, net	5,349,753	4,135,977	4,207,566	4,481,027	4,708,895
Other non-current assets(1)	2,377,530	1,486,579	1,272,823	1,860,263	2,444,267
Current assets	4,395,283	2,700,314	2,582,204	3,348,869	3,219,462
Cash and cash equivalents	337,779	183,463	151,491	213,303	307,218
Other current assets(2)	4,054,741	2,506,603	2,419,046	3,120,810	2,894,474
Non-current assets classified as held for sale	2,763	10,248	11,667	14,756	17,770
Total assets	12,122,566	8,322,870	8,062,593	9,690,159	10,372,624
Capital and reserves attributable to the owners of the parent(3)	5,010,424	4,391,298	4,033,148	4,697,201	5,340,035
Non-controlling interest	842,347	775,295	769,849	937,502	998,009
Non-current liabilities	3,442,521	1,324,785	1,558,979	1,964,070	2,185,421
Borrowings	1,716,337	396,742	607,237	900,611	1,204,880
Deferred tax liabilities	513,357	609,004	609,514	670,523	605,883
Other non-current liabilities	1,212,827	319,039	342,228	392,936	374,658
Current liabilities	2,827,274	1,831,492	1,700,617	2,091,386	1,849,159
Borrowings	1,505,570	821,893	913,786	1,264,208	797,944
Other current liabilities	1,321,704	1,009,599	786,831	827,178	1,051,215
Total liabilities	6,269,795	3,156,277	3,259,596	4,055,456	4,034,580
Total equity and liabilities	12,122,566	8,322,870	8,062,593	9,690,159	10,372,624
Number of shares(3)	1,963,076,776	1,963,076,776	1,963,076,776	1,963,076,776	1,963,076,776

(1) Includes goodwill mainly related to the acquisition of our Mexican subsidiaries for a total amount of USD662.3 million as of December 31 of each year.

(2) As of December 31, 2017, 2016, 2015, 2014 and 2013, includes financial assets with maturity of more than three months for a total amount of USD132.7 million, USD144.9 million, USD237.2 million, USD150.0 million and USD169.5 million, respectively.

(3) The Company's share capital as of December 31, each year was represented by 2,004,743,442 shares, par value USD1.00 per share, for a total amount of USD2,004.7 million. Of the 2,004,743,442 shares, as of December 31, 2017, the Company held 41,666,666, repurchased from Usiminas on February 15, 2011.

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

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Risks Relating to the Steel Industry

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

Steel demand is sensitive to trends in cyclical industries, such as the construction, automotive, appliance and machinery industries, which are significant markets for Ternium's products and are also affected by national, regional or global economic conditions. A downturn in economic activity would reduce demand for steel products. This would have a negative effect on Ternium's business and results of operations. A recession or depression affecting developed economies (such as the global downturn in 2008 and 2009 and the downturn in Europe in 2012), or slower growth or recessionary conditions in emerging economies (such as the slowdown being experienced by the Chinese economy since 2014 or the recent recessions in Brazil and Argentina) would exact a heavy toll on the steel industry and adversely affect our business and results of operations.

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

Steel prices are volatile and are sensitive to trends in steel demand and raw material costs, such as iron ore and metallurgical coal costs. Historically, the length and nature of business cycles affecting steel demand and raw material costs have been unpredictable. For example, steel prices in the international markets, which had been rising quickly during the first half of 2008, fell sharply beginning in the second half of 2008 and first half of 2009 as a result of collapsing steel demand. A subsequent upward trend, in a context of stronger steel demand and higher raw material costs, lasted until the first quarter of 2011 when international steel prices reached values that almost doubled those prevailing during the first half of 2009. International steel prices followed a downward trend thereafter, accelerating during 2015 and reaching new multi-year lows at the beginning of 2016, reflecting a slowdown in steel demand and a sharp reduction in steel production costs. During the rest of 2016 and 2017, steel prices followed an upward trend as a result of higher industry steel production costs and improved steel demand. A new fall in steel prices could adversely affect Ternium's operating results by means of lower revenues and could also lead to inventory write-downs. Even if raw material costs decrease in sync with steel prices, the resulting decrease in steel production costs would take several months to be reflected in our operating results as the company would first consume older inventories acquired prior to such raw material cost decrease. In addition, we may be unable to recover, in whole or in part, increased costs of raw materials and energy through increased selling prices on our products, or it may take an extended period of time to do so.

Regional or worldwide excess steel production capacity may lead to unfair trade practices in the international steel markets and/or to intense competition, hampering Ternium's ability to sustain adequate profitability.

In addition to economic cycles, the steel industry can also be affected by regional or worldwide production over-capacity. Historically, the steel industry has suffered, especially on downturn cycles, from substantial over-capacity. As a result of a slowdown in steel demand growth and protracted increase in steel production capacity in recent years, there are signs of over-capacity in all steel markets, particularly in China, which impacted the profitability of the steel industry and Ternium. Although steel industry profitability improved in 2017, excess steel production capacity may require several years to be absorbed by demand and, as a consequence, may contribute to an extended period of depressed margins and industry weakness.

International trade of steel products conducted under unfair conditions increases particularly during downturn cycles and as a result of production over-capacity. Unfair trade practices may result in the imposition by some countries (that are significant producers and consumers of steel) of antidumping and countervailing duties or other trade measures, and may cause fluctuations in international steel trade. The imposition of such trade remedies or temporary tariffs on major steel exporters in significant steel producing countries could in turn exacerbate pressures in other markets, including Ternium's, as these exporters target such other markets to compensate, at least partially, for the loss of

business resulting from the imposition of trade remedies. Furthermore, Ternium's exports may be adversely affected by the imposition of trade barriers, as they could prevent or limit Ternium's access to certain markets and adversely affect Ternium's business and results of operation. For example, on March 8, 2018, under Section 232 of the Trade

Expansion Act of 1962, the U.S. President imposed a 25% tariff on steel articles imported from all countries; however, the U.S. administration announced that imports from Argentina, Australia, Brazil, Canada, the European Union, Mexico and South Korea, will be temporarily exempted. There is considerable uncertainty surrounding the eventual scope and impact of these measures and its corresponding exemptions. In particular, a decrease in steel imports into the U.S. could stimulate aggressive steel export offers elsewhere, exerting downward pressure on sales and margins of steel companies operating in other markets and regions, including those in which Ternium operates. For further information, see Item 4. “Information on the Company—B. Business Overview-Regulations—Trade regulations.”

China is the largest steel producing country in the world, accounting for approximately half of worldwide steel production. In 2014 and 2015, China’s steel consumption decreased and Chinese exports expanded rapidly as a result, reaching a record level of exports of 112 million tons. Consequently, Chinese exports of steel products, including exports to Europe, the United States and Mexico, were subject to several antidumping and countervailing investigations, and to the imposition of antidumping and countervailing duties and other trade measures. Chinese exports experienced a 31% reduction in 2017. A new decrease in steel consumption in China could further stimulate aggressive Chinese steel export offers, exerting downward pressure on sales and margins of steel companies operating in other markets and regions, including those in which Ternium operates. A downturn in global or regional economic activity could further stimulate unfair steel trade practices and, accordingly, may adversely affect our business and results of operations. For further information, see Item 4. “Information on the Company—B. Business Overview—Regulations—Trade regulations.”

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

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

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

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

Ternium’s competitors could use their resources against Ternium in a variety of ways, including by making additional acquisitions, implementing modernization programs, expanding their production capacity, investing more aggressively in product development, and displacing demand for Ternium’s products in certain markets. To the extent that these producers become more efficient, Ternium could confront stronger competition and could fail to preserve its current share of the relevant geographic or product markets. In addition, there has been a trend in the past toward steel industry consolidation among Ternium’s competitors, and current smaller competitors in the steel market could become larger competitors in the future. For further information on our competitors and their investments, see Item 4. “Information on the Company—B. Business Overview—Competition.”

Moreover, there is increasing competition from alternative materials (including aluminum, wood, concrete, plastic and ceramics). In particular, as a result of recent regulatory requirements and the development of alternative materials, certain customers are increasing their consumption of lighter-weight materials, such as aluminum, composites and carbon fiber. Competition from these alternative materials could adversely affect the demand for, and consequently the market prices of, certain steel products and, accordingly, could affect Ternium’s sales volumes and revenues.

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

Like other manufacturers of steel-related products, Ternium's operations require substantial amounts of raw materials, energy and other inputs from domestic and foreign suppliers. In particular, the Ternium companies consume large quantities of iron ore, metallurgical coal, scrap, ferroalloys, natural gas, electricity, oxygen and other gases in operating their blast and electric arc furnaces. In addition, Ternium is a large consumer of slabs, which are used as an input in the production process. The prices of these raw materials, slabs, energy and other inputs can be volatile. Also, the availability and price of a significant portion of such raw materials, slabs, energy and other inputs Ternium requires are subject to market conditions and government regulations affecting supply and demand. For example, in the past, shortages of natural gas in Argentina resulted in supply restrictions imposed by the former administration which, if repeated in the future, could lead to higher costs of production and eventually to production cutbacks at Ternium Argentina's facilities. Similarly, in Mexico, constraints in natural gas transportation capacity have led to increased imports of liquefied natural gas, which, from April 1, 2013, resulted in increased natural gas costs and, thus, higher steel production costs. In the past, Ternium has usually been able to procure sufficient supplies of raw materials, slabs, energy and other inputs to meet its production needs; however, it could be unable to procure adequate supplies in the future. Any protracted interruption, discontinuation or other disruption of the supply of principal inputs to the Ternium companies (including as a result of strikes, lockouts, trade restrictions, accidents or natural disasters, worldwide price fluctuations, the availability and cost of transportation or other problems) would result in lost sales and would have a material adverse effect on Ternium's business and results of operations. For further information related to raw materials, slabs, energy and other inputs requirements, see Item 4. "Information on the Company—B. Business Overview—Raw Materials, Slabs, Energy and Other Inputs."

Ternium's companies depend on a limited number of key suppliers.

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

Risks Relating to our Business

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

Ternium plans to continue implementing its business strategy of enhancing its position as a competitive steel producer, focusing on higher margin value-added products, pursuing strategic growth opportunities, implementing Ternium's best practices in acquired and new businesses, providing services to a wider range of customers in the local and export markets, improving utilization levels of our plants, increasing efficiency and further reducing production costs. For example, on March 1, 2017 and on September 28, 2017, Ternium announced plans to build a hot-dip galvanizing line, a pre-painting line and, following Ternium's acquisition of Brazilian steel slab producer CSA, on September 7, 2017, a hot-rolling mill in its facility in Pesquería, Mexico. For more information on these events, see note 3 "Acquisition of business" to our consolidated financial statements included elsewhere in this annual report and Item 4. "Information on the Company—B. Business Overview—Capital Expenditure Program." Any of these components or Ternium's overall business strategy could be delayed or abandoned or could cost more than anticipated, any of which could impact its competitive position and reduce its revenue and profitability. For example, Ternium could fail to develop its projects and/or to make acquisitions and/or integrate newly acquired businesses to increase its steel production capacity, or may lose market share in its regional markets. Even if Ternium successfully implements its business strategy, such strategy may not yield the desired goals.

11

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

A key element of Ternium's business strategy is to identify and pursue growth-enhancing opportunities. As part of that strategy, we regularly consider acquisitions, greenfield and brownfield projects and other significant investments. However, any growth project will depend upon market and financing conditions. We must necessarily base any assessment of potential acquisitions or other investments on assumptions with respect to operations, profitability and other matters that may subsequently prove to be incorrect. Furthermore, we may fail to find suitable acquisition targets or fail to consummate our acquisitions under favorable conditions.

In the past, Ternium acquired interests in various companies, including Hylsamex S.A. de C.V., or Hylsamex, one of the main steel producers in Mexico; Grupo Imsa S.A. de C.V., a leading Mexican steel processor (both currently Ternium Mexico); Ternium Colombia, a Colombian steel producer and processor; and more recently Ternium Brasil, a Brazilian steel slab producer. Ternium has also announced plans to build new facilities in Mexico and Colombia. For more information on our 2017 acquisition of Ternium Brasil and our capital expenditure program see note 3 "Acquisition of business" to our consolidated financial statements included elsewhere in this annual report and Item 4. "Information on the Company—B. Business Overview—Capital Expenditure Program". Ternium also formed, together with Nippon Steel (currently, NSSMC), Tenigal for the manufacturing and sale of hot-dip galvanized and galvannealed steel sheets to serve the Mexican automotive market. In 2012, Ternium acquired a participation in the control group of Usiminas, the largest flat steel producer in Brazil, and in 2014 and 2016, Ternium significantly increased its equity investment in that company. Our acquisitions or other investments may not perform in accordance with our expectations and could have an adverse impact on our operations and profits. Furthermore, we may be unable to successfully integrate any acquired businesses into our operations, realize expected synergies or accomplish the business objectives that were foreseen at the time of deciding any such investment. Moreover, we may also acquire, as part of future acquisitions, assets unrelated to our business, and we may not be able to integrate them or sell them under favorable terms and conditions. These risks, and the fact that integration of any acquired businesses will require a significant amount of time and resources of Ternium's management and employees, could have an adverse impact on Ternium's ongoing business and could have a material adverse effect on its business, financial condition and results of operations.

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

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

We recorded significant goodwill in connection with the acquisition of our Mexican subsidiaries, as well as our investments in non-consolidated companies in connection with our acquisition of a participation in Usiminas. We performed several impairment tests on our investment in Usiminas and, as of December 31, 2012, September 30, 2014 and December 31, 2015, wrote it down by USD275.3 million, USD739.8 million and USD191.9 million, respectively (see Item 5. "Operating and Financial Review and Prospects—Overview—Useful lives and impairment of property, plant and equipment and other long-lived assets").

As of December 31, 2017, goodwill in connection with our Mexican subsidiaries amounted to USD662.3 million and the carrying value of our investment in non-consolidated companies, mainly related to our investment in Usiminas, amounted to USD478.3 million. For further information on the Usiminas impairment risk and its implications, see "—If Usiminas is not able to successfully implement its business strategy, or if the business conditions in Brazil or in the global steel and mining industries were to be worse than we expected, the Company may be required to record a significant charge to earnings in the form of a further impairment of its investment in Usiminas, which could have a material adverse effect on Ternium's results, financial condition or net worth."

If Ternium's management determines in the future that the goodwill from our acquisitions or our investments in non-consolidated companies are impaired, Ternium will be required to recognize a non-cash charge against earnings,

which could materially adversely affect Ternium's results of operations and net worth.

If Usiminas is not able to successfully implement its business strategy, or if the business conditions in Brazil or in the global steel and mining industries were to be worse than we expected, the Company may be required to record a

significant charge to earnings in the form of a further impairment of its investment in Usiminas, which could have a material adverse effect on Ternium's results, financial condition or net worth.

On January 16, 2012, Ternium, together with its subsidiary Ternium Argentina, acquired a participation in the control group of Usiminas, the largest flat steel producer in Brazil, for a total consideration of USD2.2 billion. On October 30, 2014, Ternium acquired additional ordinary shares of Usiminas for a total consideration of USD249.0 million. Between 2012 and September 2014, Usiminas improved its performance and results of operations as a result of the implementation of certain changes in its strategy and business practices.

Beginning in the fourth quarter of 2014, Brazilian steel-intensive industrial sectors such as the capital goods, durable goods, vehicles and machinery and equipment sectors were adversely affected by low investments, weak consumption, strong imports and high inventories. These developments adversely affected demand for steel in Brazil and Usiminas' operating results and financial condition, resulting in the need for additional equity capital, among other things. On April 20, 2016, Ternium, together with its subsidiary Ternium Argentina, subscribed to preferred shares of Usiminas for a total subscription price of USD3.1 million. On July 19, 2016, Usiminas' extraordinary general shareholders' meeting homologated a capital increase, and Ternium, together with its subsidiary Ternium Argentina, was issued ordinary shares for a total subscription value of USD110.9 million. Ternium owns 34.4% of ordinary shares and 1.6% of preferred shares representing 20.5% of Usiminas' capital, and holds 35.6% of the voting rights within the Usiminas' control group. For further information on the Usiminas transactions, see note 3 "Acquisition of business" to our consolidated financial statements included elsewhere in this annual report.

Further changes to Usiminas' strategy and business practices will be required in the future in order to achieve sustainable profitability, and we cannot assure that such changes will take place or be successful. In 2014 a conflict arose within the Usiminas control group and its board with respect to the governance of Usiminas, including with respect to the rules applicable to the appointment of senior managers, the application of the shareholders' agreement in matters involving fiduciary duties, and the company's strategy. Although such conflict was resolved with an agreement between Ternium, NSSMC and Previdência Usiminas (formerly known as Caixa do Empregados do Usiminas), Usiminas' employee pension fund, on new governance rules for Usiminas, any future conflicts may make it more difficult to reach consensus within the control group; and, under the new Usiminas shareholders' agreement, no control group member can, without the consent of other shareholder group or groups, implement any change to Usiminas' business strategy, and therefore any necessary changes may not take place or fail to be implemented. For further information related to the conflict within the Usiminas control group and the recent agreement between Ternium, NSSMC and Previdência Usiminas on governance rules for Usiminas, see Item 4. "Information on the Company—C. Organizational Structure—Other Investments-Usiminas" and Item 5. "Operating and Financial Review and Prospects—Recent Developments."

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.

Many of the drivers of the estimated recoverable value of Ternium's investment in Usiminas have exhibited a high degree of volatility in the past and may continue to do so in the future, as they are affected by fluctuations in Brazil's macroeconomic variables. Brazil has experienced from time to time varying degrees of economic, political, social and regulatory developments, including fluctuating prices of commodities, fluctuating trade balances, inflation, devaluation, civil unrest, tax increases, changes (including retroactive changes) in the enforcement or interpretation of tax laws and other retroactive tax claims or challenges, and changes in laws or regulations, creating uncertainty regarding the country's future macroeconomic environment. Furthermore, the business conditions in Brazil or the global steel and mining industries could turn out to be worse than those we expected when assessing the value of our investment in Usiminas, which could in turn modify our expectations for the financial return on our investment in Usiminas. For further information about the risks of doing business in Brazil, see "—Risks Relating to the Countries in Which We Operate—Brazil."

For example, as of December 31, 2012, September 30, 2014, and December 31, 2015, Ternium wrote down its investment in Usiminas by USD275.3 million, USD739.8 million and USD191.9 million, respectively. As of December 31, 2017, the carrying value of Ternium's investment in Usiminas was USD466.3 million, and the closing

price of Usiminas' ordinary and preferred shares, as quoted on the São Paulo stock exchange, BM&FBOVESPA S.A – Bolsa de Valores, Mercadorias e Futuros, was BRL10.83 (approximately USD3.27) per ordinary share and BRL9.10 (approximately USD2.75) per preferred share, giving Ternium's ownership stake a market value of approximately USD817.6 million as of that date.

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

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

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

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

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

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

Cyberattacks could have a material adverse impact on our business and results of operation.

We rely heavily on information systems to conduct our business. Although we devote significant resources to protect our systems and data, we may experience varying degrees of cyber incidents in the normal conduct of our business, which may occasionally include sophisticated cybersecurity threats such as unauthorized access to data and systems, loss or destruction of data, computer viruses or other malicious code, phishing and/or cyberattacks. These threats often arise from numerous sources, not all of which are within our control, such as fraud or malice from third parties, failures of computer servers or other accidental technological failure, electrical or telecommunication outages or other damage to our property or assets. Given the rapidly evolving nature of cyber threats, there can be no assurance that the systems we have designed to prevent or limit the effects of cyber incidents or attacks will be sufficient to prevent or detect such incidents or attacks, or to avoid a material adverse impact on our systems when such incidents or attacks do occur. While we attempt to mitigate these risks, we remain vulnerable to additional known or unknown threats, including theft, misplacement or loss of data, programming errors, employee errors and/or dishonest behavior that could potentially lead to the compromising of sensitive information, improper use of our systems or networks, as well as unauthorized access, use, disclosure, modification or destruction of such information, systems and/or networks. If our systems for protecting against cybersecurity risks are circumvented or breached, this could also result in disruptions to our business operations (including but not limited to, defective products or production downtimes), access to our financial reporting systems, the loss of access to critical data or systems, misuse or corruption of critical

data and proprietary information (including our intellectual property and customer data), as well as damage to our reputation with our customers and the market, failure to meet customer requirements, customer dissatisfaction and/or other financial costs and losses. In addition, given that cybersecurity threats continue to evolve, we may be required to devote additional resources in the future to enhance our protective measures or to investigate and/or remediate any

cybersecurity vulnerabilities. Moreover, any investigation of a cyber-attack would take time before completion, during which we would not necessarily know the extent of the actual or potential harm or how best to remediate it, and certain errors or actions could be repeated or compounded before duly discovered and remediated (all or any of which could further increase the costs and consequences arising out of such cyberattack). Ternium does not maintain any specific insurance coverage to protect against cybersecurity risks. Even if we contracted such coverage in the future, we cannot ensure that it will be sufficient to cover any particular losses resulting from a cyberattack.

Risks Relating to our Mining Activities

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

Unexpected natural and operational catastrophes may impact the environment or cause exposure to hazardous substances, adversely impact our operations and profitability, and result in material liabilities to us.

We operate extractive, processing and logistical operations, including tailing dams, in many geographic locations. Our operations involve the use, handling, storage, discharge and disposal into the environment of hazardous substances and the use of natural resources. The iron ore mining industry is generally subject to significant risks and hazards, including environmental pollution, such as spilling of polluting substances or other hazardous materials; operational incidents, such as open-cut pit wall failures or rock falls in mining operations; transportation incidents, involving mobile equipment or machinery, slurry pipes and cable transportation; and may also be subject to unexpected natural catastrophes.

This could result in environmental damage, damage to or destruction of properties and facilities, personal injury or death, and delays in production. We may be subject to claims under federal and local laws and regulations for toxic torts, natural resource damages and other damages, as well as for the investigation and clean-up of soil, surface water, sediments, groundwater and other natural resources. Such claims for damages and reclamation may arise out of current or former conditions at sites that we own, lease or operate currently or inactive sites that we currently own, leased land sites and third-party waste disposal sites. We may be named as a responsible party at other sites in the future. We also could be subject to litigation for alleged bodily injuries arising from claimed exposure to hazardous substances allegedly used, released, or disposed of by us.

Environmental impacts as a result of our operations could result in costs and liabilities that could materially and adversely affect our margins, cash flow and profitability. Third-party claims arising from these events may exceed the limit of liability of the insurance policies we could have in place.

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

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

Furthermore, in order to explore or exploit mines, it is necessary to obtain the right of use and occupancy of the land where the mines are situated. Even though government regulations frequently establish provisions intended to facilitate the establishment of such rights, in some cases it may be difficult to reach and maintain agreements with the landowners or such agreements may be excessively onerous. If we are unable to establish use and occupancy rights on

acceptable terms, our mining activities may be compromised. In addition, Ternium's iron ore mining subsidiaries need to obtain, in the normal course of business, permits for the preparation of new iron ore bodies at the mines and for the

expansion of tailing deposit capacity. If we are unable to obtain such permits on a timely basis, we may need to alter our mining and/or production plans, which could lead to unexpected capital expenditures and higher costs.

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

Ternium's reserves are estimated quantities of ore that it has determined can be economically mined and processed under present and anticipated conditions to extract their mineral content. There are numerous uncertainties inherent in estimating quantities of reserves and in projecting potential future rates of mineral production, including factors beyond our control. Reserve calculations involve estimating deposits of minerals that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment. Reserve estimates also depend on assumptions relating to the economic viability of extraction, which are established through the application of a life of mine plan for each operation or project providing a positive net present value on a forward-looking basis, using forecasts of operating and capital costs based on historical performance, with forward adjustments based on planned process improvements, changes in production volumes and in fixed and variable proportions of costs, and forecasted fluctuations in costs of raw material, supplies, energy and wages. These forecasts and projections involve assumptions and estimations that, although we believe are reasonable at the time of estimating our reserves, may change in the future and may fail to anticipate geological, environmental or other factors or events that could make it difficult or unprofitable to mine certain ore deposits.

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

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

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

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

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

We may be subject to increased costs or delays relating to the acquisition of adequate equipment for the exploration and exploitation of ore deposits. Moreover, we may face increasing costs or capital expenditure requirements related to several factors, including diminished iron ore reserve grades, deeper pits and operational sections of our mines, iron ore deposits within the pit area that are more difficult to locate or extract and increased energy supply requirements

that may be difficult to obtain. Adverse mining conditions and other situations related to the operation of the mine, whether permanent or temporary, may lead to a significant increase in our planned capital expenditures and our costs, as well as affect our ability to produce the expected quantities of mineral. If this occurs, our financial condition and expected results of operations may also be negatively affected.

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

Communities living or owning land near areas where we operate may take actions to oppose and interfere with our mining activities. Although we make significant efforts to maintain good relationships with such communities, actions taken by them (or by interest groups within those communities) may hamper our ability to conduct our mining activities as planned, request the government to revoke or cancel our concessions or environmental or other permits, prevent us from fulfilling agreements reached with the government in connection with our mining activities, or significantly increase the cost of exploring and/or exploiting the mines, thereby adversely affecting our business and results of operations. For example, in Aquila, Mexico, in 2011, 2012 and 2013, members of certain native communities blocked roads demanding higher compensation for the use of land for mining activities (and these actions prevented Ternium from transporting iron ore from the mines to the pelletizing facilities for periods of time that on some occasions ultimately resulted in a technical stoppage of the mining activities in Aquila). More recently, in July 2015, a group of people demanding additional benefits for the native community entered and occupied certain Consorcio Peña Colorada's facilities located in Colima and Jalisco, Mexico, blocked the principal accesses and impeded the entrance and exit of the employees for more than eight hours. In 2013, local communities initiated legal actions aimed at the cancellation of certain permits granted to Las Encinas and to Consorcio Peña Colorada. Although those legal actions did not succeed, Mexican legislation affords judges the power to preemptively suspend environmental or other permits or concessions, or to take certain other measures, in order to protect the ejidos (land jointly owned by native communities) until a legal action is resolved. An adverse legal decision suspending or cancelling our permits, or the illegal occupation of our facilities, could adversely impact our mining activities and results of operations.

Risks Relating to the Structure of the Company

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

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

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

As of the date of this annual report, San Faustin beneficially owned 62.02% of our outstanding voting shares and Tenaris, which is also controlled by San Faustin, held 11.46% of our outstanding voting shares. Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin, or "RP STAK," holds voting shares in San Faustin sufficient in number to control San Faustin and therefore has the ability to influence matters affecting, or submitted to a vote of the shareholders of San Faustin. As a result, RP STAK is indirectly able to elect a substantial majority of the members of the Company's board of directors and has the power to determine the outcome of most actions requiring shareholder approval, including, subject to the requirements of Luxembourg law, the payment of dividends. The decisions of the controlling shareholder may not reflect the will or best interests of other shareholders. For example, our controlling shareholder may cause a general meeting of shareholders to be held, propose the agenda for such meeting, and vote at such meeting in favor of an issuance of shares for consideration without preemptive rights of existing shareholders, thereby diluting the minority interest in the Company. See Item 7. "Major Shareholders and Related Party

Transactions—A. Major Shareholders."

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

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

As of March 31, 2018, 26.03% of Ternium Argentina was held by Administración Nacional de la Seguridad Social, or ANSeS, Argentina's governmental social security agency, and 13.03% was publicly held. ANSeS became a significant shareholder of Ternium Argentina in the last quarter of 2008 as a result of the nationalization of Argentina's private pension system, which caused assets under administration of Argentina's private pension funds—including significant interests in publicly traded companies, such as Ternium Argentina, held by such funds—to be transferred to ANSeS. Ternium holds a 51% ownership interest in Tenigal, and NSSMC holds the remaining 49%. We also have a participation in the control group of Usiminas. For further information on the Usiminas investment, see Item 4. "Information on the Company—C. Organizational Structure—Other Investments—Usiminas."

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

Risks Relating to the Countries in Which We Operate

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

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

Mexico

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

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

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

18

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

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

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

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

Uncertainties related to the renegotiation of NAFTA's terms could adversely impact our results of operations and net results.

Mexico, the U.S. and Canada are currently renegotiating NAFTA's terms. Uncertainties about the possible outcome of such renegotiation could adversely affect the investment climate and economic activity in Mexico, even though a significant period may elapse until any potential changes become effective. Moreover, amendments to NAFTA's terms or the termination of NAFTA could adversely and materially affect Ternium's shipments, results of operations and net worth.

Brazil

Since September 2017, Ternium has significant manufacturing operations and assets located in Rio de Janeiro, Brazil, and some of its sales are made in Brazil. Ternium Brasil's profitability could be materially and adversely affected by economic, political, social, fiscal and regulatory developments in Brazil.

Changing economic and political conditions in Brazil, which on several occasions in the past resulted in economic uncertainties and recession, may occur in the future, thereby adversely affecting our business, financial condition and results.

The Brazilian economy has been characterized by frequent and occasionally extensive intervention by the Brazilian government. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of the country's economy. The Brazilian government's actions to control inflation and implement other policies have involved hikes in interest rates, wage and price controls, foreign exchange controls and devaluation, freezing of bank accounts, capital controls and restrictions on imports. If repeated in the future, such governmental policies may adversely affect our results of operations.

The Brazilian government's policies may also result in increases in our tax payments or tariffs, which could adversely affect industry profitability. We may be unable to maintain our projected cash flow and profitability following any increases in Brazilian taxes or tariffs applicable to us and our operations.

The Brazilian economy has been affected by inflation, energy shortages, illiquid lending markets and other political, diplomatic, social and economic developments. Uncertainty over whether the Brazilian government will change policies or regulations affecting these or other factors may contribute to economic instability in Brazil. Our business and results of operations in Brazil could be adversely affected by rapidly changing economic conditions in Brazil or by the Brazilian government's policy response to such conditions.

Political instability could adversely affect our business, financial condition and results.

19

Brazil's political environment has historically influenced, and continues to influence, the performance of the country's economy. Political crises have affected and continue to affect public and investor confidence, which resulted in economic deceleration.

Brazil has experienced heightened economic and political instability derived from various ongoing investigations into allegations of money laundering and corruption being conducted by the Office of the Brazilian Federal Prosecutor, including the ongoing Lava Jato investigation, which has had a negative impact on the Brazilian economy and political environment and contributed to a decline in market confidence in Brazil. The potential outcome of these investigations is uncertain, but they have already had an adverse impact on the image and reputation of the implicated companies, and on the general market perception of the Brazilian economy, which experienced negative gross domestic product, or GDP, growth rates of 3.8% in 2015 and 3.6% in 2016 and a public debt rating downgrade by Moody's, Standard & Poor's and Fitch Ratings to below investment grade in 2015.

We cannot predict whether the Lava Jato investigation will lead to further political and economic instability or whether new allegations against government officials will arise in the future. In addition, we cannot predict the outcome of such investigation nor its effect on the Brazilian economy and, consequently, on the results of operations and financial conditions of Ternium's businesses in Brazil.

Within this frame of political and economic uncertainty, the Brazilian Senate voted to hold a trial on impeachment charges against former President Dilma Rousseff, who was suspended from office in May 12, 2016. Ms. Rousseff was replaced by Vice-President Michel Temer, who served as acting President until Ms. Rousseff was permanently removed from office by the Senate on August 31, 2016. President Temer's term of office is set to end in December 2018. Brazil's October 2018 election process is uncertain as former President and expected presidential candidate Luiz Inácio Lula da Silva, has been recently imprisoned following conviction under a Lava Jato investigation, and is potentially barred from running for office. Uncertainty on the election process may affect the Brazilian economy.

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

High levels of inflation have in the past undermined the Brazilian economy and the government's ability to stimulate economic growth. Inflation in Brazil, as reported by the Brazilian National System of Consumer Price Indexes, amounted to 2.95% in 2017, 6.29% in 2016 and 10.67% in 2015. If inflation were to increase again in the future, our results of operations and financial position could be negatively impacted, as BRL-denominated costs (mainly labor-related costs) at Ternium Brasil increase, thereby affecting our cost-competitiveness. Inflationary pressures may also lead to the imposition of additional government policies to combat inflation and hinder our access to Brazilian capital markets, which could adversely affect our business and our ability to finance our operations and capital expenditures, making it impossible to estimate with reasonable certainty future results of operations of Ternium Brasil.

Argentina

Most of Ternium Argentina's sales revenue is affected by market conditions in Argentina and changes in Argentina's GDP, and per capita disposable income. Accordingly, Ternium Argentina's business could be materially and adversely affected by economic, political, social, fiscal and regulatory developments in Argentina. For more information on Ternium's sales in Argentina, see Item 4. "Information on the Company—B. Business Overview—Sales—Southern Region."

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

Our business and results of operations in Argentina depend on macroeconomic conditions, among other factors. Steel shipments to the Argentine domestic market were affected as a result of the 2008-2009 downturn in the global economy. Steel shipments to the Argentine domestic market also decreased in 2016, as the country faced a significant rebalancing of the economy's relative prices in a year of macroeconomic policy changes under the current government's administration.

The Argentine economy is currently facing significant challenges. High inflation makes renegotiation of collective bargaining agreements difficult. In addition, in the last decade, the economy was affected by supply constraints and capital investment declined significantly due to, among other factors, political, economic and financial uncertainties and government actions adopted by previous administrations, which included price and foreign exchange controls,

import restrictions, export taxes, an increased level of government intervention in, or limitations to, the conduct of business in the private sector and other measures affecting investor confidence. Although such restrictions have been

lifted, there can be no assurance that they will not be reestablished in the future or that the Argentine government will not take additional similar measures in the future.

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

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

In the past, inflation has undermined the Argentine economy and the government's ability to stimulate economic growth. Beginning in 2004, inflation indicators began showing significant year-over-year increases. The pace of inflation has increased rapidly and significantly over the last few years although is currently trending down. In December 2017, as reported by the Argentine National Institute of Statistics and Census, the consumer price index increased 24.8% year-over-year. Sustained high inflation in Argentina could negatively impact our results of operations and financial position, as ARS-denominated costs (mainly labor-related costs) at Ternium Argentina increase, thereby affecting its cost-competitiveness and adversely affecting its margins. In addition, a high inflation economy could undermine Argentina's foreign competitiveness in international markets and negatively affect the economy's activity and employment levels. Argentine inflation rate volatility makes it impossible to estimate with reasonable certainty the extent to which activity levels and results of operations of Ternium Argentina could be affected by inflation in the future.

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

Between 1992 and 2017, the Argentine government did not permit the application of an inflation adjustment on the value of fixed assets for tax purposes. As a result of the substantial devaluation of the Argentine peso against the U.S. dollar and significant inflation over the last decade, the amounts that the Argentine tax authorities permit Ternium Argentina to deduct as depreciation for its past investments in plant, property and equipment have been substantially reduced in real terms, thus creating artificial gains for tax purposes which result in effective tax rates that are higher than statutory tax rates. In addition, provincial taxes on Ternium Argentina's sales have increased over the last few years. In September 2013, Argentine Congress approved a new 10% withholding tax on dividend distributions in Argentina. This measure resulted in a deferred tax loss of USD24.0 million in Ternium's 2013 results, which was recovered after the elimination of such tax in July 2016. By year-end 2017, Congress passed a new tax law which seeks to gradually decrease the tax burden on Argentine corporations gradually over a five-year period. If the tax burden on Ternium Argentina's operations or its shareholders were increased in the future, Ternium's results of operations, net results and financial condition could be adversely affected.

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

In the past, the Argentine government and the Argentine Central Bank introduced several rules and regulations to reduce volatility in the ARS/USD exchange rate, and implemented formal and informal restrictions on capital inflows into Argentina and capital outflows from Argentina. Although such restrictions were lifted by the current administration, such controls may be reestablished, or additional restrictions of that kind may be imposed in the future, and could expose Ternium to the risk of losses arising from fluctuations in the exchange rate or affect Ternium's ability to finance its investments and operations in Argentina or impair Ternium's ability to convert and transfer outside Argentina funds generated by Ternium Argentina. For additional information on Argentina's current exchange controls and restrictions, see Item 10. "Additional Information—D. Exchange Controls."

Restrictions on the imports of key steelmaking inputs for Ternium Argentina's operations could adversely affect Ternium Argentina's production and revenues and negatively impact Ternium's results of operations.

Some of Ternium Argentina's key steelmaking inputs, including iron ore and metallurgical coal, are imported into Argentina. In the past, different government administrations implemented significant import restrictions; for instance, all payments on imports of goods and services were required to be approved by the Argentine federal tax authority and other authorities, such as the Secretary of Commerce. Although most restrictions were lifted by the current

government's administration, such import restrictions, if reinstated, could delay imports and adversely affect our business, operations and growth projects in Argentina. In addition, they could affect Ternium Argentina’s exports from Argentina, considering that foreign countries could adopt and implement counter-trade measures.

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

For over a decade, Argentina has suffered from an insufficient level of investment in natural gas and electricity supply and transport capacity, coupled with a substantial increase in demand for natural gas and electricity. This, in turn, resulted in shortages of natural gas and electricity to residential users and, in particular, to industrial users, including Ternium Argentina, during periods of high demand. Ternium Argentina's operations experienced constraints in their natural gas supply requirements and interruptions in their electricity supply at peak hours on many occasions.

Although the Argentine government is making efforts to increase availability of energy supply in the country, if demand for natural gas and electricity increases and a matching increase in natural gas and electricity supply and transport capacity fails to materialize on a timely basis, Ternium Argentina's local production (or that of its main customers and suppliers) could be curtailed, and Ternium Argentina's sales and revenues could decline. In addition, since 2016 the current administration is gradually reducing the government's subsidies for natural gas and electricity, aiming to eliminate them by 2019. This is expected to result in higher costs for Ternium Argentina. An increase in Ternium Argentina's energy costs may adversely affect Ternium Argentina's results of operations. See "—Risks Relating to the Steel Industry—Price fluctuations or shortages in the supply of raw materials, slabs and energy could adversely affect Ternium's profitability" above.

Certain Regulatory Risks and Litigation Risks

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

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

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

Countries can impose restrictive import duties and other restrictions on imports under various national trade laws. The timing and nature of the imposition of trade-related restrictions potentially affecting Ternium's exports are unpredictable. Trade restrictions on Ternium's exports could adversely affect Ternium's ability to sell products abroad and, as a result, Ternium's profit margins, financial condition and overall business could suffer. One significant source of trade restrictions results from countries' imposition of so-called "antidumping" and "countervailing" duties, as well as "safeguard measures." These duties can severely limit or altogether impede an exporter's ability to export to relevant markets. In several of Ternium's export destinations, such as the United States or Europe, safeguard duties and other protective measures have been imposed against a broad array of steel imports in certain periods of excess global production capacity, as is currently the case. For example, on March 8, 2018, under Section 232 of the Trade Expansion Act of 1962, the U.S. President imposed a 25% tariff on steel articles imported from all countries; however, the U.S. administration announced that imports from Argentina, Australia, Brazil, Canada, the European Union, Mexico and South Korea, will be temporarily exempted. There is considerable uncertainty surrounding the eventual scope and impact of these measures and its corresponding exemptions. For further information, see Item 4. "Information on the Company-B. Business Overview-Regulations-Trade regulations." Furthermore, certain domestic

producers have filed antidumping and/or countervailing duty actions against particular steel imports. Some of these actions have led to restrictions on Ternium's exports of certain types of steel products to certain steel markets. As domestic producers' filing of such actions is largely unpredictable, additional antidumping duties, countervailing duties or other such import restrictions could be imposed in the future, limiting Ternium's export sales to and potential

growth in those markets. See Item 4. “Information on the Company-B. Business Overview-Regulations-Trade regulations.”

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

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

Currently, there are ongoing negotiations for new commitments on greenhouse gas, or GHG, emissions related to the second phase of the Kyoto protocol, which expires in 2020, and the Paris Agreement, an agreement within the United Nations Framework Convention on Climate Change dealing with GHG emissions mitigation. The Paris Agreement consists of two elements: a legally binding commitment by each participating country to set an emissions reduction target, referred to as “Nationally Determined Contributions,” or “NDCs,” with a review of the NDCs that could lead to updates and enhancements every five years beginning in 2023; and a transparency commitment requiring participating countries to disclose in full their progress. New environmental regulations could result from such agreements and ongoing negotiations, including a carbon pricing cap and trade systems, carbon taxes, mandated emission controls and reporting requirements. If such new regulations are issued and become applicable to Ternium, they could have a negative effect on Ternium’s business and results of operations.

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

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

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

Risks Relating to Our ADSs

The market price for our ADSs could be highly volatile.

Volatility in the price of our ADSs may be caused by factors within or outside of our control and may be unrelated or disproportionate to Ternium’s operating results. In particular, announcements of potentially adverse developments, such as proposed regulatory changes, new government investigations or the commencement or threat of litigation against Ternium, as well as announcements of transactions, investments, or changes in strategies or business plans of

Ternium or its competitors, could adversely affect the trading price of our ADSs, regardless of the likely outcome of those developments. Broad market and industry factors could adversely affect the market price of our ADSs, regardless of their actual effect in operating performance. As an example of this volatility, the price of our ADSs

closed at USD45.18 on June 2, 2008, and fell to a low of USD4.55 on November 20, 2008. In the 2009-2010 period, the price of our ADSs recovered and reached a high closing price of USD43.26 on January 5, 2011, but then fell to a low of USD15.54 on November 29, 2011. In the 2012-2013 period, the price of our ADSs recovered and reached a high closing price of USD32.24 on January 15, 2014, but then fell to a low of USD10.56 on January 15, 2016. Since then, the price of our ADSs has recovered and traded in a range of USD31.41 to USD36.69 in the first quarter 2018. For more information, see Item 9. "The Offer and Listing—A. Offer and Listing Details."

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

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

There may be less publicly available information about us than is regularly published by or about U.S. issuers. Also, corporate and securities regulations governing Luxembourg companies may not be as extensive as those in effect in the United States. Furthermore, IFRS, the accounting standards in accordance with which we prepare our consolidated financial statements, differ in certain material aspects from the accounting standards used in the United States.

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

Certain shareholders' rights under Luxembourg law, including the right to participate and vote at general meetings of shareholders, to include items on the agenda for the general meetings of shareholders, to receive dividends and distributions, to bring actions, to examine books and records and to exercise appraisal rights may not be available to holders of ADSs, or may be subject to restrictions and special procedures for their exercise, as holders of ADSs only have those rights that are expressly granted to them in the deposit agreement. The Bank of New York Mellon, or BNY Mellon, as depositary, through its custodian agent, is the registered shareholder of the deposited shares underlying the ADSs and therefore only the depositary can exercise the shareholders' rights in connection with the deposited shares. For example, if we make a distribution in the form of securities, the depositary is allowed, at its discretion, to sell that right to acquire those securities on your behalf and to instead distribute the net proceeds to you. Also, under certain circumstances, such as our failure to provide the depositary with voting materials on a timely basis, you may not be able to vote by giving instructions to the depositary. If the depositary does not receive voting instructions from the holder of ADSs or the instructions are not in proper form, then the depositary shall deem such holder of ADSs to have instructed the depositary to vote the underlying shares represented by ADSs in favour of any proposals or recommendations of the Company (including any recommendation by the Company to vote such underlying shares on any given issue in accordance with the majority shareholder vote on that issue) for which purposes the depositary shall issue a proxy to a person appointed by the Company to vote such underlying shares represented by ADSs. Under the deposit agreement, no instruction shall be deemed given and no proxy shall be given with respect to any matter as to which the Company informs the depositary that (x) it does not wish such proxy given, (y) substantial opposition exists, or (z) the matter materially and adversely affects the rights of the holders of ADSs.

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

Pursuant to the Luxembourg Company Law, existing shareholders of the Company are generally entitled to preemptive subscription rights in the event of capital increases and issues of shares against cash contributions. Under the Company's articles of association, the board of directors is authorized to waive, limit or suppress such preemptive subscription rights. The validity period of such authorization will expire (unless renewed) on May 6, 2020. The Company, however, may issue shares without preemptive rights only if the newly issued shares are issued: (i) for, within, in conjunction with or related to, an initial public offering of the shares of the Company on one or more regulated markets (in one or more instances); (ii) for consideration other than cash; (iii) upon conversion of convertible bonds or other instruments convertible into shares of the Company; provided, however, that the

preemptive subscription rights of the then-existing shareholders shall apply in connection with any issuance of convertible bonds or other instruments convertible into shares of the Company for cash; or (iv) subject to a certain maximum percentage, as compensation to directors, officers, agents or employees of the Company, its direct or indirect subsidiaries or its affiliates, including without limitation the direct issuance of shares or the issuance of shares

upon exercise of options, rights convertible into shares or similar instruments convertible or exchangeable into shares issued or created to provide compensation or incentives to directors, officers, agents or employees of the Company, its direct or indirect subsidiaries or its affiliates. For further details, see Item 10. "Additional Information—B. Memorandum and Articles of Association."

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

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

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

Item 4. Information on the Company

Overview

Ternium is Latin America's leading flat steel producer with an annual crude steel production capacity of 12.4 million tons. The company operates through subsidiaries in Mexico, Brazil, Argentina, Colombia, the southern United States and Central America, which own regional manufacturing, service center and distribution networks. In addition, Ternium participates in the control group of Usiminas, a leading steel company in the Brazilian market. Our customers range from small businesses to large global companies in the automotive, home appliances, construction, capital goods, container, food and energy industries across the Americas. Ternium supplies a broad range of high value-added steel products and has advanced customer integration systems that enable us to differentiate ourselves from our competitors through the offering of sophisticated products and services.

The company's industrial system has varied production technologies that provide a diversified cost structure, based on different types of raw material and energy sources, and a flexible production configuration. The industrial system includes proprietary iron ore mines, steelmaking facilities, finishing facilities, service centers and a broad distribution network to offer slabs, hot-rolled products, cold-rolled products, galvanized and electro-galvanized sheets, pre-painted sheets, tinplate, welded pipes, bars and wire rods as well as slit and cut-to-length products. Its innovative culture, industrial expertise and long-term view enable Ternium to continuously achieve new breakthroughs in industrial excellence, competitiveness and customer service.

We believe that Ternium is the leading supplier of flat steel products in Mexico and Argentina, has a significant position as supplier of steel products in Colombia and in various other countries in Latin America, and is a competitive player in the international steel market for steel products. Through its network of commercial offices in several countries in Latin America, the United States and Spain, Ternium maintains an international presence that allows it to reach customers outside its local markets, achieves improved effectiveness in the supply of its products and in the procurement of semi-finished steel, and maintains a fluent commercial relationship with its customers by providing continuous services and assistance.

In 2017, 57.3% of Ternium's net sales of steel products were made to Mexico, 24.6% to the Southern Region (which includes Argentina, Bolivia, Chile, Paraguay and Uruguay), and 18.1% to other markets (including major shipment destinations, such as United States, Brazil, Colombia and Central America). In 2017, Ternium's net sales were USD9.7 billion, operating income was USD1.5 billion, and net income attributable to owners of the parent was USD886.2 million.

A. History and Development of the Company

The Company

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

Ternium

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

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

As part of a multiple-step corporate reorganization in 2005, San Faustin reorganized its investments in steel manufacturing, processing and distribution businesses by contributing to the Company San Faustin's controlling

interests in Ternium Argentina and other subsidiaries; and Usiminas and Sivensa exchanged their interests in Ternium Argentina, Sidor other subsidiaries; for shares of the Company. In 2005, we acquired, together with Ternium Argentina, an indirect 99.3% interest in the Mexican company Hylsamex and its subsidiaries.

On January 11, 2006, the Company launched an initial public offering of 24,844,720 ADSs, each representing 10 shares of the Company, in the United States, and subsequently granted the underwriters of the Company's initial public offering an option to purchase up to 3,726,708 additional ADSs to cover over-allotments in the sale of the ADSs.
On December 28, 2006, we acquired an additional 4.85% interest in Ternium Argentina from CVRD Internacional S.A, thereby increasing our ownership interest in Ternium Argentina to 60.93%.
On April 29, 2007, the Company entered into an agreement with Grupo Imsa and Grupo Imsa's controlling shareholders regarding Ternium's control of Grupo Imsa. Under the agreement, the Company, through a wholly-owned subsidiary, made a cash tender offer under applicable Mexican law for all of the issued and outstanding share capital of Grupo Imsa, which resulted in the acquisition of 25,133,856 shares, representing 9.3% of the issued and outstanding capital of Grupo Imsa. Concurrently with the consummation of the tender offer, on July 26, 2007, all the shares of Grupo Imsa that were not tendered into the tender offer (including the shares owned by Grupo Imsa's majority shareholders), representing 90.7% of Grupo Imsa's issued and outstanding share capital, were redeemed for cash pursuant to a capital reduction effected at the same price per share. Following this capital reduction, we became the sole shareholder of Grupo Imsa.
In 2007, Grupo Imsa was renamed Ternium Mexico and, effective March 31, 2008, Hylsamex merged with and into Ternium Mexico. In connection with this merger, Ternium Argentina acquired, and currently holds, a 28.7% participation in Ternium Mexico.
On April 29, 2008, the National Assembly of Venezuela passed a resolution declaring that the shares of Sidor, together with all of its assets, were of public and social interest, and authorizing the Venezuelan government to take any action it deemed appropriate in connection with any such assets, including expropriation. On May 11, 2008, the President of Venezuela issued Decree Law 6058 ordering that Sidor and its subsidiaries and associated companies were transformed into state-owned enterprises ("empresas del Estado"), with Venezuela owning not less than 60% of their share capital. On May 7, 2009, Ternium completed the transfer of its entire 59.7% interest in Sidor to Corporación Venezolana de Guayana, or CVG, a Venezuelan state-owned entity.
On August 25, 2010, Ternium completed the acquisition of a 54% ownership interest in Ferrasa and, indirectly, in its wholly-owned Colombian subsidiaries, Siderúrgica de Caldas S.A.S. and Perfilamos del Cauca S.A.S. On April 7, 2015, Ternium acquired the remaining 46% minority interest in Ferrasa. Through this investment, Ternium expanded its business and commercial presence in Colombia. In 2017, Ferrasa was renamed Ternium Colombia.
In November 2010, Ternium and NSSMC established Tenigal, with each company holding 51% and 49% participations, respectively. Tenigal completed the construction of a hot dip galvanizing plant in the vicinity of Monterrey City, Mexico, which commenced production in the third quarter of 2013. Tenigal was designed to produce high grade and high quality galvanized and galvannealed automotive steel sheets, including outer panel and high strength qualities.
On January 16, 2012, the Company's subsidiaries Ternium Investments and Ternium Argentina (together with its wholly-owned subsidiary Prosid Investments S.A., or "Prosid"), and the Company's affiliate, Confab Industrial S.A., a subsidiary of Tenaris, or "TenarisConfab," joined the existing control group of Usiminas, a leading steel company in the Brazilian flat steel market, through the acquisition of 84.7, 30.0, and 25.0 million ordinary shares, respectively, and formed the so-called Ternium/Tenaris (T/T) Group.
On October 30, 2014, Ternium Investments acquired 51.4 million additional ordinary shares of Usiminas. On April 20, 2016, Ternium Investments subscribed to 7.0 million, and Ternium Argentina (together with Prosid) subscribed to an aggregate 1.5 million preferred shares of Usiminas. On July 19, 2016, Usiminas' extraordinary general shareholders' meeting homologated a capital increase, and Ternium Investments was issued 62.6 million additional ordinary shares, and Ternium Argentina and Prosid were issued an aggregate 13.8 million additional ordinary shares. As a result of these transactions, Ternium, through its subsidiaries Ternium Investments, Ternium Argentina and Prosid, currently owns 242.6 million ordinary shares of Usiminas (representing 34.4% of Usiminas' ordinary shares) and 8.5 million of Usiminas' preferred shares (representing 1.6% of Usiminas' preferred shares), representing, in aggregate, 20.5% of Usiminas' capital. Ternium Investments, Ternium Argentina, Prosid and TenarisConfab are parties to an Usiminas shareholders' agreement, effective as of April 10, 2018, with NSSMC, Mitsubishi Corporation do Brasil S.A. and Metal One Corporation (comprising the so-called NSSMC Group) and Previdência Usiminas, governing their rights

and obligations as shareholders of Usiminas. For further information on our investment in Usiminas, see Item 4. “Information on the Company—C. Organizational Structure-Other Investments-Usiminas” and Item 5. “Operating and Financial Review and Prospects—Recent Developments.”

On September 7, 2017, the Company acquired a 100% ownership interest in thyssenkrupp Slab International B.V, or "tkSI", and its wholly-owned subsidiary CSA from thyssenkrupp AG, or "tkAG". Through this investment, Ternium significantly expanded its steel slabs production capacity. As part of this process tkSI was renamed Ternium Staal B.V. and CSA was renamed Ternium Brasil Ltda.

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

B. Business Overview

Our Business Strategy

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

- Focus on higher margin value-added products. We intend to continue to shift Ternium's sales mix toward higher margin value-added products, such as cold-rolled sheets and coated and tailor-made products, and services, such as just-in-time delivery and inventory management. For example, on March 1, 2017 and on September 28, 2017, Ternium announced plans to build a new hot-dip galvanizing line and a pre-painting line, and a new state-of-the-art hot rolling mill, respectively, at its facility in Pesquería, Mexico. For more information on Ternium's capital expenditures, see "—B. Business Overview—Capital Expenditure Program."
- Pursue strategic growth opportunities. We have a history of strategically growing our businesses through acquisitions and joint ventures. In addition to pursuing organic growth, we intend to identify and actively pursue growth-enhancing strategic opportunities to consolidate Ternium's presence in its main markets and expand it to the rest of Latin America, increase its upstream integration, expand its offerings of value-added products, increase its steel production, and increase its distribution capabilities. For example, on September 7, 2017, Ternium acquired a 100% ownership interest in tkSI and its wholly-owned subsidiary CSA from tkAG. CSA, renamed Ternium Brasil Ltda., which 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. The announcement, on September 28, 2017, of our plans to build a new state-of-the-art hot rolling mill in Pesquería, Mexico, was a logical next step after the addition of the Rio de Janeiro facility to Ternium's industrial system. The Rio de Janeiro facility together with the new hot-rolling mill in Pesquería will enable Ternium to expand its product range in Mexico with a broader dimensional offering and the most advanced steel grades, and reduce lead times in the value chain targeting the demanding and innovative automotive industry, as well as the home appliance, machinery, energy and construction sectors. For more information on the acquisition of CSA, see note 3 "Acquisition of business" to our consolidated financial statements included in this annual report. For more information on Ternium's capital expenditures, see "—B. Business Overview—Capital Expenditure Program." For a description of some of the risks associated with Ternium's growth strategy, see Item 3. "Key Information—D. Risk Factors—Risks Relating to Our Business—Future acquisitions or other significant investments could have an adverse impact on Ternium's operations or profits, and Ternium may not realize the benefits it expects from these business decisions."
- Implement Ternium's best practices. We believe that the implementation of Ternium's managerial, commercial and production best practices in acquired and new businesses should generate benefits and savings.
- Maximize the benefits arising from Ternium's broad distribution network. We intend to maximize the benefits arising from Ternium's broad network of distribution, sales and marketing services to reach customers in major steel markets with a comprehensive range of value-added products and services and to continue to expand its customer base and improve its product mix.
- Enhance Ternium's position as a competitive steel producer. We are focused on improving utilization levels of our plants, increasing efficiency and further reducing production costs from levels that we already consider to be among the most competitive in the steel industry through, among other measures, capital investments and further integration of our facilities.

Our Products

The Ternium companies produce mainly finished and semi-finished steel products and iron ore, which are sold either directly to steel manufacturers, steel processors or end-users, after different value-adding processes. We also produce electricity and sell unused balances to the Mexican and Brazilian electric grids.

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

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

Steel products

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

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

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

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

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

porcine confinement facilities, roofing and side walls for buildings, and terraces and mezzanine floorings. Pre-engineered metal building systems are steel construction systems designed for use in low-rise non-residential

buildings, and are constructed from the mechanical transformation of flat steel such as frames, secondary steel members, roofs and walls panels, as well as finishing and accessories.

Other products: Other products include mainly electricity and pig iron. Pig iron is a semi-finished product obtained in the blast furnace that is mostly used as metallic charge in the steel shop for the production of crude steel, and also marketed to other steel producers and to manufacturers of iron-based cast products.

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

Iron ore products

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

Production Facilities and Processes

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

Ternium’s aggregate production capacity of crude steel as of December 31, 2017, calculated based on management estimates of standard productivity, product mix allocations, the maximum number of possible working shifts and a continued flow of supplies to the production process, was approximately 12.4 million tons, of which 4.0 million tons correspond to facilities located in Mexico, 3.2 million tons correspond to facilities located in the Southern Region and 5.2 million tons correspond to facilities located in other markets. Ternium’s aggregate production capacity of finished steel products, calculated based on the same criteria as for crude steel production, was approximately 11.3 million tons, of which 7.5 million tons correspond to facilities located in Mexico, 2.9 million tons correspond to facilities located in the Southern Region and 0.9 million tons correspond to facilities located in other markets. Ternium’s aggregate production capacity of iron ore pellets as of December 31, 2017, was 4.0 million tons. Such iron ore products are mainly sold intercompany for the production of steel products by our steel segment.

Steel production facilities, service centers and distribution centers

The assets described in this section are owned by Ternium's operating subsidiaries. The following table provides an overview, by type of asset, of Ternium's production capacity as of December 31, 2017:

Production asset	Quantity	Nominal capacity (thousand tons per year)[1]				
		Mexico	Brazil	Argentina	Other	Total
Coke Plant	7		1,800	1,040		2,840
Sinter Plant	2		4,800	1,480		6,280
Direct Reduced Iron Plant	3	2,710				2,710
Blast Furnace	4		5,300	3,220		8,520
Electric Arc Furnace	5	4,150			210	4,360
Basic Oxygen Furnace	5		5,200	3,500		8,700
Vacuum Degassing	3	840	3,200	1,200		5,240
Aluminum Heating Furnace	1		3,000			3,000
Thin Slab Continuous Caster	1	2,420				2,420
Slab Continuous Caster	4		5,000	5,630		10,630
Billet Continuous Caster	3	1,640			210	1,850
Hot-rolling Mill (flat products)	4	6,350		2,890		9,240
Skin-Pass Mill	4	2,630		990		3,620
Hot-rolling Mill (long products)	4	1,160			220	1,380
Pickling Line	9	5,270		1,910		7,180
Cold-Rolling Mill (Tandem or Reversing)	9	3,600		1,840		5,440
Electrolytic Cleaning	5	1,940		230		2,170
Annealing Line	5	1,590		1,330		2,920
Temper Mill	7	2,040		2,020		4,060
Tension-Leveling / Inspection Line	10	1,390		1,150		2,540
Electro-Tinplating line	1			160		160
Hot Dip Galvanizing Line	12	1,910		630	330	2,870
Electro-Galvanizing Line	1			110		110
Color-Coating Line	8	620		120	190	930
Slitter	32	2,020		500	310	2,830
Cut to length	36	570		1,000	190	1,760
Roll forming Line	34	510		540	230	1,280
Panel Line	4	80				80
Profile Line	16	170		80	110	360
Tube Line	20	520		190	60	770
Wire drawing Lines	12				100	100
Wire Mesh Lines	2				40	40
Rebar Processing Lines[2]	47				180	180

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

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

Mexico. Ternium has 12 steel production and/or processing units in Mexico, consisting of three integrated steel-making plants (two of which produce long steel products and one of which produces flat steel products and includes two steel service centers); five downstream flat steel processing plants, combining hot-rolling, cold-rolling and/or coating facilities (two of which include steel service centers); and four steel service centers. In addition, Ternium has ten distribution centers in this region, aimed at serving customers mainly in the construction sector.

31

The following table sets forth key items of information regarding Ternium's principal production units in Mexico:

Unit	Type of plant				Location
	Integrated[1]	Downstream[2]	Service center	Distribution center	
Guerrero	X		X		San Nicolás d.l.G., Nuevo León
Apodaca	X				Apodaca, Nuevo León
Puebla	X				Puebla, Puebla
Juventud		X	X		San Nicolás d.l.G., Nuevo León
Churubusco		X	X		Monterrey, Nuevo León
Monclova		X			Monclova, Coahuila
Universidad		X			San Nicolás d.l.G., Nuevo León
Pesquería		X			Pesquería, Nuevo León
Apodaca Industrial			X		Apodaca, Nuevo León
Apodaca Comercial			X		Apodaca, Nuevo León
Edificios Metálicos			X		Ciénaga de Flores, Nuevo León
San Luis			X		San Luis, San Luis Potosí
DC Chihuahua				X	Chihuahua, Chihuahua
DC BC				X	Tijuana, Baja California
DC Norte				X	Escobedo, Nuevo León
DC Puebla				X	Puebla, Puebla
DC Guadalajara				X	Guadalajara, Jalisco
DC Mexico				X	Tultitlán, Estado De México
DC Culiacán				X	Culiacán, Sinaloa
DC Veracruz				X	Veracruz, Veracruz
DC Mérida				X	Mérida, Yucatán
DC Tuxtla				X	Tuxtla Gtz, Chiapas

[1] "Integrated" refers to a type of steel plant that includes at least steelmaking and hot-rolling facilities.

[2] "Downstream" refers to a type of steel plant that includes hot-rolling, cold-rolling and/or steel coating facilities.

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

The investment plan for this unit was launched in 2013, and encompasses improvements in industrial safety and environmental sustainability, as well as maintenance and facilities' overhaul. In 2015, Ternium completed the installation of a secondary de-dusting system in the steel shop, which enhanced control of emissions, and commissioned a new briquetting facility, which enabled the recycling of metallic fines generated by several processes. During 2016, Ternium commissioned a new hydrochloric acid regeneration plant, which stores and processes acid used by the pickling lines of the cold-rolling mills, resulting in reduced by-product generation rates and improved product quality and process control. During 2016, Ternium continued implementing improvement projects and complementary investments in the Guerrero unit. These projects are related to the processing and handling of steel slag in the steel shop, the replacement of pickling tanks, the improvement in the treatment of sludge and upgrading of raw material storage yards, as well as improvements for vehicular traffic. For more information on Ternium's environmental and safety projects, see "-B. Business Overview-Capital Expenditure Program."

32

Apodaca unit: Located in Nuevo León, Mexico, the Apodaca unit produces billets and rebar for the construction industry. It is an integrated facility based on mini-mill steelmaking technology that uses steel scrap as its main raw material. Ternium's procurement policy for scrap is described in greater depth in Item 4. "Information on the Company—B. Business Overview—Raw Materials, Slabs, Energy and Other Inputs."

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

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

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

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

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

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

During 2017, Ternium launched the construction of a new hot-rolling mill, a new hot-dip galvanizing line and a new pre-painting line in this unit. Ternium's new hot-rolling mill will have an annual production capacity of 4.1 million tons. With a total investment of USD1.1 billion, the new line is expected to be operational by the second half of 2020. The current plan includes the option to increase the line's production capacity in the future by an additional 0.7 million tons with a small additional investment. The new state-of-the-art facility will target the growing industrial and commercial markets, improving customer service and reducing lead-times. The investment will constitute a significant technological upgrade to the country's steel production capacity, enabling the expansion of Ternium's product range to encompass a broader dimensional offering and the most advanced steel grades, with the aim at replacing high-value-added steel imports.

Ternium's new hot-dip galvanizing and pre-painting lines will have annual production capacity of 350,000 and 120,000 tons, respectively, and are expected to require a total investment of approximately USD280 million. The new lines will target household appliances, lighting and metal-mechanic industries in Mexico, strengthening the Company's import substitution strategy.

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

Apodaca Comercial unit: Located in Nuevo León, Mexico, the Apodaca Comercial unit is a steel service center that produces slitted and roll-formed products, profiles and tubes for the construction industry. This plant processes coated

coils mainly received from Ternium Mexico’s units in Nuevo León.

Edificios Metálicos unit: Located in Nuevo León, Mexico, the Edificios Metálicos unit produces metal building systems for commercial construction. This plant processes heavy plates procured from the local and international markets and coils received from Ternium Mexico's units in Nuevo León.
San Luis unit: Located in San Luis Potosí, Mexico, the San Luis unit is a steel service center that produces slitted and cut-to-length products for the home appliance and other industries. This plant processes coated coils received from Ternium Mexico's units in Nuevo León.
Southern Region. Ternium's Southern Region covers Argentina, Bolivia, Chile, Paraguay and Uruguay. Ternium has eight steel production and/or processing units in this region, all of which are located in Argentina, consisting of one integrated flat steel-making plant; four downstream flat steel processing plants, comprising cold-rolling, coating or tube-making facilities (three of which include steel service centers); and three steel service centers.
The following table sets forth key items of information regarding Ternium's principal production units in Argentina:

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

San Nicolás unit: Located in the Province of Buenos Aires, Argentina, the San Nicolás unit produces slabs, hot-rolled, cold-rolled and tinplate coils for the construction, industrial, packaging and naval sectors, and for further processing in other Ternium Argentina units. The San Nicolás unit includes an integrated facility based on blast furnace and basic oxygen furnace technologies, supplemented with a sinter plant, coking batteries, a by-product plant and a power plant. It uses metallurgical coal and iron ore lumps, pellets and fines as main raw materials. The facility sources all of its coal and iron ore needs from the international markets, shipped to its own port on the banks of the Paraná river. In addition, the facility sources its net requirements of steel products from the international market and Ternium Brasil. Ternium's procurement policy for these products is described in greater depth in Item 4. "Information on the Company-B. Business Overview-Raw Materials, Slabs, Energy and Other Inputs."
Canning and Haedo units: Located in the Province of Buenos Aires, Argentina, the Canning and Haedo units produce galvanized sheets, slitted and roll-formed products and profiles for the construction and home appliance sectors. In addition, the Canning facility produces color coated sheets for such markets. Both plants process cold-rolled coils received from Ternium Argentina's San Nicolás and Ensenada units.
Florencio Varela unit: Located in the Province of Buenos Aires, Argentina, the Florencio Varela unit produces electrogalvanized sheets, blanks and slitted products for the automotive, construction and other industries. This plant processes cold-rolled coils received from Ternium Argentina's San Nicolás and Ensenada units.
Ensenada unit: Located in the Province of Buenos Aires, Argentina, the Ensenada unit produces cold-rolled coils for the construction and industrial sectors and for further processing in Ternium Argentina's own facilities. This plant processes hot-rolled coils received from Ternium Argentina's San Nicolás unit.
Rosario unit: Located in the Province of Santa Fe, Argentina, the Rosario unit is a steel service center that produces tubes for the construction industry. This plant processes hot-rolled coils received from Ternium Argentina's San Nicolás unit.
Serviacero III unit: Located in the Province of Buenos Aires, Argentina, the Serviacero III unit is a steel service center that produces cut-to-length products for the construction and industrial sectors. This plant processes hot-rolled coils received from Ternium Argentina's San Nicolás unit.

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

Other Markets. Ternium has 14 steel production and/or processing units in Brazil, Colombia, Central America and the United States, consisting of two integrated steel-making plants (one of which produces flat steel products and the other long steel products), two downstream flat steel processing plants comprising coating facilities (one of which includes a steel service center), and ten steel service centers. In addition, Ternium has five steel retail distribution centers aimed at serving customers mainly in the construction sector.

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

Unit	Country	Type of plant			Location
		Integrated / downstream	Service Center	Distribution Center	
Rio de Janeiro	Brazil	X / -			Santa Cruz, Rio de Janeiro
Shreveport	USA	- / X			Shreveport, Louisiana
Manizales Steel	Colombia	X / -			Manizales, Caldas
Barranquilla	Colombia		X		Malambo, Atlántico
Bogotá	Colombia		X		Bogotá, Cundinamarca
Cali Tubes	Colombia		X		Puerto Tejada, Cauca
Cali Services	Colombia		X		Cali, Valle del Cauca
Itagüí	Colombia		X		Itaguí, Antioquía
Manizales Services	Colombia		X		Manizales, Caldas
Montería	Colombia		X		Montería, Córdoba
DC Bucaramanga	Colombia			X	Bucaramanga, Santander
DC Medellín	Colombia			X	Medellín, Antioquía
Villa Nueva	Guatemala	X	X		Villa Nueva, Guatemala
DC Norte	Guatemala			X	Guatemala, Guatemala
DC Occidente	Guatemala			X	Mazatenango, Suchitepéquez
DC Petén	Guatemala			X	Petén, Guatemala
San Salvador	El Salvador		X		San Salvador, San Salvador
Managua	Nicaragua		X		Managua, Managua
San José	Costa Rica		X		San José, Costa Rica

Rio de Janeiro unit: Located in the State of Rio de Janeiro, Brazil, this unit produces slabs for further processing in other Ternium units in Mexico and Argentina, and for sale to third parties. The Rio de Janeiro unit includes an integrated facility based on blast furnace and basic oxygen furnace technologies, supplemented with a sinter plant, coking batteries and a power plant. It uses metallurgical coal and iron ore pellets, lumps and fines as main raw materials. The facility sources all of its coal needs from the international markets, (shipped to its own port on the Atlantic ocean coastline) and its iron ore needs from the local market (shipped to its own yards through a railroad system). Ternium's procurement policy for these products is described in greater depth in Item 4. "Information on the Company-B. Business Overview- Raw Materials, Slabs, Energy and Other Inputs."

Shreveport unit: Located in Louisiana, United States, the Shreveport unit produces galvanized and color coated sheets. It processes cold-rolled coils procured mainly from Ternium Mexico or the U.S. market.

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

35

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

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

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

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

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

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

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

In addition, in 2017 Ternium launched the construction of a steel bar and coil mill in northern Colombia. With annual production capacity of 520,000 tons and total investment of approximately USD90 million, the new steel bar and coil mill will expand Ternium's reinforcing bar production capacity in Colombia to 740,000 tons, to integrate upstream its operations in the country. The new mill is expected to be completed by the second half of 2019. This investment will enable us to expand our market share in Colombia's dynamic construction sector by offering an alternative to imports.

Mining Production Facilities

Ternium has iron ore production facilities in Mexico. We have a 100% interest in Las Encinas, and a 50% interest in Consorcio Peña Colorada, and conduct our mining activities through these companies. In 2017, the substantial majority of our iron ore production was consumed internally at Ternium's steelmaking facilities in Mexico. The following table provides an overview of Ternium's active mining operations:

Company	Mine	Location	Type of Mine
Las Encinas	Aquila	Aquila, Michoacán	Open pit
Las Encinas	Palomas	Pihuamo and Tecalitlán, Jalisco	Open pit
Consorcio Peña Colorada	Peña Colorada	Minatitlán, Colima	Open pit

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

The following table provides an overview, by type of facility, of Ternium's production capacity as of December 31, 2017:

	Las Encinas		Consorcio Peña Colorada[1]	
Production facility	Quantity	Capacity[2]	Quantity	Capacity[2]
Crushing Plant[3]	2	4,500	1	18,000
Concentration Plant[3]	1	3,500	1	16,300
Pelletizing Line	1	1,900	2	4,100

(1) Figures correspond to total capacity. Ternium has a 50% interest in Consorcio Peña Colorada.

(2) In thousands of tons per year. Crushing capacity for Las Encinas includes crushing lines located in Aquila and in El Encino.

(3) The capacity figures for the crushing and concentration plants refer to the plants' iron ore processing capacity. The plants' actual iron ore concentrate production depends on the iron ore grade of the processed material.

Las Encinas

Las Encinas produces iron ore pellets and magnetite concentrate in Mexico. At present, Las Encinas operates the Aquila and Las Palomas open pit mines located in Michoacán and Jalisco, respectively.

Las Encinas facilities include two crushing plants (located close to each of the Aquila and El Encino mines), and a concentration and pelletizing plant located in Alzada, Colima, approximately 160 kilometers from Aquila. Its major processing facilities (crushing, concentration and pelletizing facilities) include two primary crushers and a dry cobbing plant in Aquila, and horizontal and vertical ball mills and several stages of magnetic separation in Alzada.

The iron ore pre-concentrate is transported from Aquila to a transfer station at Tecoman, Colima, by truck and from Tecoman to Alzada by rail and truck for processing in the concentration plant. The iron ore extracted from Palomas is currently transported by truck to El Encino to be processed in our crushing facility. In addition, El Encino and our plant located in Alzada may receive, from time to time, magnetite iron ore purchased by Las Encinas from other local concessionaires. The crushed iron ore is transported from El Encino to Alzada by truck for processing in the concentration plant in Alzada.The iron ore pellets produced in Alzada are transported by rail to Ternium Mexico's integrated facilities in Monterrey and Puebla. The Aquila and El Encino operations and the Alzada facilities receive electrical power from the Comisión Federal de Electricidad, or "CFE," the Mexican state-owned electric utility.

Active mines

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

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

At the Pihuamo-Tecalitán site, Las Encinas holds mining rights for the extraction of iron ore over 376 hectares. The Palomas operations (an open pit mine) stand on an area owned by Las Encinas, which started operating this mine in 2017.

Palomas is a skarn mine with calcareous-pelitic ferrous type. It is formed by massive, and bordered by disseminated mineral. The bodies are disposed in concordant tabular horizons with a northwest and southeast-oriented pseudo stratification and northeast-oriented dip. The mineralization is predominantly magnetite and the gangue mineral is composed of garnet, pyrite and calcite. The surrounding rocks are skarn (calcareous protolyte, clayey calcareous and

Cretaceous sandy) or hornfels (clayey protolyte). The stratigraphic sequence is affected by dyke intrusions of monzonitic and granite composition.

Mines under exploration

Las Encinas holds mining rights over other areas scattered throughout Michoacán, Jalisco and Colima, Mexico. Las Encinas has developed and may continue pursuing the development of small to mid-sized mining operations similar to Palomas, as a way to diversify its sources of iron ore and to make effective use of its mining rights in the region.

Exhausted mines

The El Chilillo open pit mine was operated until 2015. The El Chilillo core reserves were exhausted, the mine's operations were suspended and the land returned to the owners. Ternium is currently following the steps required to proceed with its permanent closure.

The El Encino open pit and underground mine was operated until 2011. The El Encino core reserves were exhausted and the mine's operations have been suspended. Ternium is currently evaluating the steps required to proceed with its permanent closure. The crushing and transfer facilities at El Encino are still in operation and will remain active to receive, process and transfer to the Alzada pelletizing plant iron ore that Las Encinas buys from time to time from other local concessionaires.

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

Consorcio Peña Colorada

Consorcio Peña Colorada, a company owned 50% by Ternium and 50% by ArcelorMittal, produces iron ore pellets and magnetite concentrate in Mexico. Consorcio Peña Colorada operates the Peña Colorada open pit mine as well as a concentrating facility and a two-line pelletizing facility. Consorcio Peña Colorada owns part of the property where its mine and processing facilities stand, and leases 1,204 hectares adjacent to the mine to deposit removed material and, in the future, to exploit ore reserves as part of the regular short-term and long-term life of mine plan.

Consorcio Peña Colorada has operated since 1974 and holds mining rights over 39,980 hectares. The Peña Colorada mine is a complex polyphase iron ore deposit. Several magmatic and hydrothermal events produced iron mineralization as skarns or skarnoids, and late dikes and faults that crosscut the mineralized bodies. The main mineralization events are a massive ore body and a disseminated ore body, within polymictic breccia zones.

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

Ternium is required to buy from Consorcio Peña Colorada half of the mine's annual production. See Item 4. "Information on the Company—B. Business Overview—Raw Materials, Slabs, Energy and Other Inputs—Mexico—Iron Ore.' Iron ore concentrate and pellets sold to Ternium are shipped by rail from the mine to Ternium's facilities in Mexico or exported.

Consorcio Peña Colorada implemented a capital expenditure program to restore its iron ore concentrate production capacity in order to increase the utilization of its iron ore pelletizing facilities. Works included the increase of its ore crushing, grinding and concentration capacity, to process larger quantities of ore with a lower iron grade. In addition, Peña Colorada is preparing new iron ore bodies at the mine and expanding its tailing deposit capacity.

Iron ore reserves

The table below details Ternium's estimated proven and probable iron ore reserves as of December 31, 2017. The classification of the iron ore reserve estimates as proven or probable is based on drill hole spacing and reflects the variability in the mineralization at the selected cut-off grade, the mining selectivity and the production rate and ability of the operation to blend the different ore types that may occur within each deposit. Reserves are reported as Run of

Mine (ROM). Tonnage is reported on a wet metric ton basis.

Iron ore reserves[1] as of	December 31, 2017						December 31, 2016	
	Proven		Probable		Total		Total	
	Million tons	% Fe	Million tons	% Fe	Million tons	% Fe	Million tons	% Fe
Las Encinas[2]	22	40	—	—	22	40	22	41
Peña Colorada[3]	122	21	108	21	230	21	242	21

(1) In Peña Colorada, proven iron ore reserve estimates are based on drill hole spacing ranging from 25m x 25m to 100m x 100m, and probable iron ore reserve estimates are based on drill hole spacing ranging from 50m x 50m to 300m x 300m. In Las Encinas, drill hole spacing may be more distanced.

(2) Includes exclusively the Aquila and the Las Palomas mines.

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

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

Operations/Projects	% Ownership	In Operation Since	2017 Run of Mine Production (Million tons)	2017 Saleable Production (Million tons)[1]	Estimated Mine Life (Years)[2]
Las Encinas[3]	100	1970	2.8	1.8	8
Consorcio Peña Colorada[4]	50	1974	12.4	3.6	15

(1) Saleable production consists of a mix of direct shipped ore (DSO), concentrate, pellet feed and pellet products which have an iron content of approximately 65% to 66%.

(2) Mine life is derived from the life of mine plans and corresponds to the duration of the mine production scheduled from ore reserve estimates only. The production varies for each operation during the mine life and, as a result, the mine life is not necessarily the total reserve tonnage divided by the 2017 production.

(3) Includes exclusively the Aquila and Palomas mines.

(4) Reported figures represent the total production of Consorcio Peña Colorada, in which Ternium has a 50% interest. Production does not include certain volumes of fines located in the mine, which were extracted years ago. These volumes of fines were used during 2017 mixed with raw mineral originated from the mine.

Changes in iron ore reserve estimates (2017 versus 2016)

Las Encinas's iron ore reserve estimates as of December 31, 2017 were 22 million tons on a run-of-mine basis (with a 40% average iron grade), similar to those recorded as of the end of 2016. The depletion of reserves during 2017 was offset by the addition of new reserves, changes in the assessment of reserves (as a result of new mining strategies in the Aquila mine) and the acquisition of new mining rights during the year.

Peña Colorada's iron ore reserve estimates as of December 31, 2017 were 230 million tons on a run-of-mine basis (with a 21% average iron grade), decreasing by 12 million tons compared to those recorded as of the end of 2016. This decrease in tonnage was principally due to the depletion of reserves during the year.

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

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

- Reserves are the part of a mineral deposit that could be economically and legally extracted or produced at the time of the reserve determination.
- Proven reserves are reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches or working or drill holes; grade and/or quality are computed from the results of detailed sampling; and (b) the sites for

inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well established.

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

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

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

Property, Plant and Equipment

The table below details Ternium’s mining segment property, plants and equipment value as of December 31, 2017.

In millions of U.S. dollars	Property, Plant and Equipment (PPE)
Las Encinas	124.6
Consorcio Peña Colorada	212.8

Production process

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

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

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

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

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

40

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

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

Steel processing. Semi-finished steel is then processed into finished products using hot-rolling, cold-rolling, coating, tubing, paneling, slitting and cut-to-length facilities among other processes. In addition, in Mexico and Argentina Ternium has been processing steel slabs produced in Ternium Brazil and/or purchased in the marketplace, as in Mexico its steel processing capacity is higher than its steel production capacity and, in Argentina, its steel processing capacity utilization has been higher in recent years than its steel production capacity. Ternium may purchase hot-rolled, cold-rolled and coated products as well for further processing in its lines.

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

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

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

Sales

Net Sales

Ternium is organized into two reportable segments: Steel and Mining. The Steel segment includes the sales of steel products and other products like electricity and pig iron. The Mining segment includes the sales of iron ore products, which are primarily consumed internally. The Steel segment comprises three operating segments: Mexico, the Southern Region and Other Markets. For further information on our reportable operating segments, see note 5 to our consolidated financial statements included elsewhere in this annual report. Ternium primarily sells its steel products in Latin America and the United States, where it can leverage its strategically located manufacturing facilities to provide specialized products, delivery services to its customers and reduced freight costs. In 2017, the substantial majority of

the produced iron ore was consumed internally.

Our total consolidated net sales of steel and mining products amounted to USD9.7 billion in 2017, USD7.2 billion in 2016 and USD7.9 billion in 2015. For further information on our net sales of steel and mining products, see Item 5. "Operating and Financial Review and Prospects—A. Results of Operations."

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

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

In millions of U.S. dollars	For the year ended December 31,		
	2017	2016	2015
Mexico	5,378.6	4,477.6	4,354.8
Southern Region	2,313.6	1,865.9	2,567.2
Other Markets	1,699.0	864.4	905.4
Total steel products net sales	9,391.2	7,208.0	7,827.4
Other products (1)	309.1	13.8	47.7
Total steel segment net sales	9,700.3	7,221.8	7,875.2
Total mining segment net sales	271.5	204.9	203.1
Intersegment eliminations	(271.4)	(202.7)	(200.8)
Total Net Sales	9,700.3	7,224.0	7,877.4

(1) The item "Other products" primarily includes electricity and pig iron.

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

In thousands of tons	For the year ended December 31,		
	2017	2016	2015
Mexico	6,622.8	6,405.2	5,933.4
Southern Region	2,456.0	2,220.8	2,552.2
Other Markets	2,517.7	1,138.1	1,114.6
Total steel products sales volumes	11,596.6	9,764.0	9,600.3
Total mining segment sales volumes	3,551.1	3,309.6	3,635.6

Steel

Mexico

Sales to customers in Mexico accounted for 57.3% of Ternium's net sales of steel products during 2017, 62.1% during 2016 and 55.6% during 2015. See Item 5. "Operating and Financial Review and Prospects—A. Results of Operations—Fiscal Year Ended December 31, 2017 compared to Fiscal Year Ended December 31, 2016—Net Sales" and "—Fiscal Year Ended December 31, 2016 compared to Fiscal Year Ended December 31, 2015—Net Sales."

Most of Ternium's Mexican customers are located near its plants. Flat steel non-coated products are mainly sold in Mexico to construction companies, industrial customers in the automotive, packaging, electric motors and service center industries, as well as distributors. The principal segments in the Mexican coated steel market are construction, automotive, home appliances and manufacturing (air conditioning, lamps and furniture). Ternium serves industrial customers, who require high-quality specifications, as well as commercial customers through service centers and warehouses. Rebar and wire rod markets in Mexico are characterized by a large number of orders of small volume,

42

and competition is largely based on price. The customer base for bar and rod products in Mexico consists primarily of independent dealers and distributors, who in turn retail the products to their customers in the construction industry. Ternium markets its tubular products mainly through Mexican independent distributors, and the balance is sold directly to industrial customers.

Southern Region

Sales to customers in the Southern Region accounted for 24.6% of Ternium's net sales of steel products during 2017, 25.9% during 2016 and 32.8% during 2015. The vast majority of sales in this Southern Region are made to customers in Argentina. See Item 5. "Operating and Financial Review and Prospects—A. Results of Operations—Fiscal Year Ended December 31, 2017 compared to Fiscal Year Ended December 31, 2016—Net Sales" and "—Fiscal Year Ended December 31, 2016 compared to Fiscal Year Ended December 31, 2015—Net Sales."

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

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

Ternium's principal customers in the Southern Region are located near Ternium Argentina's production facilities in Argentina. Ternium's net sales in Argentina represent approximately 22.8% of our total net sales. We also sell a small portion of our production to customers in Bolivia, Chile, Paraguay and Uruguay.

Other Markets

Sales to customers in other markets, which include mainly shipments to the United States, Brazil, Colombia and Central America, accounted for 18.1% of Ternium's consolidated net sales of steel products during 2017, 12.0% during 2016 and 11.6% during 2015. See Item 5. "Operating and Financial Review and Prospects—A. Results of Operations—Fiscal Year Ended December 31, 2017 compared to Fiscal Year Ended December 31, 2016—Net Sales" and "—Fiscal Year Ended December 31, 2016 compared to Fiscal Year Ended December 31, 2015—Net Sales."

Following the acquisition of Ternium Brasil and related transactions in September 2017, we started shipping steel slabs to tkAG's former re-rolling facility in Calvert, Alabama, United States, and to Usiminas in Brazil. For more information on the acquisition of Ternium Brasil see note 3 to our consolidated financial statements included elsewhere in this annual report.

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

Customers in Colombia are served directly through Ternium Colombia. Ternium offers a variety of customized products through its various service centers in the country. Our main local markets are the construction industry and the energy related sectors.

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

Mining

Ternium's shipments of iron ore mainly include those made by Las Encinas and 50% of those made by Consorcio Peña Colorada. Iron ore shipments are destined mainly for internal consumption within Ternium's Steel segment and surpluses, if any, are destined for the export market. See Item 5. "Operating and Financial Review and Prospects—A. Results of Operations—Fiscal Year Ended December 31, 2017 compared to Fiscal Year Ended December 31, 2016—Net Sales" and "—Fiscal Year Ended December 31, 2016 compared to Fiscal Year Ended December 31, 2015—Net Sales."

Marketing

Steel

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

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

Mexico

Several local and foreign steel producers direct part of their sales efforts to the Mexican market and, as a result, Ternium engages significant marketing efforts in this country. Ternium's steel customers in Mexico are in the construction, automotive, metal-mechanic and home appliances sectors, among other industries. In Mexico, we offer customized services through our network of service and distribution centers.

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

Ternium Mexico has a department focused on the development of small and medium-sized companies in Mexico under a program created by the Techint group for the development of its local customers and suppliers named Propymes. The objective of the program is to improve their competitiveness, to increase their exports and to allow them to substitute imports with local products. Approximately 640 companies are part of this program in Mexico, which provides support for industrial, training, and institutional requirements of the participating companies.

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

Southern Region

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

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

In this region, Ternium has commercial offices in Argentina and Uruguay. These offices provide services such as market development, analysis of businesses opportunities, and customer support in their respective countries.

44

Propymes was implemented in Argentina in 2002, with the objective of promoting the local industry. Approximately 850 companies are part of this program, which provides support for industrial, training, commercial, financial and institutional requirements of the participating companies.

Other Markets

Following the acquisition of Ternium Brasil and related transactions in September 2017, we started shipping steel slabs to tkAG's former re-rolling facility in Calvert, Alabama, United States, under an agreement to supply a total of 3.5 million tons of slabs between January 2018 and December 2020, and to Usiminas in Brazil. For more information on the acquisition of Ternium Brasil see note 3 to our consolidated financial statements included elsewhere in this annual report.

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

Through Ternium's facilities and service centers located in Colombia, Costa Rica, El Salvador, Guatemala, Nicaragua and southern United States, Ternium can cut, paint or roll-form its products to specific client requirements mainly in the construction industry. In addition, Ternium has a commercial office in Houston, TX, which enables Ternium to offer differentiated services to various customers.

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

Mining

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

Competition

Steel

The steel industry operates predominantly on a regional basis, with large industry participants selling the bulk of their steel production in their home countries or regions, where they have natural advantages and are able to more effectively market value-added products and provide additional customized services. Despite the limitations associated with transportation costs, as well as the restrictive effects of protective tariffs and other trade restrictions, international trade of steel has increased in the last two decades with production shifting towards low-cost production regions. In addition, since 2002, several large steel manufacturers have merged with each other or acquired steel companies in other parts of the world. This wave of consolidation has resulted in a number of large, global producers with significant operations in several regions and/or continents, contributing to the increasing globalization of the steel industry. Considered as a whole, however, the steel industry still remains considerably fragmented, compared with market conditions characterizing certain of our suppliers and customers, e.g. iron ore suppliers and the automotive industry.

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

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

- June 2006: Mittal Steel and Arcelor merge to create ArcelorMittal, the world's largest steel company.
- March 2007: Votorantim acquires Colombia's Aceria Paz del Rio.
- April 2007: Tata Steel completes the acquisition of Corus.
- July 2007: Gerdau acquires Chaparral Steel.
- August 2007: US Steel acquires Stelco.

- March 2008 to May 2008: Severstal acquires Sparrows Point, WCI Steel and Esmark (subsequently, during 2011, it divests Sparrows Point, Warren and Wheeling).
- October 2012: Nippon Steel and Sumitomo merge to form NSSMC, the world's second largest steel company at the time.
- February 2014: ArcelorMittal and NSSMC acquire ThyssenKrupp Steel USA, a steel processor based in Alabama, through a 50/50 joint venture.
- September 2014: AK Steel Corporation and Steel Dynamics Incorporated acquired OAO Severstal's U.S. Dearborn and Columbus operations, respectively.
- June 2016: Hebei Iron and Steel (HBIS) acquired Serbian Zelezara Smederevo steel mill, becoming the world's third largest steel producer.
- December 2016: Baosteel Group and Wuhan Iron and Steel Corporation merged to create Baowu Steel Group, which became the world's second largest steel producer.
- March 2017: NSSMC acquired a majority stake in Nisshin Steel Co., Ltd. a Japanese steel company.
- September 2017: thyssenkrupp and Tata Steel sign a memorandum of understanding to combine European steel activities in a joint venture to create the second largest European steel company.
- February 2018: Certain steel companies submit offers for banckrupt Indian steel company Bhushan Steel.
- February 2018: ArcelorMittal and NSSMC agree to form a joint venture to acquire Essar Steel India Limited.

Despite this trend, the global steel market remains highly fragmented. In 2016, the most recent year for which statistics are available, the five largest steel producers, ArcelorMittal, Baowu Steel Group, HBIS, NSSMC and Posco, accounted for 18% of total worldwide steel production, compared to 15% for the five largest steel producers in 2000.

Steel prices in general have exhibited significant volatility in the last decade. From 2000 to 2002, the industry, especially in North America, experienced fluctuating capacity utilization, low-demand growth levels and other adverse conditions, which led to depressed steel prices, adversely impacting many steel producers' profitability. Since 2003, steel prices strengthened worldwide, due to higher economic growth in most regions, particularly China and other developing countries, as well as higher raw material prices (for iron ore, ferroalloys and energy). During the first quarter of 2008, steel prices went up significantly due to higher demand for steel products and higher input costs resulting from constraints in the availability of raw materials. However, this trend reversed beginning in the second half of 2008 due to a global economic downturn, with prices and costs declining steeply. Since 2009, a number of events have contributed to continuously volatile steel price cycles, such as spikes and depressions in raw material prices, new steelmaking capacity additions (at a pace higher than steel demand growth), the idling and restart of steelmaking capacity, adverse economic conditions in Europe in 2012 and decreasing apparent steel use in China in 2014 and 2015. Particularly during 2015, the steel industry continued to exhibit overcapacity combined with lower steel consumption in China, which together contributed to a record level of low-priced Chinese steel exports (112 million tons), in many cases under unfair trade conditions, that exerted significant pressure on global steel prices. However, during the rest of 2016 and 2017, steel prices followed an upward trend as a result of higher industry steel production costs and improved steel demand as well as a 31% reduction in 2017 of China's exports.

Mexico

Ternium competes in the Mexican steel market with domestic and international steel producers. According to the Mexican chamber of the iron and steel industry (Cámara Nacional de la Industria del Hierro y el Acero, or Canacero), imports of flat steel products into Mexico accounted for approximately 8.6, 7.6 and 7.6 million tons in 2017, 2016 and 2015, respectively.

Our largest Mexican competitor in the flat products market is AHMSA, an integrated steel producer located in Monclova, Coahuila, which produces a wide variety of steel products. AHMSA focuses on low-value-added products such as plate and commercial quality hot-rolled and cold-rolled coils. Other significant competitors with facilities in the country are Galvasid (Grupo LM), a producer of galvanized coils that has announced new investments in galvanizing and pre-painting lines; Zincacero (Grupo Villacero), a producer of galvanized coils and a distributor of steel products; POSCO, a Korean steel company with steel galvanizing facilities; and Talleres y Aceros, which has a flat steel Castrip® mill and announced plans to build cold-rolling, galvanizing and pre-painting facilities. In addition,

46

ArcelorMittal has announced plans to build a new hot-rolling mill in Mexico and Nucor-JFE Steel Mexico, a joint venture between Nucor and JFE Steel, announced plans to build a steel galvanizing facility in the country.

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

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

Southern Region

Ternium's most significant market in the Southern Region is Argentina, which in 2017 accounted for approximately 85% of sales in the Southern Region. Ternium Argentina is the main producer of flat-rolled steel products in Argentina. Its main competition in the Argentine flat steel market are imports, particularly from Brazil. The main Brazilian producers of flat steel value-added products are Usiminas, Companhia Siderúrgica Nacional and ArcelorMittal. Ternium maintains a leading position in the flat steel market of Paraguay and is present in the flat steel markets of Bolivia, Chile and Uruguay, where the location of Ternium's facilities in neighboring Argentina provides a logistical advantage to supply these markets vis-à-vis its foreign competitors.

Other Markets

Within the Other Markets region, Ternium's most significant markets for finished steel products are Colombia, the southern United States and Central America. In addition, Ternium sells steel slabs mainly to ArcelorMittal and NSSMC's Calvert facility in the United States, and to Usiminas in Brazil.

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

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

Ternium maintains a significant position in the coated flat steel market of Central America, supported by logistical advantages provided by nearby facilities located in Costa Rica, El Salvador, Guatemala, Nicaragua and Mexico. Despite these advantages, Ternium has been facing strong competition in Central America from importers in an oversupplied steel market.

In addition, Ternium keeps a presence in other markets in the Americas where it has also been facing strong competition from other importers.

Mining

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

Capital Expenditure Program

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

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

- improve product quality, equipment reliability and productivity;
- comply with applicable safety and environmental standards; and
- provide enhanced customer services.

Capital expenditures in Ternium's facilities during 2017 amounted to USD409 million. The current status of the most significant projects is described below.

Steel

Mexico. During 2017, Ternium's capital expenditures in the steel segment in Mexico amounted to USD194 million and were mostly related to the following projects:

- Environmental and safety projects. During 2017, Ternium advanced various environmental and safety projects mainly in the Guerrero, Churubusco and Puebla units. Those projects included the replacement of pickling tanks (Guerrero and Churubusco units); the installation of an oxygen, coal and dolomite lime injection system for a Fuchs oven (Guerrero unit); improvements in the processing and handling of steel slag in the steel shop (Guerrero unit); improvements in the treatment of sludge, upgrading of raw material storage yards and improvements in vehicular circulation (Guerrero unit); a new bag house for a steel shop (Puebla unit); and the expansion of road and railway infrastructure, and new dumpers (Puebla unit).
- Expansion and enhancement of hot-rolling capacity. This project was completed during the first quarter of 2017. It included the repair of a furnace and the replacement of the sheet cooling system, achieved during 2015, and the installation of a new furnace, launched in 2015 and recently completed. The investment in the Churubusco unit's hot-rolling mill enables the production of advanced high-strength and dual-face steels, and increased the mill's annual slab processing capacity by approximately 230,000 tons.
- Expansion of hot-dipped galvanizing and pre-painting lines. During 2017, Ternium launched and made progress on its project to build new hot-dipped galvanizing and pre-painting lines in its Pesquería unit. Expected to be completed during 2019, the new lines will have an annual production capacity of 350,000 and 120,000 tons, respectively.

Southern Region. During 2017, Ternium's capital expenditures in Argentina amounted to USD95 million. Ternium carried out a capital expenditure plan to maintain its equipment's operating performance, continued with some projects and started new ones, the most significant of which involved Ternium Argentina's San Nicolás unit, as follows:

- Expansion and enhancement of hot-rolling capacity. During 2017, Ternium Argentina made progress in the revamping of its hot-strip mill in the San Nicolás unit. Upon completion of this investment, targeted to occur in 2019, annual slab processing capacity is expected to increase by 310,000 tons to a total of 3.2 million tons. The project includes new hardware and software for all the equipment and the replacement of the main electrical engines and of the strip cooling system.
- Environmental and safety projects. Ternium Argentina made progress on several projects aimed at further improving environmental and safety conditions. Investments during the year included, among others, a new de-dusting system for a kish pit station with capacity to clean 150,000 cubic meters of air per hour; a new close-water circuit for a blast furnace that reduces water usage by 900 cubic meters per hour; and a runoff water collection system and sedimentation treatment for the sinter area and yards that enable the recycling of recovered material in the sinter plant.

In addition, during 2017, Air Liquide Argentina S.A. (ALASA) commissioned a new gases separation plant located in San Nicolá´s unit under a contract that qualifies as financial lease agreement. For more information on the agreement with ALASA, see note 23 to our consolidated financial statements included elsewhere in this annual report.

Other Markets. During 2017, Ternium's capital expenditures in our facilities located in other countries amounted to USD53 million, the majority of which were made in our facilities in Brazil. Projects were mainly related to the replacement of equipment, the improvement of product quality and equipment reliability, and increases in processing capacity.

Mining

During 2017, Ternium's capital expenditures in its mining segment in Mexico were USD67 million. Las Encinas' capital expenditures amounted to USD19 million in the year, mainly related to preparation works in the Las Palomas iron ore mine and maintenance activities. Ternium's share in Consorcio Peña Colorada's capital expenditures amounted to USD49 million, mainly related to preparation works at a new iron ore body in the Peña Colorada mine and maintenance activities.

2018 Capital Expenditures

Ternium's capital expenditures for 2018 are expected to range between USD600 million and USD650 million. The main capital expenditure projects will relate to the following:

- the construction of a hot-rolling mill in the Pesquería unit, which will have an annual production capacity of 4.1 million tons. With a total investment of USD1.1 billion, the new line would be operational by the second half of 2020;
- the construction of a hot-dip galvanizing line and a pre-painting line in the Pesquería unit, which will have annual production capacity of 350,000 and 120,000 tons, respectively, and are expected to be operated during 2019. The total investment is expected to reach approximately USD280 million;
- the construction of a steel bar and coil mill in northern Colombia. With annual production capacity of 520,000 tons and total investment of approximately USD90 million, it will expand Ternium's reinforcing bar production capacity in Colombia to 740,000 tons, to integrate upstream our operations in the country. The new mill is expected to be completed by year-end 2019;
- projects aimed at further improving environmental and safety conditions throughout our main facilities; and
- the expansion of service center capacity in several locations.

Raw Materials, Slabs, Energy and Other Inputs

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

Mexico

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

Slabs. Ternium's Mexican subsidiaries have some non-integrated steel processing facilities that consume large quantities of slabs purchased from third-party suppliers. Currently, slabs are purchased both in Mexico (primarily from ArcelorMittal) and in the international markets. In addition, Ternium Brasil supplies slabs to our Mexican facilities. Ternium Argentina is also capable of supplying slabs to our Mexican facilities, as it has excess steelmaking capacity. Slab consumption could vary significantly from year to year in accordance with market conditions. Our Mexican subsidiaries purchased, either from third parties or from other Ternium facilities, 3.7 million, 3.5 million and 3.4 million tons of slabs in 2017, 2016 and 2015, respectively. Slab purchase prices are market-based.

Iron ore. As described under "—Production Facilities and Processes—Mining Production Facilities" above, Ternium's subsidiaries own interests in two mining companies in Mexico: 100% of the equity of Las Encinas and a 50% equity stake in Consorcio Peña Colorada. In 2017, Ternium's Mexican facilities sourced 100% of their iron ore pellet requirements from these two companies. Under our arrangement with Consorcio Peña Colorada, effective January 1, 2013, we are committed to off-take 50% of the annual production of the Peña Colorada mine. In 2017, the substantial

majority of the iron ore production available to Ternium went to our own direct reduction plants. On average, we consume approximately 1.0 tons of iron ore to produce one ton of crude steel at our mini-mill facilities in Mexico.
Steel scrap. In 2017, approximately 71% of Ternium's scrap requirements was obtained in the Mexican market through its own steel scrap collecting and processing operations and approximately 29% was purchased in the United States. Scrap is purchased at market prices. On average, we consume approximately 0.5 tons of scrap to produce one ton of crude steel at our mini-mill facilities in Mexico.
Electricity. Electric arc furnaces consume large quantities of electricity. In Mexico, Ternium purchases electricity from Techgen S.A. de C.V. (Techgen), CFE- (Mexico's state-owned electricity company), Iberdrola Energía Monterrey, S.A. de C.V.,(Iberdrola) and Tractebel Energía de Monterrey S. de R.L. de C.V. (Tractebel).
During the last quarter of 2016, Techgen inaugurated its gas-fired combined cycle power plant in the Pesquería area of the State of Nuevo León, Mexico. Techgen is a joint venture company in which Ternium participates and contracts 78% of Techgen's capacity of approximately 900 megawatts. As a result, Ternium has further secured the supply of electricity to its facilities in Mexico and to the new hot-rolling, galvanizing and pre-painting mills to be built in Pesquería. Since the inauguration of Techgen facilities, Ternium resells unused electricity to the Mexican market. For more information on the Techgen investment, see Item 4. "Information on the Company—C. Organizational Structure—Other investments—Techgen."
Ternium purchases electricity from Iberdrola and Tractebel under supply contracts, with electricity purchases under these contracts being made at market prices less certain agreed discounts and at prices linked to certain energy production input costs, respectively. For more information on Ternium's commitments with Iberdrola and Tractebel, see note 24(ii) (d) and (e) to our consolidated financial statements included elsewhere in this annual report. On average, we consume approximately 0.7 MWH of electricity to produce one ton of crude steel at our mini-mill facilities in Mexico.
Natural gas. Natural gas is mainly used as a reducing agent for the production of DRI and for the reheating of slabs and billets before the hot-rolling process. In the past, Ternium could purchase natural gas in Mexico solely from Pemex, the Mexican state-owned oil and gas company. Based on new Mexican rules and regulations effective July 1, 2017, Ternium secured with CENAGAS, the Mexican national center for natural gas control, natural gas transportation capacity on SISTRANGAS, the Mexican natural gas transportation grid. Ternium has also natural gas distribution agreements with Gas Industrial de Monterrey S.A. de C.V., or GIMSA, Compañía Mexicana de Gas S.A. de C.V., or CMG, and Gas Natural Mexico S.A. de C.V., or GNM.
In addition, Ternium signed a renewable one-year natural gas supply agreement with Pemex, which has become, under the new rules and regulations, one of various natural gas marketers. Natural gas prices in Mexico are mainly based on the Houston Ship Channel reference price plus transportation, distribution and service costs depending on the location of the delivery points in Mexico. Most marketers, including Pemex, charge an extraordinary fee on natural gas prices, as authorized by the Comisión Reguladora de Energía (Energy Regulatory Commission), or CRE, to compensate for the incremental cost of liquefied natural gas imports at prices that are higher than those based on the Houston Ship Channel reference price. Such extraordinary fees could be eliminated if current bottlenecks in Mexico's natural gas grid transportation capacity are resolved. The extraordinary charge set for March 2018 was USD0.2909 per million btu. On average, we consume approximately 7.9 million btu of natural gas to produce one ton of crude steel at our mini-mill facilities in Mexico.
For additional information regarding inputs affecting our operations in Mexico, see Item 3. "Key Information—D. Risk Factors—Risks Relating to the Countries in Which We Operate—Mexico" and "—Risks Relating to our Mining Activities."
Brazil and Argentina
In Brazil and Argentina, Ternium produces crude steel through the use of blast furnace technology. The principal raw materials used to produce steel are iron ore, metallurgical coal and, in Ternium Brasil, pulverized coal. The manufacturing process also requires significant quantities of electricity and natural gas.
Iron ore. Iron ore is purchased under long-term agreements from suppliers in Brazil. Prices under these contracts are determined in accordance with market conditions. Our main suppliers of iron ore, in the form of lumps, pellets and sinter feed fines, are Vale and Vetria. Our geographic location in Brazil provides favorable access to high quality iron ore pellets, lumps and fines produced in Brazil's iron ore mines in the Southeast Region, and our geographic location

in Argentina provides favorable access to high quality iron ore lump and fines produced in Brazil's iron ore mines in

50

the Pantanal Region (Mato Grosso do Sul state). In addition, Ternium Argentina's steelmaking facility receives iron ore pellets and fines from ports located on Brazil's ocean coast. We consume approximately 1.6 tons of iron ore to produce one ton of crude steel in Brazil and approximately 1.3 tons of iron ore to produce one ton of crude steel in Argentina.

Metallurgical coal and related materials. Ternium Brasil and Ternium Argentina obtain their coke through the distillation in their coke ovens of metallurgical coal and, in Argentina, petroleum coke. The facilities require different types of coal to produce coke. In addition, Ternium Brasil purchases pulverized coal to inject in the blast furnace. Metallurgical and pulverized coal are purchased under short-term contracts and on the spot market from several major international suppliers based mainly in Australia and the United States. Prices under contracts are determined in accordance with market conditions. Ternium Argentina purchases petroleum coke produced in Argentina by oil companies such as Axion Energy Argentina S.A. and YPF S.A. The volume purchased from each supplier mainly depends on the technical quality requirements of the blast furnace operations. We consume approximately 0.6 tons of metallurgical and pulverized coal to produce one ton of crude steel in Brazil and 0.5 tons of metallurgical coal and petroleum coke to produce one ton of crude steel in Argentina.

Electricity. Ternium Brasil and Ternium Argentina consume large quantities of electricity for their manufacturing activities. The electricity required by Ternium Brasil is self-generated on site by its thermoelectric plant with an installed power capacity of 490 MW, with excess electricity production sold in the Brazilian wholesale market. Most of the electricity required by Ternium Argentina's San Nicolás facility is self-generated on site by a wholly-owned thermoelectric plant with an installed power capacity of 108 MW. These thermoelectric plants use steam primarily generated from by-product gases obtained in the steelmaking process (blast furnace and coke oven gases) and also, in the case of Ternium Argentina, steam purchased under a long-term steam sales agreement from a power plant located within the San Nicolás facility owned by Siderca S.A.I.C., a subsidiary of Tenaris.

Additional fuel requirements for steam production are covered with natural gas purchased from different market vendors and/or, in the case of Ternium Argentina, fuel oil bought at market prices. Ternium Argentina covers electricity shortfalls or sells surpluses, as the case may be, at spot prices in the Argentine wholesale market. Over the course of the last several years, demand for electricity in Argentina increased substantially, outpacing supply and resulting in shortages of electricity to residential and industrial users during periods of high demand. During these periods, Ternium Argentina's energy purchases to cover its energy shortfalls suffered restrictions. We purchase approximately 0.1 MWH of electricity to produce one ton of crude steel in Argentina.

Natural gas. Ternium Brasil and Ternium Argentina also consume substantial volumes of natural gas, particularly to operate its steel plants and power generation facilities. Ternium Brasil purchases natural gas at market prices from Companhia Distribuidora de Gás do Rio de Janeiro (CEG). Ternium Brasil has a natural gas transportation and distribution agreement with CEG that expires in December 2019. We consume approximately 0.7 million btu of purchased natural gas to produce one ton of crude steel in Brazil.

Ternium Argentina purchases natural gas at market prices mainly from Total Austral S.A., Pluspetrol S.A., Tecpetrol S.A., a company in which San Faustin holds a controlling interest, and natural gas traders, including MetroEnergía S.A., Rafael G. Albanesi S.A., Energy Traders, Gas Patagonia S.A., Natural Energy S.A., Gas Meridional S.R.L. and Energy Consulting Services S.A., a company in which San Faustin holds significant but non-controlling interest. Over the course of the past several years, natural gas demand in Argentina increased significantly, outpacing supply and thus, as is the case with electricity, the provision of natural gas to industrial users (including Ternium Argentina) suffered restrictions during periods of high demand.

For its San Nicolás facility, Ternium Argentina has separate transportation and distribution agreements with Transportadora de Gas del Norte S.A, or TGN, and Litoral Gas S.A., companies in which San Faustin holds significant but non-controlling interests. Ternium Argentina's firm transportation contracts with TGN expire in April 2028, whereas its distribution agreement with Litoral Gas expires in December 2018. For its other facilities Ternium Argentina's transportation and distribution needs are covered by the corresponding regional distributors Camuzzi Gas Pampeana S.A., Gas Natural Fenosa S.A. and Metrogas S.A. We consume approximately 3.7 million btu of purchased natural gas to produce one ton of crude steel in Argentina.

Other inputs. Ternium Brasil and Ternium Argentina have on-site oxygen, nitrogen and argon separation plants in order to extract these gases for use in the steelmaking process. Ternium Brasil's separation plants are managed by a consortium formed by Air Liquide Brasil Ltda., AirSteel Ltda., White Martins Gases Industriais Ltda., White Martins Steel Ltda. and ThyssenKrupp MinEnergy GmbH under a long-term contract for the supply of air, oxygen, nitrogen

and argon. Ternium Argentina's separation plants are managed by ALASA under a long-term contract for the supply of oxygen, nitrogen and argon.

Colombia

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

Steel products. Ternium's operations in Colombia include non-integrated facilities that process steel supplied by Ternium's overseas subsidiaries and steel purchased from third-party suppliers procured in the domestic and international markets. We purchased from third parties approximately 280,000 tons of steel products in 2017, 400,000 tons of steel products in 2016 and 390,000 tons of steel products in 2015.

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

Electricity. Manizales is our main electricity consuming unit in Colombia, mainly due to its electric arc furnace-based steel production operations. Manizales purchases electricity from Isagen S.A. E.S.P., a Colombian power company, under a supply contract expiring in December 2018. The electricity price is based on a fixed rate adjusted by the wholesale price index with certain pre-set premiums or discounts in the event prevailing market prices reach a level above or below certain thresholds. We consume approximately 0.6 MWH of electricity to produce one ton of crude steel in Colombia.

Product Quality Standards

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

Ternium established and implemented a Quality Management System, or QMS, and continuously improves its effectiveness in compliance with the requirements of the applicable ISO 9001:2008 and ISO/TS 16949:2009, intended for production of automotive supplies, and other specific requirements. Ternium's QMS operates with aligned strategies, objectives and criteria throughout Ternium's subsidiaries. To keep its ISO multisite certification, the QMS is audited annually by Lloyd's Register Quality Assurance. During 2017, Ternium launched a project to obtain a QMS upgraded certification for its facilities, including the recently acquired Rio de Janeiro unit. The upgraded certificates under this project, launched in connection with a new Quality Management reference standards version upgrade (ISO 9001:2015 and IATF 16949:2016 for automotive market), are expected to be obtained during 2018.

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

Research and Development; Product Development

Product research and development activities at Ternium are conducted through a central Product Development Department in coordination with local teams that operate in several of our facilities. We invest in the development of our staff by funding postgraduate studies in technology at renowned universities. Applied research efforts are carried out in-house, including some cases with the participation of strategic customers, through joint efforts together with universities or research centers, or through our participation in international consortiums.

We engage universities in our research efforts in order to expand and further diversify Ternium's research network and capabilities, with the participation of undergraduate and post-graduate students pursuing degrees in engineering,

52

materials science and metallurgy. This initiative fosters the development of fundamental knowledge and know-how at participating universities while enabling the optimization of Ternium's in-house research resources.

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

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

In the Mexican commercial steel market, we are introducing innovative products such as new wood-resembling panels, new metal roof tiles and sides with original designs and colors, and new antibacterial products for cold chamber panels, among other applications. In addition, we developed new metallic and textured coatings for exposed surfaces, which offer increased light reflection and lower cooling requirements.

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

Since its acquisition in September 2017, Ternium Brasil has developed several new steel grades that enable the Rio de Janeiro unit to supply more than 97% of Ternium's steel quality requirements in Mexico, including high-end steel grades for industrial applications such as in the automotive and home appliance industries. The Rio de Janeiro unit has also developed products for Ternium Argentina, aimed at complementing Ternium Argentina's steel grade requirements and increasing the overall efficiency of Ternium's industrial system.

Regulations

Environmental Regulation

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

Ternium reports carbon dioxide emissions data on an annual basis to the World Steel Association, to contribute to the association's initiative to collect emissions data from member companies. We support the steel industry's ongoing effort to develop innovative solutions to reduce GHG emissions over the life cycle of steel products. According to the Intergovernmental Panel on Climate Change, the steel industry accounts for approximately 6% to 7% of total world GHG emissions.

The ultimate impact of complying with existing and expected laws and regulations is not always clearly known or determinable since regulations under some of these laws have not yet been promulgated or are undergoing revision. The expenditures necessary to remain in compliance with these laws and regulations, including site or other remediation costs, or costs incurred from potential environmental liabilities, could have a material adverse effect on our financial condition and profitability. While we incur and will continue to incur expenditures to comply with applicable laws and regulations, there always remains a risk that environmental incidents or accidents may occur that

may negatively affect our reputation or our operations.

Ternium has not been subject to any material penalty for any environmental violations in 2017, and we are not aware of any current material legal or administrative proceedings pending against Ternium with respect to environmental matters which could have an adverse material impact on Ternium's financial condition or results of operations. Below is a summary of relevant legislation applicable to Ternium.

Mexico:

Mexican environmental laws establish the "polluter pays" principle, pursuant to which the individual that causes an environmental breach is responsible for restoring the environment to its pre-pollution condition and face economic and, in some cases, criminal liabilities. Mexican regulations also establish an annual report scheme of GHG emissions. In addition, Mexican regulations provide for carbon dioxide emission taxes. Several fuels are subject to taxes, with rates reviewed annually, depending on their efficiency in terms of carbon dioxide emission per unit of energy obtained. The carbon dioxide emission tax for natural gas is currently zero. Mexico is also in the process of creating a trade market for carbon dioxide emissions. Ternium Mexico is a large consumer of natural gas. For further information see Item 4. "Information on the Company—B. Business Overview—Raw Materials, Slabs, Energy and Other Inputs."

Brazil:

The Company's activities are subject to wide-ranging Brazilian environmental legislation at the federal, state and municipal levels that govern, among other aspects, the dumping of effluents, atmospheric emissions and the handling and final disposal of dangerous waste, as well as the obligation to obtain operating licenses for the installation and operation of potentially polluting activities.

Brazilian environmental legislation imposes criminal and administrative penalties on natural persons and legal entities that commit environmental crimes or infractions, as well as for the obligation to repair the environmental damage caused. Environmental crimes or infractions could subject the Company to penalties that include:

- fines that at the administrative level could reach as high as BRL50 million, depending on the violator's economic capacity and past record, as well as the severity of the facts and prior history, with the amounts potentially doubled or tripled in the case of repeat offenders;
- suspension of or interference in the activities of the respective enterprise; and
- loss of benefits, such as the suspension of government financing and the inability to qualify for public bidding processes and tax breaks.

In addition, strict liability is applicable to environmental crimes for both natural persons and legal entities. Environmental legislation also provides for disregarding the legal status of a company's controlling shareholders whenever such status represents an impediment to receiving restitution for environmental damages.

In the civil sphere, environmental damage results in joint and several liability as well as strict liability. This means that the obligation to repair the environmental damage may affect all those directly or indirectly involved, regardless of any proof of who is to blame. As a result, the hiring of third parties to intervene in its operations to perform such services as final disposal of solid waste does not exempt the Company from liability for any environmental damage that may occur.

Argentina:

Argentine environmental laws and regulations require the renewal of environmental licenses and emission permits every two years. Although such renewals may take longer than expected and the renewal process may extend beyond the due date of the then current licenses and permits, no shut down orders against the Company have ever been issued while the renewal processes are ongoing. In addition, Argentine environmental laws and regulations require mandatory environmental insurance to cover facilities that use hazardous materials and the observance of predefined air quality standards. Such regulations are currently under review, and more stringent air quality standards are expected to be imposed in the long term.

During 2016, Argentina promulgated a new law providing for mandatory minimum shares of renewable energy in total electricity consumption. The new law requires large energy consumers such as Ternium Argentina to increase the share of renewable energy consumption to 8% by 2018 and 20% by 2025. There is currently not sufficient renewable

electric power capacity installed in the country to fulfill the law requirements, and there is no assurance that renewable energy projects currently being developed in Argentina will be sufficient to meet such targets.

In December 2017, the Argentine Congress approved a new tax on carbon emissions. The tax does not apply to metallurgical coal and natural gas provided that these products are used as raw materials in the production process, as is the case of Ternium Argentina.

Mining regulations in Mexico

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

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

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

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

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

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

For information regarding amendments to the Mining Law and regulations in Mexico, see Item 3. “Key Information—D. Risk Factors—Risks Relating to our Mining Activities—Required governmental concessions could be subject to changes or termination, permits and rights of use and occupancy could be difficult to obtain or maintain and taxes or royalties applicable to the mining industry could change, all of which could adversely affect our mining activities and operating costs.”

Trade regulations

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

During a period of intense competition in 2001, the national governments in some markets such as the United States and Europe implemented these measures as well as other measures known as safeguards. While safeguards were lifted in December 2003, antidumping and countervailing duties remain in place. More recently, a new wave of protective measures has emerged due to increased steel imports from many countries, mainly China. Moreover, on March 8, 2018, under Section 232 of the Trade Expansion Act of 1962, the U.S. President imposed a 25% tariff on steel articles imported from all countries; however, the U.S. administration announced that imports from Argentina, Australia, Brazil, Canada, the European Union, Mexico and South Korea will be temporarily exempted. There is considerable uncertainty surrounding the eventual scope and impact of these measures and its corresponding exemptions.

55

At the same time, bilateral or regional free trade agreements have liberalized trade among some countries, providing for reduced or zero tariffs for many goods, including steel products. The entry into force of various free trade agreements and certain countries' imposition of trade remedy measures can and have both benefited and adversely affected Ternium's home markets and export sales of steel products, as described below. See also Item 3. "Key Information—D. Risk Factors—Certain Regulatory Risks and Litigation Risks—International trade actions or regulations and trade-related legal proceedings could adversely affect Ternium's sales, revenues and overall business." Relevant free trade agreements and trade remedy measures, by country, are described below:

Mexico

Imports of steel products to Mexico:

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

- Hot-rolled products: On March 28, 2000, the Mexican government imposed antidumping duties on the Russian Federation and Ukraine of 30.31% and 46.66%, respectively, on hot-rolled products. The measure was extended three times for five years each, on March 17, 2006; on September 8, 2011 (modifying the duties to 21% and 25% for Russia and Ukraine respectively) and on January 28, 2016. On July 19, 2013, the Mexican government initiated an anti-circumvention investigation on imports of boron-alloyed hot-rolled products from Russia. On March 21, 2014, Mexico's Secretariat of Economy published the final resolution on the investigation, by which boron-alloyed hot-rolled products from Russia are now subject to a 21% antidumping duty. Furthermore, on December 22, 2015, the Mexican government published the final antidumping resolution imposing definitive and specific antidumping duties on China (US$335.60 per ton, US$354.92 per ton), Germany (US$137 per ton, US$166.01 per ton) and France (US$67.54 per ton, US$75.59 per ton), on hot-rolled products.
- Plate in coils: Since June 1996, an antidumping duty of 29.3% has been in place on imports from Russia. The measure has been extended four times, in June 2003, June 2007, November 2012 and May 2017. On July 5, 2013, the Mexican government initiated an anti-circumvention investigation on imports of boron-alloyed plate in coil imports from Russia. On February 19, 2014, Mexico's Secretariat of Economy published the final resolution on the investigation by which boron-alloyed plate in coil imports are now subject to a 29.3% antidumping duty. Such resolution has been appealed and judicial procedures are ongoing in Mexican courts.
- Cold-rolled products: In June 1999, Mexico imposed antidumping duties on cold-rolled steel sheets from the Russian Federation (15%) and Kazakhstan (22%). The measure has been extended three times, in December 2005, December 2010 and July 2015, and will be in place until July 2020. In addition, on October 1, 2012, the Mexican government initiated a dumping investigation on cold-rolled steel imports from South Korea. On December 26, 2013, Mexico's Secretariat of Economy published a suspension agreement under which Korean exporters, POSCO and Hyundai, voluntarily undertook to limit their cold-rolled products exports to the Mexican market. On May 25, 2016, Mexican authorities initiated a changed circumstances review of this suspension agreement, and on June 13, 2017, the Secretariat of Economy issued a final determination increasing POSCO's and Hyundai's quotas for 2017 and 2018. Furthermore, on June 19, 2015, Mexico imposed antidumping duties on cold-rolled steel products from China of between 65.99% and 103.41%, with rates depending on the Chinese exporting company. On December 2015, Mexico initiated a circumvention inquiry against cold rolled steel products with boron added from China. On July 11, 2016, the Mexican government issued a final determination confirming China's circumvention practice and thus, extending the antidumping duties.
- Coated flat products: On December 17, 2015, the Mexican government initiated an antidumping investigation on coated flat products from China and Taiwan. On July 29, 2016, Mexico imposed provisional antidumping duties on Chinese exports of between US$192 and US$438 per ton, and of US$563 per ton on Taiwanese products. On June 5, 2017, Mexico imposed final antidumping duties on Chinese exports of between 22.22% and 76.33%, and of between 22.26% and 52.57% on Taiwanese products. On November 21, 2017, Mexico amended final antidumping duties applicable to products sold by Chinese companies, one of which was imposed duties for US$187 per ton, while others face duties ranging between 22.26% and 76.33% of the products' price.

Reinforcing bars: Since 1995, imports of reinforcing bars from Brazil are subject to an antidumping duty of 57.69%. Subsequent sunset reviews determined the continuation of the antidumping duty for additional five-year periods. On July 31, 2015, the fourth sunset review was initiated, and on September 9, 2016, the Mexican authority determined the continuation of the antidumping duty for an additional five-year period.

- Wire rod: Since September 2000, imports of wire rod from Ukraine are subject to an antidumping duty. The initial antidumping margin was 30.52%. In June 2006, the first sunset review resolution determined the continuation of the antidumping duty for five more years. On September 7, 2010, a second sunset review was initiated, and on March 7, 2012, the Mexican government increased the antidumping duty to 41% until September 2015. The Mexican government initiated the third sunset review on September 4, 2015, and extended the measures for an additional five-year period on September 2, 2016. In addition, on September 2, 2015, the Mexican government initiated an antidumping investigation on wire rod from China. After a preliminary determination published on December 22, 2015, on July 28, 2016 the Mexican government imposed a specific antidumping duty of US$0.49 per kilogram for five years.
- Welded Tubes: On December 7, 2016, the Mexican government initiated an antidumping investigation on welded tubes of circular, square or rectangular cross section from China. On March 8, 2018, Mexico imposed final antidumping duties on Chinese exports of between US$356 and US$618 per ton.

On February 9, 2010, the Mexican Government issued a decree reducing the import tariffs on several steel product groups. The tariff for finished products was set at 0% starting in 2012 (from 3% in 2011, 5% in 2010 and 7% in 2009). The tariff for semi-finished products was set at 0% starting in 2012 (from 3% in 2011 and 2010, and 5% in 2009) and the tariff for welded pipe products was set in a range from 0% to 5% starting in 2012 (from 7% in 2011 and 2010, and 10% in 2009). Three companies (including Ternium) and an industry related labor union sought an injunction (acción de amparo) against these government decisions in early 2012 when the tariffs went to 0%. The legal action taken by the companies was rejected by the courts, but the legal action taken by the labor union had a positive preliminary outcome. As a result, the government reestablished on August 1, 2012, a 3% tariff on some semi-finished, flat, long and pipe and tube steel products. At the beginning of May 2015, the tariffs were removed again. However, on October 7, 2015, the Mexican Government issued a decree imposing a temporary 15% import tariff on several steel product groups for a period of six months, renewed four times for subsequent six-month periods. With the latest renewal on October 17, 2017, the Mexican Government is currently analyzing its extension. Steel product groups included slabs, hot-rolled, cold-rolled and wire rod.

Exports of steel products from Mexico:

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

- Carbon and alloy steel wire rod: Mexican wire rod exports are subject to an antidumping duty of 20.11% pursuant to an antidumping duty order on carbon and certain alloy steel wire rod. On May 30, 2014, as a result of the most recent sunset review, such duty was extended for five more years, until June 2019.
- Pipe and tube: During 2007, U.S. authorities initiated an antidumping investigation of light-walled rectangular pipe and tube, or LWRPT, from, among other countries, Mexico. On June 13, 2008, the authorities made a final determination of sales at less than fair value in the investigation of LWRPT from Mexico and, consequently, imposed antidumping duties. On February 18, 2011, the authorities published the final results of the first administrative review by which Mexican LWRPT exports were subject to an antidumping duty of 6.13% until May 23, 2014, when U.S. authorities made a final affirmative sunset review of 2.40% for Maquilacero S.A. de C.V. and 3.76% for certain other companies subject to the review, including Ternium Mexico. On August 10, 2015, U.S. authorities initiated an antidumping investigation on imports of heavy-walled rectangular pipe and tube, or HWRPT, from Korea, Turkey and Mexico. On September 13, 2016 the authorities issued an antidumping duty order on imports of HWRPT, imposing an antidumping duty range of between 2.34% and 3.82% for Korea, 17.83% and 35.66% for Turkey, and in the case of Mexico 3.83% for Maquilacero, 5.21% for Productos y Laminados de Monterrey and 4.91% for Ternium Mexico and others.
- Welded pipes: Since 1992, pursuant to an antidumping duty order on circular welded non-alloy steel pipe -or standard pipe- from various countries, including Mexico, standard pipes manufactured by Hylsamex and Grupo Imsa were subject to antidumping duties. In 2007, such measures were extended for five more years. In August 2009, U.S. authorities published the final results of a changed circumstances review, concluding that Ternium Mexico is the successor-in-interest to Hylsamex for purposes of determining antidumping duty liability. In accordance with the latest administrative review, the applicable duty for Ternium Mexico is 48.33%. The measure has since been extended

two more times, in 2012 and February 2018.

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

Trade agreements:

Mexico has signed trade agreements with several countries or trade blocs aimed at liberalizing trade between them: NAFTA was signed among Canada, Mexico and the United States and came into effect on January 1, 1994. NAFTA provided for the progressive elimination over a 10-year period of duties on, among other things, steel products traded between or among Mexico, the United States and Canada. As a result, zero tariffs currently apply to steel products traded within NAFTA countries. Accordingly, Ternium has greater access to the U.S. and Canadian markets through Ternium Mexico, but also faces increased competition in Mexico from U.S. and Canadian steel imports. NAFTA provides that NAFTA member companies (including Mexican steel producers such as Ternium Mexico) can challenge trade restrictions imposed by other NAFTA countries before a binational dispute resolution panel. Currently, the United States, Canada and Mexico are renegotiating NAFTA's current terms. Uncertainties about the possible outcome of such renegotiation could adversely affect the investment climate and economic activity in Mexico, even though a significant period may elapse until any potential changes become effective. Moreover, adverse changes to the NAFTA's terms of trade could affect Ternium's shipments, results of operations and net worth.

The Mexican-European Free Trade Agreement, or MEFTA, became effective on July 1, 2000. MEFTA provides for the phase-out and eventual elimination of Mexican and European duties on all industrial goods, including finished steel products. The European Union eliminated all import duties on Mexican industrial goods, including finished steel products, as of January 1, 2003, while Mexico eliminated all import duties on European industrial goods, including finished steel products, as of January 1, 2007. Currently, the European Union and Mexico are revising MEFTA with the aim at bringing it up to date.

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

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

Mexico is also a party to trade agreements with Colombia, the European Free Trade Association-an intergovernmental organization set up by Liechtenstein, Norway, Iceland and Switzerland-Japan, Chile, Bolivia, Nicaragua, Costa Rica and Uruguay, among others. In addition, on March 8, 2018, Mexico, together with Australia, Brunei, Canada, Chile, Japan, Malaysia, New Zealand, Peru, Singapore and Vietnam, signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("CPTPP"). The CPTPP incorporates by reference most of the provisions of the Trans-Pacific Partnership Agreement ("TPPA"). The TPPA was signed on February 4, 2016, but did not enter into force as a result of the withdrawal of the United States.

Argentina

Imports of steel products to Argentina:

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

Trade agreements:

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

In early 1991, Argentina entered, together with Brazil, Uruguay and Paraguay, into the Treaty of Asunción, creating the Mercado Común del Sur (Common Market of the South), or Mercosur, a common market organization that aimed to bring about the free movement of goods, capital, services and people among its member states. In 2004, the Mercosur members entered into the Treaty of Ouro Preto, creating a customs union among them. On January 1, 2013, Venezuela became a full member of Mercosur but was suspended in December 2016. Over time, Mercosur has

58

eliminated or significantly reduced import duties, tariffs and other trade barriers among member states. Since January 1, 2000, zero tariffs apply to steel products traded among them.

Applicable steel import tariffs to Mercosur member countries from non-member countries currently range between 2% and 16%. However, every six months, Mercosur members may exempt from tariffs a limited number of products imported from non-member countries. Uruguay has elected to exempt certain steel products, including cold-rolled sheets and galvanized flat steel products. This exemption regime is expected to be in force until December 31, 2022, but has been extended in the past and, if agreed by Mercosur member countries, could again be extended in the future.

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

In November 2003, Argentina and Mexico signed the ACE 6. See Item 4. “Information on the Company—B. Business Overview—Regulations—Trade Regulations—Mexico.”

Colombia

Imports of steel products to Colombia:

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

- Low-carbon wire rods: On October 8, 2013, Colombia imposed provisional safeguard duties of 21.29% on imports of low-carbon wire rods from countries belonging to the World Trade Organization (WTO), with the exception of Cuba, Ecuador, the United States and Venezuela. On April 30, 2014, Colombia imposed final safeguard duties of 21.29% on imports of low-carbon wire rod from WTO members with the exception of Argentina, Chile, Ecuador, Costa Rica, the United States and Canada, to remain in force for a period of one year that ended on March 31, 2015. On October 2015, Colombia imposed provisional antidumping duties on imports of low-carbon wire rod from China, consisting on a duty calculated based on a price of USD541.06 per ton less the actual FOB import price for such product, in force until the end of March 2016. On May 11, 2016, Colombia imposed final antidumping duties of USD419 per ton less the actual FOB import price, for a five-year period.
- Galvanized flat steel products: On March 5, 2014, Colombia imposed final antidumping measures on imports of galvanized flat steel products from China, to remain in force for a period of three years, consisting of a duty calculated based on a price of USD824.57 per ton less the actual FOB import price for such product. On December 19, 2017, Colombia renewed the antidumping measure for a period of three years, changing the duty to 47.62%.

Trade agreements:

Most steel imports to Colombia from countries with whom Colombia does not have a free trade agreement in place, are subject to import tariffs of between 5 and 10%.

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

CAN is a trading bloc, currently including Bolivia, Colombia, Ecuador and Peru, established during 1993 and approved in 1994 for the purpose of promoting trade relations among its members and between CAN and the rest of the world. The treaty formalized a customs union among CAN’s member states. Over time, CAN has eliminated or significantly reduced import duties, tariffs and other trade barriers among member states. In particular, zero tariffs have applied to steel products imported from other member states since January 1, 2000. CAN and Mercosur have signed a free trade agreement. See Item 4. “Information on the Company—B. Business Overview-Regulations—Trade Regulations—Argentina.”

During June 1994, Colombia and Mexico signed a free trade agreement. For more information on this agreement see Item 4. “Information on the Company—B. Business Overview—Regulations—Trade Regulations—Mexico.”

59

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

Colombia's free trade agreement with the United States became effective in October 2011. Under this agreement, steel import tariffs from Colombia to the United States will remain at 0% and steel import tariffs from the United States to Colombia will decrease from a range of 5-10% in 2011 to 0% in one, five or 10 years according to the product category. In particular, wire rods import tariffs became 0% beginning in 2012 and rebar import tariffs will decrease gradually, reaching 0% in 2021. On March 8, 2018, the U.S. president imposed a 25% tariff on steel imports, in force since March 23, 2018. Several countries were temporarily exempted, but not Colombia. See Item 4. "Information on the Company—B. Business Overview—Regulations-Trade Regulations—United States."

In addition, Colombia has signed free trade agreements with Chile, Canada, Costa Rica, the European Union and South Korea, in effect since May 2009, August 2011, August 2016, August 2013 and July 2016, respectively, and has signed free trade agreements with Israel and Panama, which are not yet effective. Colombia is currently negotiating free trade agreements with Japan and Turkey.

United States

U.S. authorities have imposed a number of measures on steel import products. Below is a description of measures currently in effect and ongoing investigations:

Imports of steel products to the U.S.:

- Hot-rolled products: During November 2001, the U.S. government imposed antidumping and countervailing duties on certain hot-rolled carbon steel flat products from China, India, Taiwan, Thailand, Russia, Indonesia and Ukraine. Current antidumping duties range between 12.34% and 90.83% for China, 36.53% and 44.40% for India, 20.28% and 29.14% for Taiwan, 4.41% and 20.30% for Thailand and 73.59% and 184.56% for Russia, with rates depending on the exporting company; antidumping and countervailing duties are set at 47.86% for Indonesia and 90.33% for Ukraine. Current countervailing duties range between 540.78% and 563.50% for India and are set at 10.21% for Indonesia and 2.38% for Thailand. These measures were confirmed in February 2014 and are set to remain in force until February 2019. In addition, on September 24, 2015, the U.S. government initiated antidumping and countervailing investigations on hot-rolled products from Australia, Brazil, Japan, Korea, the Netherlands, Turkey and the United Kingdom. On October 3, 2016, the government issued antidumping and countervailing duty orders for a five-year period. Antidumping duties were imposed at the following rates: 29.58% for Australia; between 33.14% and 34.28% for Brazil; between 4.99% and 7.51% for Japan; between 4.61% and 9.49% for Korea; 3.73% for the Netherlands; between 4.15% and 6.77% for Turkey; and 33.06% for the United Kingdom. Countervailing duties were imposed on imports as follows: between 29.07% and 30.51% for Brazil; and between 0% and 9.49% for Korea.
- Cold-rolled products: On July 14, 2016, the U.S. government imposed antidumping duties on cold-rolled steel products, of 265.79% for China and 71.35% for Japan, and countervailing duties of 256.44% for China. On September 20, 2016, the U.S. government imposed countervailing duties on cold-rolled steel products of between 11.09% and 11.31% from Brazil, 10.00% from India and between 3.89% and 59.72% from Korea. In addition, on September 20, 2016, the U.S. government imposed antidumping duties on cold-rolled products of between 19.58% and 35.43% from Brazil, 6.78% from India, 7.60% from Korea, and between 5.40% and 25.17% from the United Kingdom.
- Corrosion-resistant flat products: On July 25, 2016, the U.S. government imposed countervailing duties on corrosion-resistant flat products of 39.05% to 241.07% on imports from China, of 8% to 29.49% on imports from India, of a de minimis to 38.51% on imports from Italy, and of a de minimis to 1.19% on imports from Korea. In addition, on July 25, 2016, the U.S. government imposed antidumping duties on corrosion-resistant flat products of 209.97% from China, between 3.05% and 4.43% from India, 12.63% and 92.12% from Italy, 8.75% and 47.80% from Korea, and 10.34% from Taiwan.
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Wire rod: On October 29, 2002, the U.S. imposed antidumping duties to wire rod imports from Brazil (from 74.35% to 94.73%), Indonesia (4.05%), Moldova (369.10%) and Trinidad and Tobago (11.40%), and countervailing duties to Brazilian wire rod imports of between 2.31% and 6.74%. On January 8, 2015, the US

imposed antidumping duties (between 106.19% and 110.25%) and countervailing duties (between 178.46% and 193.31%) on wire rod from China, with rates depending on the exporting company. On January 24, 2018, the U.S. imposed antidumping duties on wire rod from Russia (between 436.80% and 756.93%), Belarus (280.02%) and United Arab Emirates (84.10%). On March 14, 2018, the U.S. imposed antidumping duties on wire rod from South Africa (between 135.46% and 142.26%) and Ukraine (between 34.98% and 44.03%). On March 19, 2018, the U.S. Department of Commerce published its final antidumping and countervailing determinations on imports of wire rod from Italy (antidumping duties of between 12.41% and 18.89% and countervailing duties of between 4.16% and 44.18%); South Korea (antidumping duties of 41.10%), Spain (antidumping duties of between 11.08% and 32.64%), Turkey (antidumping duties of between 4.74% and 7.94% and countervailing duties of between 3.81% and 3.86%) and the United Kingdom (antidumping duties of 147.63%).

U.S. authorities have imposed a number of measures on steel product imports from Mexico, including carbon and alloy steel wire rod, pipe and tube, and welded pipes. See Item 4. “Information on the Company—B. Business Overview—Regulations—Trade Regulations—Mexico.”

In April 2017, the U.S. government initiated an investigation under Section 232 of the U.S. Trade Expansion Act. The investigation analyzed the effects of imports of steel products on national security. Based on the result of such investigation and on the resulting Commerce Secretary recommendations, on March 8, 2018, the U.S. president imposed a 25% tariff on steel imports, which entered into force on March 23, 2018. However, the U.S. administration announced that imports from Argentina, Australia, Brazil, Canada, the European Union, Mexico and South Korea will be temporarily exempted. There is considerable uncertainty surrounding the eventual scope and impact of these measures and its corresponding exemptions.

Insurance

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

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

The Iran Threat Reduction and Syria Human Rights Act of 2012, or ITRA, created a new subsection (r) in Section 13 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), which requires a reporting issuer to provide disclosure if the issuer or any of its affiliates engaged in certain enumerated activities relating to Iran, including activities involving the Government of Iran. Ternium is providing the following disclosure pursuant to Section 13(r).

Tenaris

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

Previous pending payments:

In January 2010, Tenaris Global Services S.A., or TGS, a Tenaris subsidiary, entered into an agreement with the National Iranian Drilling Company, or NIDC, a company controlled by the Government of Iran, for a total value of EUR9.4 million (approximately $10.1 million). TGS made all deliveries and collected most of its account receivables under the NIDC agreement prior to 2012. In 2012, TGS collected an amount of EUR0.8 million (approximately $0.8 million) for products delivered to NIDC in prior years. As of December 31, 2017, an outstanding balance of EUR0.2 million (approximately $0.2 million) was still due to TGS. Tenaris expects to collect all or part of such outstanding amounts during 2018. During April 2017, TGS performed its outstanding contractual obligation to allow technical visits to the mills of certain Tenaris non-U.S. Affiliates by NIDC experts at TGS's cost, in compliance with applicable U.S. and other international export control and economic sanctions laws and regulations.

- TGS is also a party to an April 2011 agreement with Global Procurement General Trading FZE, or Global FZE, a company incorporated in United Arab Emirates, for the provision of OCTG for an amount of AED16.5 million (approximately $4.5 million). TGS has been informed by Global FZE that the end users of the

products delivered

under this agreement are Oil Industries Engineering and Construction Group and Pars Oil and Gas Company, which are controlled by the Government of Iran. In 2012, TGS delivered products under the Global FZE agreement for a total value of AED16.3 million (approximately $4.4 million), and collected a total amount of AED15.4 million (approximately $4.2 million). All sales of goods and services to Iran under the agreement with Global FZE have ceased. As of December 31, 2017, an outstanding balance of AED0.9 million (approximately $0.2 million) was still due to Tenaris. Tenaris expects to collect all or part of the outstanding amounts during 2018.

Tenaris recorded no sales revenue or profit in 2017 related to the activities described above.

2017 transactions and related activities:

Following the partial lifting and suspension of several international sanctions and restrictions against Iran in mid-January 2016 (in particular, the lifting of most U.S. secondary sanctions against such country under the Joint Comprehensive Plan of Action or 'JCPOA' entered into by the P5+1 and the Islamic Republic of Iran), Tenaris's non-U.S. affiliates considered commercial opportunities in Iran during the year ended December 31, 2017 and engaged in certain transactions or dealings involving Iran or nationals of such country (as more particularly described below). Tenaris intends to continue exploring commercial opportunities in Iran in compliance with applicable U.S. and other international export control and economic sanctions laws and regulations.

- In 2017, TGS participated in several tenders issued by the National Iranian Oil Company, or NIOC, and its subsidiaries for the supply of OCTG Casing, Tubing, Line Pipe and Accessories for oil and gas projects in Iran. Moreover, during 2017 TGS and other non-U.S. affiliates of Tenaris have issued offers to NIOC and other Iranian companies for the provision of goods and/or services. Except as otherwise specified below, none of such tenders or offers were accepted as of December 31, 2017. Tenaris intends to continue participating in tenders and issuing offers to NIOC, its subsidiaries or other Iranian companies through TGS or other of its non-U.S. affiliates, in compliance with applicable law.

- In October 2016, TGS entered into an agreement for the provision of technical field service assistance to Petropars Ltd, or Petropars, for its project located in the Salman gas field in Iran, for a total value of EUR0.04 million (approximately $0.04 million). TGS has been informed that Petropars operates the Salman project pursuant to a service contract with Iranian Offshore Oil Company, a subsidiary of NIOC. All services required to be performed by Tenaris for the benefit of Petropars were completed during October 2016. As of December 31, 2017, EUR0.03 million (approximately $0.04 million) has been collected. TGS intends to collect all or part of the outstanding amounts during 2018.

- In May 2016, TGS was awarded by Toos Payvand Co., a Tehran-based company, a spot purchase order for carbon steel pipes for the Isfahan Refinery project, for a total value of EUR3.5 million (approximately $3.7 million). TGS delivered most of the items requested under such purchase order and collected most sums due thereunder during 2017. As of December 31, 2017, a small portion of the items remained undelivered and an outstanding amount of EUR0.06 million (approximately $0.07 million) was pending collection. TGS intends to collect all or part of the outstanding amounts and to perform its outstanding obligations under the above-referred purchase order during 2018.

- In November 2017, Dalmine booked a purchase order with Buhlmann RFS Gmbh (a distributor located in Germany) for the provision of Line Pipes for use in downstream activities in Iran for Esfahan Oil Refinery Project (end user NIOC), for a total value of EUR0.6 million (approximately $0.7 million). No invoices were issued during 2017 and, therefore, no revenues were recorded for such order as of December 31, 2017. The requested material is under production and delivery is expected for 2018. Dalmine intends to perform its undischarged obligations and collect all or part of the outstanding amounts during 2018.

- During 2017, Dalmine booked four orders with Commerciale Tubi Acciaio (a distributor located in Italy) for the provision of line pipes for use in downstream activities in Iran, Kangan Project, for a total value of EUR 0.9 million (approximately $1.1 million). As of December 31, 2017, a portion of these orders was delivered and payment thereof collected, with EUR0.5 million (approximately $0.6 million) outstanding as of December 31, 2017. Materials not invoiced during 2017 are under production and delivery is expected for 2018. Dalmine intends to perform its undischarged obligations and collect all or part of the outstanding amounts during 2018.

In July, 2017 TGS was awarded a spot order from Azar Ab Industries Co., for seamless tubes for manufacturing of Industrial Boiler for Esfahan Refinery in Iran, for a total value of approximately EUR1.2 million (approximately $1.4 million), of which EUR0.2 million (approximately $0.2 million) were collected as of December 31, 2017.

TGS expects to continue performing its undischarged obligations and to collect all or part of the outstanding amounts under the above order during 2018.

- During 2017, Dalmine was awarded some spot orders from Mapna International FZE, for carbon steel and low alloyed pipes and tubes delivered to Mapna Boiler and Equipment Engineering and Manufacturing Co., or Mapna, for the manufacturing of boilers for conventional power plants in Iran for a total value of approximately EUR2 million (approximately $2.4 million), of which EUR0.3 million (approximately $0.4 million) were collected as of December 31, 2017. Moreover, during 2017 certain employees of Mapna visited the manufacturing mills of Dalmine and Silcotub (located in Italy and Romania, respectively) for the purposes of inspecting the material under production for the above-referred orders. Dalmine expects to continue performing its undischarged obligations and to collect all or part of the outstanding amounts under the above orders during 2018.
- In December 2016, TGS entered into a distribution agreement with “Fanavaran Energy Part Co. (Part Technologist of Energy Company)”, or PTEC, a private Iranian company, for pipes used in downstream activities, such as refineries, petrochemical and gas processing. On December 21, 2016, PTEC placed one purchase order for a total value of EUR2.2 million (approximately $2.3 million), which was shipped and collected during 2017. Furthermore, in August 2017, PTEC placed another purchase order for a total value of EUR1.5 million (approximately $1.8 million). TGS made no shipments and recorded no revenues in connection with the August 2017 order for the year ended December 31, 2017. TGS intends to fulfill its undischarged obligations and collect all or part of the outstanding amounts under the August 2017 order during 2018.
- During the course of the year ended December 31, 2017, TGS entered into several confidentiality agreements for the purpose of sharing information with potential Iranian business partners, some of which were companies controlled by the Government of Iran, with the aim of exploring commercial opportunities relating to the supply of goods and services to NIOC or its subsidiaries. No revenues were attributable to these activities. TGS, as well as other Tenaris non-U.S. subsidiaries, intend to continue to explore commercial opportunities with such potential Iranian business partners in compliance with applicable law.
- In June 2017, TGS renewed its Agency Agreement (initially entered into in June 2016) with Industrials SGC Ltd., or SGC, (a U.K.-based company) for an additional one-year period (i.e. now expiring on June 12, 2018). The purpose of such agreement is to promote and market certain products manufactured by non-U.S. affiliates of Tenaris in the territory of Iran. As of December 31, 2017, no revenues or net profits were attributable to the Agency Agreement. TGS intends to continue promoting and marketing Tenaris products in Iran under the Agency Agreement with SGC.
- During 2017, certain non-U.S. employees of some non-U.S. affiliates of Tenaris visited Iran in order to discuss potential commercial opportunities with Iranian public and private entities. Moreover, during May 2017, certain of the above-referred employees attended trade shows in Iran. These included an oil & gas industry trade show (the Iran Oil Show) organized by NIOC. No fees were paid to NIOC or other Iranian state-owned companies in connection with such activities, other than routine amounts such as travel-related taxes and fees. No revenues were attributable to the above-referred activities. Certain of Tenaris’s non-U.S. affiliates intend to continue visiting Iran in order to develop further commercial opportunities in the country in compliance with applicable law.

Tenaris’s total sales revenue for 2017 with regard to the foregoing transactions amounted to approximately $6.8 million. The estimated net profits from such transactions, after internal cost allocation and taxes, were in the range of $2.6 million.

Tenaris believes that its activities concerning Iran do not violate any U.S. or foreign law, and has procedures in place designed to ensure that such activities comply with all applicable U.S. and other international export control and economic sanctions laws and regulations.

Tenova

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

- During 2017, Tenova or its subsidiaries supplied equipment and performed engineering services for the steel-making and raw material handling industries to companies believed by Tenova to be subsidiaries of development agencies of the Government of Iran. Tenova or its subsidiaries also issued offers to Iranian counterparties, none of

63

which were accepted as of December 31, 2017. Moreover, certain employees of Tenova visited Iran during 2017 in order to discuss prospective commercial opportunities with potential Iranian business partners.

- None of the activities performed is connected to the activities described in Sections 5(a) or (b) of the Iran Sanctions Act of 1996, or Section 105A(b)(2) of the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, nor were any such activities performed in favor of persons whose property and interests in property are blocked pursuant to Executive Order 13224 (terrorists and terrorist supporters) or 13382 (weapons of mass destruction proliferators and supporters).
- Tenova's Iran-related contracts that were signed before 2016, are still currently being performed; any future contract between Tenova or its subsidiaries and customers controlled by the Government of Iran will continue to be made in compliance with all laws applicable to Tenova or its relevant subsidiaries.

Tenova informed us that its total sales revenue for 2017 with regard to the foregoing transactions amounted to $12.4 million, compared to $14.7 million in 2016. Tenova also estimated that its net profits from such transactions, after internal cost allocation and taxes, were in the range of $1.8 million.

Techint CTI

Techint - Compagnia Tecnica Internazionale S.p.A., or Techint CTI; an Italian provider of engineering, procurement, construction, operation and management services mainly in the oil & gas, refining, petrochemical, power, industrial and infrastructure sectors, is indirectly controlled by San Faustin and, accordingly, is deemed an "affiliate" of Ternium, as that term is defined in Exchange Act Rule 12b-2. In response to our inquiry, Techint CTI informed us that:

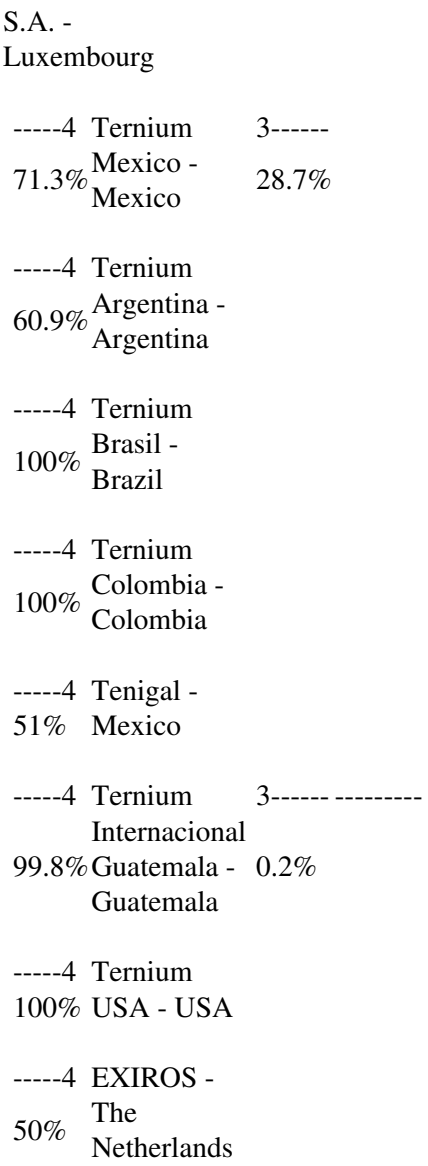
- In December 18, 2017, Techint CTI entered into an agreement for the provision of technical assistance services (e.g. feasibility studies, technology selection) with Ardabil Petrochemical Co. for an estimated total amount of EUR0.25 million (approximately $0.3 million). As of December 31, 2017, the performance of certain services remained outstanding, as the contract became effective only in February 2018 and payment thereof has not yet been collected. Techint CTI intends to collect all or part of the outstanding amounts during 2018.
- During 2017 Techint CTI entered into additional ancillary documents (such as confidentiality agreements, memorandums of understanding and letters of intent) for the purpose of sharing information, among others, with the above-referred Iranian customer and others. No revenues were attributable to these specific activities, other than the ones described in the above items. Techint CTI intends to continue to explore commercial opportunities with potential Iranian business partners in compliance with applicable law.

Moreover, during 2017 certain non-U.S. employees of Techint CTI visited Iran in connection with the above-referred agreements and in order to discuss potential commercial opportunities with other Iranian public and private entities.

- No fees were paid in connection with such activities, other than routine amounts such as travel-related taxes and fees. No revenues were attributable to the above-referred activities. Techint CTI intends to continue visiting Iran in order to develop further commercial opportunities in the country in compliance with applicable law.
- Techint CTI informed us that it recorded no revenues for the above activities as of December 31, 2017.

C. Organizational Structure

Below is a simplified diagram of Ternium's corporate structure as of March 31, 2018.



For a detail of the companies whose financial statements have been consolidated and accounted for interest, see note 2 to our consolidated financial statements included in this annual report.

Subsidiaries

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

Ternium Mexico. Ternium Mexico is a leading flat and long steel manufacturer in Mexico, with total annual finished steel production capacity of approximately 7.5 million tons. Ternium Mexico's subsidiaries operate all of Ternium's mining and steel production facilities in Mexico, except for Tenigal's facilities. Ternium Mexico and its subsidiaries produce steel products mainly for the construction and industrial sectors.

Ternium Argentina. Ternium Argentina is the main integrated manufacturer of flat steel products in Argentina with total annual finished steel production capacity of approximately 3.0 million tons. The shareholders of Ternium Argentina as of March 31, 2018 are set out in the following table, together with the share percentage owned by each

such shareholder as of that date:

Ternium Argentina Shareholders	Number	Percent
Ternium	2,752,808,188	60.94 %
ANSeS	1,175,806,541	26.03 %
Public	588,479,294	13.03 %
Total shares issued and outstanding	4,517,094,023	100.00%

Ternium Brasil. On September 7, 2017, Ternium acquired Ternium Brasil from thyssenkrupp AG. Ternium Brasil is a high-end steel slab producer in Brazil, with annual production capacity of approximately 5.0 million tons. Ternium

Brasil produces steel slabs mainly for Ternium's operations in Mexico, for Ternium Argentina and for third-party steel processors.

Ternium Colombia. Ternium Colombia is a leading long and flat steel products processor and distributor in Colombia and a scrap-based long steel manufacturer, with total annual finished steel production capacity of approximately 540,000 tons.

Tenigal. Tenigal is a manufacturer of hot-dip galvanized and galvannealed steel sheets serving the Mexican automobile market with total annual finished steel production capacity of approximately 450,000 tons. Ternium and NSSMC hold 51% and 49% participations in Tenigal, respectively.

Ternium Guatemala. Ternium Guatemala and its subsidiaries operate all of Ternium's steel processing facilities in Guatemala, El Salvador, Nicaragua and Costa Rica. Ternium Guatemala and its subsidiaries produce hot-dip galvanized steel sheets and other value-added finished steel products mainly for the construction and industrial sectors. Ternium Guatemala has total annual finished steel production capacity of 110,000 tons.

Ternium USA. Ternium USA operates Ternium's steel processing activities in the United States and produces galvanized and color coated sheets in its Shreveport unit in Louisiana, United States. Ternium USA has total annual finished steel production capacity of 215,000 tons.

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

Other Investments

Usiminas. Usiminas is the largest flat steel producer in Brazil, with total annual crude steel production capacity of 9.5 million tons. Usiminas produces steel products mainly for the automobile, line pipe, civil construction, and electrical equipment manufacturing industries. Usiminas has iron ore mines in the Serra Azul region and industrial facilities in Ipatinga, Minas Gerais and in Cubatão, São Paulo, strategically located near the main consumers of steel in Brazil. In 2017, Usiminas shipped 4.0 million tons of steel products and 3.7 million tons of iron ore, and had net sales of BRL10.7 billion. Usiminas is a publicly-traded company listed on the São Paulo stock exchange, BM&FBOVESPA S.A - Bolsa de Valores, Mercadorias e Futuros.

On January 16, 2012, the Company's wholly-owned Luxembourg subsidiary Ternium Investments, together with Ternium Argentina (and its subsidiary Prosid), and the Company's affiliate TenarisConfab, joined Usiminas' existing control group through the acquisition of a total of 139.7 million ordinary shares of Usiminas, representing 27.7% of Usiminas' voting capital (22.7% corresponding to Ternium and the other 5% corresponding to TenarisConfab), and formed the T/T Group. As a result of such acquisition, Usiminas' control group, which at the time held, in the aggregate, 322.7 million ordinary shares representing approximately 63.9% of Usiminas' voting capital, was formed as follows: NSSMC Group, with approximately 46.1% of the total shares held by the control group; the T/T Group, with approximately 43.3% of the total shares held by the control group (35.6% corresponding to Ternium and the other 7.7% corresponding to TenarisConfab); and Previdência Usiminas, with the remaining 10.6% of the total shares held by the control group. The members of the control group entered into a shareholders' agreement dated January 16, 2012 governing their rights and obligations as shareholders of Usiminas.

On October 30, 2014, Ternium acquired 51.4 million additional ordinary shares of Usiminas. As part of a multi-round capital increase process, on June 3, 2016, Ternium (through Ternium Investments, Ternium Argentina and Prosid) was issued, in the aggregate, 8.5 million preferred shares and TenarisConfab was issued 1.3 million preferred shares; and on July 19, 2016, Ternium (through Ternium Investments, Ternium Argentina and Prosid) was issued, in the aggregate, 76.4 million ordinary shares and TenarisConfab was issued 11.5 million ordinary shares. Following the issuance of these ordinary shares, Ternium (through Ternium Investments, Ternium Argentina and Prosid) owns a total of 242.6 million ordinary shares and 8.5 million preferred shares, representing 20.5% of Usiminas' capital, and 34.4% of Usiminas' ordinary shares, and TenarisConfab owns a total of 36.5 million ordinary shares and 1.3 million preferred shares, representing 3% of Usiminas' capital, and 5.2% of Usiminas' ordinary shares.

In 2014, a conflict arose within the Usiminas' control group and its board with respect to the governance of Usiminas, including with respect to the rules applicable to the appointment of senior managers, the application of the shareholders' agreement in matters involving fiduciary duties, and generally with respect to Usiminas' business strategy.

On February 8, 2018, Ternium Investments resolved the dispute with NSSMC, establishing certain new governance rules for Usiminas as well as certain undertakings for the settlement of legal disputes. Ternium Investments and NSSMC further agreed to implement such new governance rules by seeking the agreement of the other members of the controlling group, and on April 10, 2018, the T/T Group, NSSMC Group and Previdência Usiminas entered into a new shareholders' agreement for Usiminas, amending and restating the January 16, 2012 shareholders' agreement (the "New SHA").

The New SHA reflects the agreed-upon corporate governance rules for Usiminas, 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 Usimina's 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.

In addition to the Usiminas shares that were bound by the January 16, 2012 shareholders' agreement, the New SHA also incorporates and bounds the shares subscribed for by the members of the T/T Group and the NSSMC Group in connection with Usiminas' 2016 capital increase. As a result, Usiminas' control group now 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.

Finally, the New SHA incorporates an exit mechanism consisting of a buy-and-sell procedure, exercisable at any time during the term of the New SHA after the fourth-and-a-half-year anniversary from the coming election of Usiminas' executive board in May 2018. 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.

In connection with the execution of the New SHA, Ternium Investments, Ternium Argentina, Prosid and TenarisConfab amended and restated their separate shareholders´ agreement governing their respective rights and obligations as members of the T/T Group to include provisions relating to the exit mechanism and generally to conform such separate shareholders' agreement to the other provisions of the New SHA.

As of March 31, 2018, the closing price of the Usiminas ordinary and preferred shares, as quoted on the BM&F Bovespa Stock Exchange, was BRL 12.31 (approximately USD3.70) per ordinary share and BRL 10.92 (approximately USD3.29) per preferred share, respectively. Accordingly, as of March 31, 2018, Ternium's ownership stake had a market value of approximately USD926.4 million and a carrying value of USD483.7 million.

Techgen. Techgen is a joint venture company owned 48% by Ternium, 30% by Tecpetrol and 22% by Tenaris. In the fourth quarter of 2016, Techgen started operating a new natural gas-fired combined cycle electric power plant in the Pesquería area of the State of Nuevo León, Mexico, after total investment of USD1.1 billion. Ternium and Tenaris currently contract 78% and 22%, respectively, of Techgen's power capacity of approximately 900 megawatts. As a

result, Ternium is securing the supply of electricity to its existing and future facilities in Mexico, and sells unused energy to the Mexican market. For more information on the Company's commitments under the Techgen project, see Item 5. "Operating and Financial Review and Prospects—E. Off-Balance Sheet Arrangements" and note 25(ii)(j) and (k) to our consolidated financial statements included elsewhere in this annual report.

D. Property, Plants and Equipment

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

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

The following discussion and analysis of our financial condition and results of operations is based on, and should be read in conjunction with, our consolidated financial statements and the related notes included elsewhere in this annual report. This discussion and analysis presents our financial condition and results of operations on a consolidated basis. Certain information contained in this discussion and analysis is presented elsewhere in this annual report, including information with respect to our plans and strategies for our business, and includes forward-looking statements that involve risks and uncertainties. See "Cautionary Statement Concerning Forward-Looking Statements." In evaluating this discussion and analysis, you should specifically consider the various risk factors identified in this annual report and others that could cause results to differ materially from those expressed in such forward-looking statements.

Overview

Ternium is Latin America's leading flat steel producer with an annual crude steel production capacity of 12.4 million tons. We operate through subsidiaries in Mexico, Brazil, Argentina, Colombia, the southern United States and Central America, which own regional manufacturing, service center and distribution networks. In addition, Ternium participates in the control group of Usiminas, a leading steel company in the Brazilian market. Our customers range from small businesses to large global companies in the automotive, home appliances, construction, capital goods, container, food and energy industries across the Americas. We aim to build close relationships with our customers and recognize that our success is closely linked with theirs.

Ternium supplies a broad range of high value-added steel products and has advanced customer integration systems that enable us to differentiate ourselves from our competitors through the offering of sophisticated products and services. The company's industrial system has varied production technologies that provide a diversified cost structure, based on different types of raw material and energy sources, and a flexible production configuration. The industrial system includes proprietary iron ore mines, steelmaking facilities, finishing facilities, service centers and a broad distribution network to offer slabs, hot-rolled products, cold-rolled products, galvanized and electro-galvanized sheets, pre-painted sheets, tinplate, welded pipes, bars and wire rods as well as slit and cut-to-length products.

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

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

Ternium's primary source of revenue is the sale of steel products. Management expects sales of steel products to continue to be Ternium's primary source of revenue. The global market for such steel products is highly competitive, with the primary competitive factors being price, cost, product quality and customer service. The majority of Ternium's sales are concentrated in the Americas. Specifically, Ternium's largest markets for finished steel products are Mexico, Argentina and Colombia, and Ternium's largest markets for slabs are Brazil and the United States.

Ternium’s results are sensitive to economic activity and steel consumption. Ternium’s results of operations, which primarily depend on economic conditions in Mexico and Argentina, are also influenced by economic conditions in

international and regional markets such as NAFTA, Mercosur and the Andean Community. Historically, annual steel consumption in the countries where Ternium operates has varied at a rate that is linked to the annual change in each country's gross domestic product and per capita disposable income. The 2008-2009 global economic downturn resulted in an overall decreased demand for Ternium's products. For example, apparent consumption of finished steel products decreased in 2009 by 15% in Mexico and 33% in Argentina. This economic downturn had a pronounced negative effect on Ternium's business and results of operations in 2009. Subsequently, apparent steel consumption recovered in these countries in sync with the recovery of economic activity. A protracted global recession or a depression would have a material adverse effect on the steel industry and Ternium.

Ternium's results are also sensitive to prices in the international steel markets. Steel prices are volatile and are sensitive to supply conditions and to trends in cyclical industries, such as the construction, automotive, appliance and machinery industries, which are significant markets for Ternium's finished steel products. For example, steel prices in the international markets, which had been rising quickly during the first half of 2008, fell sharply beginning in the second half of 2008 as a result of collapsing apparent demand and the resulting excess capacity in the industry. The fall in prices during this period adversely affected the results of steel producers generally, including Ternium, as a result of lower revenues and write-downs of finished steel products and raw material inventories. Beginning in the second half of 2009, steel prices in the international markets rebounded mainly as a result of the increase in the demand for steel in China and other emerging markets, and the subsidence of the worldwide de-stocking process. Since 2009, international steel prices fluctuated within a wide range with an upward trend in the 2009-2011 period, a downward trend in the 2011-2015 period and an upward trend since 2016. In this context, Ternium's operating income increased 28% year-over-year in 2017 and 79% year-over-year in 2016 after falling 39% year-over-year in 2015. A protracted fall in steel prices would have a material adverse effect on Ternium's results, as could price volatility.

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

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

Ternium's export revenues could be affected by trade restrictions and its domestic revenues could be affected by unfair competition from imports. During the second half of the 1990s, a period of strong oversupply, several antidumping measures were imposed in several countries in which Ternium operates (including Mexico, Argentina and the United States) to prevent foreign steel producers from dumping certain steel products in local markets. The recovery in global economic conditions during the 2003–2008 period helped normalize international steel trade conditions and, eventually, several countries reduced or eliminated protective measures established in prior years including Argentina, Ternium's second-largest steel market. However, in the face of a protracted period of oversupply since 2009, some countries have been reestablishing antidumping duties and/or other safeguards to protect their domestic markets, including Mexico, Ternium's largest steel market, adding to measures that remained in place from before. Ternium's ability to profitably access the export markets may be adversely affected by trade restrictions, including antidumping duties and countervailing measures, in those markets. In addition, Ternium's ability to sell some steel products in its principal markets could be affected by unfair competition from imports of those steel products from certain countries, if

applicable trade regulations were not in force. For example, on March 8, 2018, under Section 232 of the Trade Expansion Act of 1962, the U.S. President imposed a 25% tariff on steel articles imported from all countries; however, the U.S. administration announced that steel imports from Argentina, Australia, Brazil, Canada, the European Union, Mexico and South Korea will be temporarily exempted. There is considerable uncertainty surrounding the eventual scope and impact of these measures and its corresponding exemptions.
See Item 4. “Information on the Company—B. Business Overview—Regulations—Trade Regulations.”

Changes in prevailing exchange rates could impact results from subsidiaries with net short or long positions in currencies other than their functional currencies. The functional currency of our Mexican, Brazilian and Colombian subsidiaries is the U.S. dollar, and the functional currency of Ternium Argentina is the Argentine peso. Ternium's subsidiaries record foreign exchange results on their net non-functional currency positions when the functional currencies appreciate or depreciate with respect to other currencies. For example, Ternium's net foreign exchange result was a loss of USD65.5 million in 2017, a gain of USD20.3 million in 2016 and a loss of USD5.2 million in 2015. In addition, Ternium's Mexican, Brazilian and Colombian subsidiaries record deferred tax results when the U.S. dollar (their functional currency) appreciates or depreciates in relation to the Mexican peso, the Brazilian real or the Colombian peso, respectively, as such fluctuations change, in U.S. dollar terms, the tax base used to calculate deferred tax at such subsidiaries. Fluctuations in the value of such functional currencies against other currencies have had, and may also have in the future, an impact on Ternium's results.

Changes in prevailing exchange rates have had an impact on Ternium's comprehensive results in the past and could impact comprehensive results from subsidiaries and investments with a functional currency other than the U.S. dollar in the future. In accordance with IFRS, Ternium records currency translation adjustments in its consolidated statements of comprehensive income. These adjustments do not affect results but, instead, have an impact on net worth. Fluctuations in the Brazilian real (as our participation in Usiminas is denominated in Brazilian reais) and the Argentine peso (as it is the functional currency of Ternium Argentina) against the U.S. dollar have had, and may also have in the future, an impact on Ternium's comprehensive results. Ternium's currency translation adjustments resulted in losses of USD104.4 million in 2017, USD87.8 million in 2016 and USD640.5 million in 2015. These adjustments included the effect of the devaluation of the Brazilian real on the value of Ternium's investment in Usiminas as measured in U.S. dollars, amounting to a loss of USD8.6 million in 2017, a gain of USD54.7 million in 2016 and a loss of USD229.2 million in 2015, and the effect of the devaluation of the Argentine peso on the value of Ternium Argentina's net assets as measured in U.S. dollars, amounting to a loss of USD96.9 million in 2017, a loss of USD139.6 million in 2016 and USD394.9 million in 2015.

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

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

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

Goodwill impairment test. Assessment of the recoverability of the carrying value of goodwill requires significant judgment. Management evaluates goodwill allocated to the operating units for impairment on an annual basis or whenever there is an impairment indicator. Goodwill is tested at the lowest levels for which there are separately identifiable cash flows (each, a CGU). Impairment testing of the CGUs is carried out and the value in use determined in accordance with the accounting policy stated in note 4(f) to our consolidated financial statements included elsewhere in this annual report:

- Assets that have an indefinite useful life (including goodwill) are not subject to amortization and are tested annually for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization and investments in affiliates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and the value in use.
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To carry out these tests, assets are grouped at the level of the CGUs. When evaluating long-lived assets for potential impairment, the Company estimates the recoverable amount based on the value in use of the corresponding CGU. The value in use of each CGU is determined on the basis of the present value of net future cash flows which will be generated by the assets tested.

- Determining the present value of future cash flows involves highly sensitive estimates and assumptions specific to the nature of each CGU's activities, including estimates and assumptions relating to amount and timing of projected future cash flows, expected changes in market prices, expected changes in the demand of Ternium products and services, selected discount rate and selected tax rate.
- Ternium uses cash flow projections for the next five years based on past performance and expectations of market development; thereafter, it uses a perpetuity rate. Application of the discounted cash flow method to determine the value in use of a CGU begins with a forecast of all expected future net cash flows. Variables considered in forecasts include the GDP growth rates of the country under study and their correlation with steel demand, level of steel prices and estimated raw material costs as observed in industry reports.
- Cash flows are discounted at rates that reflect specific country and currency risks associated with the cash flow projections.
- As a result of the above factors, actual cash flows and values could vary significantly from the forecasted future cash flows and related values derived using discounting techniques. Based on the information currently available, however, Ternium believes that it is not reasonably possible that the variation would cause the carrying amount to exceed the recoverable amount of the CGUs.

The discount rates used are based on the weighted average cost of capital, which is considered to be a good indicator of cost of capital. As of December 31, 2017 the discount rate used to test goodwill allocated to the Steel and Mining Mexico CGUs for impairment was 11.49% (as of December 31, 2016, 10.82%).

At December 31, 2017, 2016 and 2015, no impairment charges to CGUs with allocated goodwill resulted from the impairment tests performed. Any future impairment charge could have a material adverse effect on Ternium’s results of operations, financial condition and net worth.

Income taxes. Management calculates current and deferred income taxes according to the tax laws applicable to each subsidiary in the countries in which such subsidiaries operate. However, certain adjustments necessary to determine the income tax provision are finalized only after the balance sheet is issued. In cases in which the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Also, when assessing the recoverability of tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. For further information, see note 11 to our consolidated financial statements included in this annual report.

Loss contingencies. Ternium is subject to various claims, lawsuits and other legal proceedings that arise in the ordinary course of business, including customer claims in which a third party is seeking reimbursement or indemnity. The Company’s liability with respect to such claims, lawsuits and other legal proceedings cannot be estimated with certainty. Periodically, management reviews the status of each significant matter and assesses potential financial exposure. If the potential loss from the claim or proceeding is considered probable and the amount can be reasonably estimated, a liability is recorded. Management estimates the amount of such liability based on the information available and the assumptions and methods it has concluded are appropriate, in accordance with the provisions of IFRS. Accruals for such contingencies reflect a reasonable estimate of the losses to be incurred based on information available, including the relevant litigation or settlement strategy, as of the date of preparation of these financial statements. As additional information becomes available, management will reassess its evaluation of the pending claims, lawsuits and other proceedings and revise its estimates. The loss contingencies provision amounts to USD768.5 million and USD7.0 million as of December 31, 2017 and 2016, respectively. The increase of the loss contingencies provision in 2017 is related to the recognition of contingencies arising from the consolidation of the financial statements of Ternium Brasil into Ternium's. For more information, see note 3 to our consolidated financial statements included in this annual report.

Allowance for obsolescence of supplies and spare parts and slow-moving inventory. Management assesses the recoverability of its inventories considering their selling prices or whether they are damaged or have become wholly or partly obsolete. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. The Company establishes an allowance for obsolete or slow-moving inventory in

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

As of December 31, 2017 and 2016, the Company recorded no allowance for net realizable value and USD36.2 million and USD33.4 million, respectively, as allowance for obsolescence.

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

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

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

Considering that no impairment indicators were identified as of December 31, 2017 and 2016, the Company tested only the value of its goodwill for impairment, resulting in no impairment charges to be recognized. Consequently, and except for the impairment in connection with the investment in Usiminas in 2015 described below, during the years 2017, 2016 and 2015, no impairment charges were recorded in connection with assets that have an indefinite useful life (including goodwill). Based on the information currently available to us, as of the date of this annual report, the Company is not aware of any factors that would lead to the recognition of future impairment charges. Any such impairment charges could have a material adverse effect on Ternium's results of operations, financial condition and net worth.

In connection with its investment in Usiminas, the Company performed an impairment test over such investment as of December 31, 2012, and subsequently wrote down the investment by USD275.3 million, to USD1.6 billion as of year-end 2012. The impairment was mainly due to expectations of a weaker industrial environment in Brazil, where industrial production and consequently steel demand had been suffering downward adjustments. In addition, a higher degree of uncertainty regarding future prices of iron ore led to a reduction in Ternium's forecast of long-term iron ore prices that affected cash flow expectations. Following discussions with the Staff of the U.S. Securities and Exchange Commission, the Company re-evaluated and revised the assumptions used to calculate the carrying value of the Usiminas investment at September 30, 2014, and recorded an impairment of USD739.8 million as of September 30, 2014, resulting in a carrying value for the Usiminas investment of BRL12 per share. Furthermore, Usiminas' financial statements as of December 31, 2015, described a downgraded economic scenario for the company that caused a significant impact on its financial leverage and cash generation. Consequently, Ternium, in a conservative approach, assessed the recoverable value of its investment in Usiminas based on Usiminas ordinary shares' average market price for December 2015, and impaired its investment by USD191.9 million. The resulting book value of Ternium's investment in Usiminas as of December 31, 2015, was USD240.0 million.

On April 20, 2016, Ternium (through Ternium Investments, Ternium Argentina and Prosid) subscribed, in the aggregate, to 8.5 million preferred shares for a total subscription price of BRL10.9 million (approximately USD3.1 million). These preferred shares were issued on June 3, 2016. On April 18, 2016, Usiminas' extraordinary general shareholders' meeting approved an issuance of 200 million ordinary shares for an aggregate amount of BRL1 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, Ternium Argentina and Prosid) was issued, in the aggregate, 76.4 million ordinary shares for a total subscription price of BRL382.2 million (approximately USD110.9 million). As of December 31, 2017, the closing price of the Usiminas ordinary and preferred shares, as quoted on the BM&FBOVESPA Stock Exchange, was BRL10.83 (approximately USD 3.27) per ordinary share and BRL9.10 (approximately USD 2.75) per preferred share, respectively. Accordingly, as of December 31, 2017, Ternium's ownership stake had a market value of approximately USD817.6 million and a carrying value of USD466.3 million. Any further write-down to Ternium's investment in Usiminas could have a material adverse effect on Ternium's net worth and results. For further information on the Usiminas investment, see note 3 to our consolidated financial statements included elsewhere in this annual report.

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

Allowances for doubtful accounts are adjusted periodically in accordance with the aging of overdue accounts. For this purpose, trade accounts receivable overdue by more than 90 days, and which are not covered by a credit collateral, guarantee or similar surety, are fully provisioned. As of December 31, 2017 and 2016, allowance for doubtful accounts totaled USD16.5 million and USD6.0 million, respectively.

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

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

reserves may change from period to period.

Changes in reported reserves may affect the Company's financial results and financial position. For example:

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

- Depreciation and amortization charges may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.
- Stripping costs recognized in Mining assets or charged to results may change due to changes in stripping ratios or the units of production basis of depreciation.
- Asset retirement obligations may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

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

Business combinations. The recognition of business combinations requires the excess of the purchase price of acquisitions over the net book value of assets acquired to be allocated to the assets and liabilities of the acquired entity. The Company makes judgements and estimates in relation to the fair value allocation of the purchase price. If any unallocated portion is positive, it is recognized as goodwill, and if negative, it is recognized in the income statement. For further information on business combinations, see note 3 to our consolidated financial statements included elsewhere in this annual report.

A. Results of Operations

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

In thousands of U.S. dollars (except number of shares and per share data)	For the year ended December 31,				
	2017	2016 (*)	2015	2014	2013
Selected consolidated income statement data					