

Ternium S.A.  
Form 6-K  
May 07, 2015

**FORM 6 - K**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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

**As of May 7, 2015**

**Ternium S.A.**

(Translation of Registrant's name into English)

**Ternium S.A.**  
**29, Avenue de la Porte-Neuve**

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

**3rd Floor**

**L-2227 Luxembourg**

(Address of principal executive offices)

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

Form 20-F  Form 40-F

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

Yes  No

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

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

On May 6, 2015, among other resolutions adopted at the annual general meeting of shareholders of Ternium S.A. ("Ternium"), the shareholders approved the consolidated financial statements as of and for the year ended December 31, 2014.

Attached hereto as Exhibits 99.1 and 99.2 are Ternium's consolidated financial statements as of and for the year ended December 31, 2014, and the supplement "Subsequent Information", which were submitted to the annual general meeting of shareholders.

For more information on the resolutions adopted at Ternium's annual general meeting of shareholders, please refer to Ternium's press release, which has been furnished to the Commission under Form 6-K on May 6, 2015.

## **SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Ternium S.A.

By: /s/ Arturo Sporleder  
Arturo Sporleder

Corporate Secretary

SIGNATURE

Dated: May 7, 2015

Exhibit 99.1 Consolidated Financial Statements as of December 31, 2014 and 2013 and for the years ended on  
December 31, 2014, 2013 and 2012  
Exhibit 99.2 Subsequent Information

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**TERNIUM S.A.**

**Consolidated Financial Statements**

**as of December 31, 2014 and 2013 and**

**for the years ended on December 31, 2014, 2013 and 2012**

29 Avenue de la Porte-Neuve, 3<sup>rd</sup> floor

L – 2227

R.C.S. Luxembourg: B 98 668

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**Audit report**

To the Shareholders of

**Ternium S.A.**

**Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of Ternium S.A. and its subsidiaries, which comprise the consolidated statements of financial position as at 31 December 2014, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Board of Directors' responsibility for the consolidated financial statements*

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

*Responsibility of the "Réviseur d'entreprises agréé"*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé"

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including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the “Réviseur d’entreprises agréé” considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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



*Opinion*

In our opinion, these consolidated financial statements give a true and fair view of the consolidated financial position of Ternium S.A. and its subsidiaries as of 31 December 2014, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the European Union.

PricewaterhouseCoopers, Société coopérative  
Represented by

Luxembourg, 18 February 2015

/s/ Mervyn R. Martins

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2014 and 2013

and for the years ended December 31, 2014, 2013 and 2012

(All amounts in USD thousands)

**Consolidated Income Statements**

|   | Notes  | 2014             | Year ended December 31,<br>2013 | 2012             |
|---|--------|------------------|---------------------------------|------------------|
| Net sales   | 5      | 8,726,057        | 8,530,012                       | 8,608,054        |
| Cost of sales   | 6      | (6,925,169)      | (6,600,292)                     | (6,866,379)      |
| <b>Gross profit</b>                                       |        | <b>1,800,888</b> | <b>1,929,720</b>                | <b>1,741,675</b> |
| Selling, general and administrative expenses              | 7      | (816,478)        | (843,311)                       | (809,181)        |
| Other operating income (expenses), net                    | 9      | 71,751           | 23,014                          | (11,881)         |
| <b>Operating income</b>                                   |        | <b>1,056,161</b> | <b>1,109,423</b>                | <b>920,613</b>   |
| Finance expense   | 10     | (117,866)        | (132,113)                       | (150,302)        |
| Finance income  | 10     | 5,715            | (2,358)                         | 11,400           |
| Other financial income (expenses), net                    | 10     | 42,701           | (1,004)                         | 17,270           |
| Equity in (losses) earnings of non-consolidated companies | 3 & 14 | (34,218)         | (31,609)                        | (346,833)        |
| <b>Profit before income tax expense</b>                   |        | <b>952,493</b>   | <b>942,339</b>                  | <b>452,148</b>   |
| Income tax expense  | 11     | (363,708)        | (349,426)                       | (261,227)        |
| <b>Profit for the year</b>                                |        | <b>588,785</b>   | <b>592,913</b>                  | <b>190,921</b>   |
| Attributable to:  |        |                  |                                 |                  |
| Owners of the parent                                      |        | 452,404          | 455,425                         | 142,043          |
| Non-controlling interest                                  |        | 136,381          | 137,488                         | 48,878           |
| <b>Profit for the year</b>                                |        | <b>588,785</b>   | <b>592,913</b>                  | <b>190,921</b>   |
| Weighted average number of shares outstanding             |        | 1,963,076,776    | 1,963,076,776                   | 1,963,076,776    |

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2014 and 2013

and for the years ended December 31, 2014, 2013 and 2012

(All amounts in USD thousands)

**Consolidated Statements of Comprehensive Income**

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2014 and 2013

and for the years ended December 31, 2014, 2013 and 2012

(All amounts in USD thousands)

**Consolidated Statements of Financial Position**

|  | Notes | Balances as of    |                   |
|--|-------|-------------------|-------------------|
|  |       | December 31, 2014 | December 31, 2013 |
| <b>ASSETS</b>  |       |                   |                   |
| <b>Non-current assets</b>  |       |                   |                   |
| Property, plant and equipment, net                                   | 12    | 4,481,027         | 4,708,895         |
| Intangible assets, net   | 13    | 948,886           | 961,504           |
| Investments in non-consolidated companies                            | 14    | 1,396,560         | 1,375,165         |
| Derivative financial instruments                                     | 22    | -                 | 1,535             |
| Deferred tax assets  | 20    | 31,626            | 24,902            |
| Receivables, net   | 15    | 47,482            | 79,407            |
| Trade receivables, net   | 16    | 91                | 1,754             |
|  |       | 6,905,672         | 7,153,162         |
| <b>Current assets</b>  |       |                   |                   |
| Receivables  | 15    | 112,229           | 112,388           |
| Derivative financial instruments                                     | 22    | 4,338             | -                 |
| Inventories, net   | 17    | 2,134,034         | 1,941,130         |
| Trade receivables, net   | 16    | 720,214           | 671,453           |
| Other investments  | 18    | 149,995           | 169,503           |
| Cash and cash equivalents  | 18    | 213,303           | 307,218           |
|  |       | 3,334,113         | 3,201,692         |
| Non-current assets classified as held for sale                       |       | 14,756            | 17,770            |
|  |       | 3,348,869         | 3,219,462         |
| <b>Total Assets</b>  |       | <b>10,254,541</b> | <b>10,372,624</b> |
| <b>EQUITY</b>  |       |                   |                   |
| <b>Capital and reserves attributable to the owners of the parent</b> |       | 5,284,959         | 5,340,035         |
| <b>Non-controlling interest</b>                                      |       | 973,523           | 998,009           |
| <b>Total Equity</b>  |       | <b>6,258,482</b>  | <b>6,338,044</b>  |
| <b>LIABILITIES</b>   |       |                   |                   |
| <b>SIGNATURE</b>   |       |                   |                   |

**Non-current liabilities**

|                          |           |         |           |           |           |
|--------------------------|-----------|---------|-----------|-----------|-----------|
| Provisions               | <b>19</b> | 9,067   |           | 13,984    |           |
| Deferred tax liabilities | <b>20</b> | 611,126 |           | 605,883   |           |
| Other liabilities        | <b>21</b> | 371,900 |           | 345,431   |           |
| Trade payables           |           | 11,969  |           | 15,243    |           |
| Borrowings               | <b>23</b> | 900,611 | 1,904,673 | 1,204,880 | 2,185,421 |

**Current liabilities**

|                                  |           |           |           |         |           |
|----------------------------------|-----------|-----------|-----------|---------|-----------|
| Current income tax liabilities   |           | 51,083    |           | 92,009  |           |
| Other liabilities                | <b>21</b> | 210,206   |           | 203,326 |           |
| Trade payables                   |           | 564,513   |           | 755,880 |           |
| Derivative financial instruments | <b>22</b> | 1,376     |           | -       |           |
| Borrowings                       | <b>23</b> | 1,264,208 | 2,091,386 | 797,944 | 1,849,159 |

**Total Liabilities**

3,996,059 4,034,580

**Total Equity and Liabilities****10,254,541 10,372,624**

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

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**TERNIUM S.A.**

**Consolidated Financial Statements as of December 31, 2014 and 2013**

**and for the years ended December 31, 2014, 2013 and 2012**

(All amounts in USD thousands)

**Consolidated Statements of Changes in Equity**



(1) Shareholders' equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 24 (iii).

(2) The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD 1.00 per share. As of December 31, 2014, there were 2,004,743,442 shares issued. All issued shares are fully paid.

(3) Include legal reserve under Luxembourg law for USD 200.5 million, undistributable reserves under Luxembourg law for USD 1.4 billion, hedge accounting reserve, net of tax effect, for USD (0.4) million and reserves related to the acquisition of non-controlling interest in subsidiaries according to IAS 27 for USD (58.9) million.

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

(5) Represents USD 0.075 per share (USD 0.75 per ADS). Related to the dividends distributed on May 7, 2014, and as 41,666,666 shares are held as treasury shares by one of Ternium's subsidiaries, the dividends attributable to these treasury shares amounting to USD 3.1 million were included in equity as less dividend paid.

Dividends may be paid by Ternium to the extent distributable retained earnings calculated in accordance with Luxembourg law and regulations exist. Therefore, retained earnings included in these consolidated financial statements may not be wholly distributable. See Note 24 (iii). The accompanying notes are an integral part of these consolidated financial statements.

**TERNIUM S.A.**

**Consolidated Financial Statements as of December 31, 2014 and 2013**

**and for the years ended December 31, 2014, 2013 and 2012**

**(All amounts in USD thousands)**

**Consolidated Statements of Changes in Equity**

- (1) Shareholders' equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 24 (iii).
- (2) The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD 1.00 per share. As of December 31, 2013, there were 2,004,743,442 shares issued. All issued shares are fully paid.
- (3) Include legal reserve under Luxembourg law for USD 200.5 million, undistributable reserves under Luxembourg law for USD 1.4 billion, hedge accounting reserve, net of tax effect, for USD 1.1 million and reserves related to the acquisition of non-controlling interest in subsidiaries according to IAS 27 for USD (58.9) million.
- (4) Represents the difference between book value of non-monetary contributions received from shareholders under Luxembourg GAAP and IFRS.
- (5) Corresponds to the acquisition of the non-controlling interest held by Siderúrgica de Caldas S.A.S., a subsidiary of Ternium S.A., in Procesadora de Materiales Industriales S.A. in April 2013.
- (6) Represents USD 0.065 per share (USD 0.65 per ADS). Related to the dividends distributed on May 10, 2013, and as 41,666,666 shares are held as treasury shares by one of Ternium's subsidiaries, the dividends attributable to these treasury shares amounting to USD 2.7 million were included in equity as less dividend paid.

Dividends may be paid by Ternium to the extent distributable retained earnings calculated in accordance with Luxembourg law and regulations exist. Therefore, retained earnings included in these consolidated financial statements may not be wholly distributable. See Note 24 (iii). The accompanying notes are an integral part of these consolidated financial statements.

**TERNIUM S.A.**

**Consolidated Financial Statements as of December 31, 2014 and 2013**

**and for the years ended December 31, 2014, 2013 and 2012**

(All amounts in USD thousands)

**Consolidated Statements of Changes in Equity**

- (1) Shareholders' equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 24 (iii).
- (2) The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD 1.00 per share. As of December 31, 2012, there were 2,004,743,442 shares issued. All issued shares are fully paid.
- (3) Include legal reserve under Luxembourg law for USD 200.5 million, undistributable reserves under Luxembourg law for USD 1.4 billion, hedge accounting reserve, net of tax effect, for USD 1.2 million and reserves related to the acquisition of non-controlling interest in subsidiaries according to IAS 27 for USD (58.5) million.
- (4) Represents the difference between book value of non-monetary contributions received from shareholders under Luxembourg GAAP and IFRS.
- (5) Represents USD 0.075 per share (USD 0.75 per ADS). Related to the dividends distributed on May 2, 2012, and as 41,666,666 shares are held as treasury shares by one of Ternium's subsidiaries, the dividends attributable to these treasury shares amounting to USD 3.1 million were included in equity as less dividend paid.
- (6) Corresponds to the contribution made by Nippon Steel Corporation in Tenigal, S.R.L. de C.V.

Dividends may be paid by Ternium to the extent distributable retained earnings calculated in accordance with Luxembourg law and regulations exist. Therefore, retained earnings included in these consolidated financial statements may not be wholly distributable. See Note 24 (iii). The accompanying notes are an integral part of these consolidated financial statements.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2014 and 2013

and for the years ended December 31, 2014, 2013 and 2012

(All amounts in USD thousands)

**Consolidated Statements of Cash Flows**

|   | Notes              | 2014             | Year ended December 31,<br>2013 | 2012               |
|---|--------------------|------------------|---------------------------------|--------------------|
| <b>Cash flows from operating activities</b>                     |                    |                  |                                 |                    |
| <b>Profit for the year</b>                                      |                    | <b>588,785</b>   | <b>592,913</b>                  | <b>190,921</b>     |
| Adjustments for:  |                    |                  |                                 |                    |
| Depreciation and amortization                                   | <b>12 &amp; 13</b> | 414,797          | 377,133                         | 370,855            |
| Income tax accruals less payments                               | <b>26 (b)</b>      | (14,926)         | (24,177)                        | 41,030             |
| Equity in losses (earnings) of non-consolidated companies       | <b>3 &amp; 14</b>  | 34,218           | 31,609                          | 346,833            |
| Interest accruals less payments                                 | <b>26 (b)</b>      | 5,162            | (16,869)                        | 816                |
| Changes in provisions   | <b>19</b>          | 92               | 7,330                           | 5,754              |
| Changes in working capital (1)                                  | <b>26 (b)</b>      | (550,980)        | 114,611                         | 23,533             |
| Net foreign exchange results and others                         |                    | 28,696           | 9,624                           | 75,350             |
| <b>Net cash provided by operating activities</b>                |                    | <b>505,844</b>   | <b>1,092,174</b>                | <b>1,055,092</b>   |
| <b>Cash flows from investing activities</b>                     |                    |                  |                                 |                    |
| Capital expenditures  | <b>12 &amp; 13</b> | (443,463)        | (883,317)                       | (1,022,592)        |
| Acquisition of business/stake - Purchase consideration Usiminas | <b>3 &amp; 14</b>  | (249,032)        | -                               | (2,243,610)        |
| Decrease (Increase) in other investments                        | <b>18</b>          | 18,258           | (1,802)                         | 127,875            |
| Proceeds from the sale of property, plant and equipment         |                    | 1,473            | 2,133                           | 2,143              |
| Proceeds from Sidor financial asset                             |                    | -                | -                               | 136,719            |
| Dividends received from non-consolidated companies              | <b>14</b>          | -                | 207                             | 4,718              |
| Investments in non-consolidated companies - Techgen             | <b>14</b>          | (3,010)          | -                               | -                  |
| <b>Net cash used in investing activities</b>                    |                    | <b>(675,774)</b> | <b>(882,779)</b>                | <b>(2,994,747)</b> |
| <b>Cash flows from financing activities</b>                     |                    |                  |                                 |                    |
| Dividends paid in cash to company's shareholders                |                    | (147,231)        | (127,600)                       | (147,231)          |
|   |                    | (33,632)         | (66,704)                        | (15,902)           |

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|  |                 |                  |                    |
|--|-----------------|------------------|--------------------|
| Dividends paid in cash to non-controlling interests                          |                 |                  |                    |
| Contributions from non-controlling shareholders in consolidated subsidiaries | -               | -                | 41,650             |
| Acquisition of non-controlling interest                                      | -               | (929)            | -                  |
| Proceeds from borrowings   | 1,038,820       | 1,863,868        | 1,284,659          |
| Repayments of borrowings   | (773,396)       | (2,134,711)      | (814,976)          |
| <b>Net cash provided by (used in) financing activities</b>                   | <b>84,561</b>   | <b>(466,076)</b> | <b>348,200</b>     |
| <b>Decrease in cash and cash equivalents</b>                                 | <b>(85,369)</b> | <b>(256,681)</b> | <b>(1,591,454)</b> |
| <b>Movement in cash and cash equivalents</b>                                 |                 |                  |                    |
| At January 1,  | 307,218         | 560,307          | 2,158,044          |
| Effect of exchange rate changes  | (8,546)         | (8,635)          | (6,283)            |
| Initial cash of Peña Colorada and Exiros                                     | -               | 12,227           | -                  |
| Decrease in cash and cash equivalents  | (85,369)        | (256,681)        | (1,591,454)        |
| <b>Cash and cash equivalents at December 31, (2)</b>                         | <b>213,303</b>  | <b>307,218</b>   | <b>560,307</b>     |

(1) The working capital is impacted by non-cash movement of USD (149.9) million as of December 31, 2014 (USD (157.7) million and USD (53.7) million as of December 31, 2013 and 2012, respectively) due to the variations in the exchange rates used by subsidiaries with functional currencies different from the US dollar.

(2) It includes restricted cash of USD 93, USD 869 and USD 941 as of December 31, 2014, 2013 and 2012, respectively. In addition, the Company had other investments with a maturity of more than three months for USD 149,995, USD 169,503 and USD 160,750 as of December 31, 2014, 2013 and 2012, respectively.

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

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2014 and 2013

and for the years ended December 31, 2014, 2013 and 2012

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TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2014 and 2013

and for the years ended December 31, 2014, 2013 and 2012

Notes to the Consolidated Financial Statements

## 1. GENERAL INFORMATION

Ternium S.A. (the “Company” or “Ternium”), was incorporated on December 22, 2003 to hold investments in flat and long steel manufacturing and distributing companies. The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD 1.00 per share. As of December 31, 2014, there were 2,004,743,442 shares issued. All issued shares are fully paid.

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

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

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

As part of the Company’s corporate reorganization in connection with the termination of Luxembourg’s 1929 holding company regime, on December 6, 2010, the Company contributed its equity holdings in all its subsidiaries and all its financial assets to its Luxembourg wholly-owned subsidiary Ternium Investments S.à.r.l., or Ternium Investments, in exchange for newly issued corporate units of Ternium Investments. As the assets contributed were recorded at their historical carrying amount in accordance with Luxembourg GAAP, the Company’s December 2010 contribution of such assets to Ternium Investments resulted in a non-taxable revaluation of the accounting value of the Company’s assets under Luxembourg GAAP. The amount of the December 2010 revaluation was equal to the difference between the historical carrying amounts of the assets contributed and the value at which such assets were contributed and

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amounted to USD 4.0 billion. However, for the purpose of these consolidated financial statements, the assets contributed by Ternium to its wholly-owned subsidiary Ternium Investments were recorded based on their historical carrying amounts in accordance with IFRS, with no impact on the financial statements.

TERNIUM S.A.

Consolidated Financial Statements as of December 31, 2014 and 2013

and for the years ended December 31, 2014, 2013 and 2012

**1. GENERAL INFORMATION (continued)**

Following the completion of the corporate reorganization, and upon its conversion into an ordinary Luxembourg holding company, the Company voluntarily recorded a special reserve exclusively for tax-basis purposes. As of December 31, 2014 and 2013, this special tax reserve amounted to USD 7.3 billion and USD 7.5 billion, respectively. The Company expects that, as a result of its corporate reorganization, its current overall tax burden will not increase, as all or substantially all of its dividend income will come from high income tax jurisdictions. In addition, the Company expects that dividend distributions for the foreseeable future will be imputed to the special reserve and therefore should be exempt from Luxembourg withholding tax under current Luxembourg law.

**2. BASIS OF PRESENTATION**

These consolidated financial statements have been prepared in accordance with IFRS (International Financial Reporting Standards) issued and effective or issued and early adopted as at the time of preparing these statements (February 2015), as issued by the International Accounting Standards Board, and adopted by the European Union ("EU"). These consolidated financial statements are presented in thousands of United States dollars ("USD"), except otherwise indicated.

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

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on February 18, 2015.

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

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**2. BASIS OF PRESENTATION (continued)**

| Company                                  | Country of Organization | Main activity   | Percentage of ownership at December 31, |         |         |
|--|-------------------------|---|---|---------|---------|
|  |                         |   | 2014                                    | 2013    | 2012    |
| Ternium S.A.                             | Luxembourg              | Holding   | 100.00%                                 | 100.00% | 100.00% |
| Ternium Investments S.à.r.l.             | Luxembourg              | Holding   | 100.00%                                 | 100.00% | 100.00% |
| Ternium Solutions A.G. (1)               | Switzerland             | Services  | 100.00%                                 | 100.00% | 100.00% |
| Ternium Brasil S.A. (1)                  | Brazil                  | Holding   | 100.00%                                 | 100.00% | 100.00% |
| Ternium Investments Switzerland AG (1)   | Switzerland             | Holding   | 100.00%                                 | 100.00% | 100.00% |
| Ternium Internacional España S.L.U. (1)  | Spain                   | Marketing of steel products                           | 100.00%                                 | 100.00% | 100.00% |
| Siderúrgica do Norte Fluminense S.A. (2) | Brazil                  | Manufacturing and selling of steel products           | -                                       | 100.00% | 100.00% |
| Consortio Siderurgia Amazonia S.L. (3)   | Spain                   | Holding   | -                                       | 94.38%  | 94.38%  |
| Secor - Servicios Corporativos S.A. (4)  | Venezuela               | Holding   | -                                       | -       | 94.53%  |
| Siderar S.A.I.C. (5)                     | Argentina               | Manufacturing and selling of flat steel products      | 60.94%                                  | 60.94%  | 60.94%  |
| Impeco S.A. (6)                          | Argentina               | Manufacturing of pipe products                        | 60.97%                                  | 60.97%  | 60.97%  |
| Prosid Investments S.C.A. (6)            | Uruguay                 | Holding   | 60.94%                                  | 60.94%  | 60.94%  |
| Ternium Mexico S.A. de C.V. (7)          | Mexico                  | Holding   | 88.72%                                  | 88.72%  | 88.72%  |
| Hylsa S.A. de C.V. (8)                   | Mexico                  | Manufacturing and selling of steel products           | 88.72%                                  | 88.72%  | 88.72%  |
| Las Encinas S.A. de C.V. (8)             | Mexico                  | Exploration, exploitation and pelletizing of iron ore | 88.72%                                  | 88.72%  | 88.72%  |
| Ferropak Comercial S.A. de C.V. (8)      | Mexico                  | Scrap services company                                | 88.72%                                  | 88.72%  | 88.72%  |
| Ferropak Servicios S.A. de C.V. (8)      | Mexico                  | Services  | 88.72%                                  | 88.72%  | 88.72%  |
| Galvacer America Inc (8)                 | USA                     | Distributing company                                  | 88.72%                                  | 88.72%  | 88.72%  |
| Galvamet America Corp (8)                | USA                     | Manufacturing and selling of insulated panel products | 88.72%                                  | 88.72%  | 88.72%  |
|  | USA                     |   | 88.72%                                  | 88.72%  | 88.72%  |

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|  |             |   |         |         |        |
|--|-------------|---|---------|---------|--------|
| Transamerica E. & I. Trading Corp. (8)                         |             | Scrap services company                                |         |         |        |
| Técnica Industrial S.A. de C.V. (8)                            | Mexico      | Services  | 88.72%  | 88.72%  | 88.72% |
| Corporativo Grupo Imsa S.A. de C.V. (8)                        | Mexico      | Services  | 88.72%  | 88.72%  | 88.72% |
| Acedor, S.A. de C.V. (8)                                       | Mexico      | Holding   | 88.72%  | 88.72%  | 88.72% |
| Ternium Gas México S.A. de C.V. (9)                            | Mexico      | Financial Services                                    | 88.72%  | 88.72%  | 88.72% |
| Ecore Holding S. de R.L. de C.V. (10)                          | Mexico      | Holding   | -       | 88.72%  | 88.72% |
| Treasury Services S.A. de C.V. (10)                            | Mexico      | Financial Services                                    | -       | 88.72%  | 88.72% |
| APM, S.A. de C.V. (10)   | Mexico      | Manufacturing and selling of steel products           | -       | 88.72%  | 88.72% |
| Acerus S.A. de C.V. (10)                                       | Mexico      | Manufacturing and selling of steel products           | -       | 88.72%  | 88.72% |
| Neotec L.L.C. (11)   | USA         | Holding   | -       | 88.72%  | 88.72% |
| Imsa Monclova S.A. de C.V. (12)                                | Mexico      | Services  | -       | -       | 88.72% |
| Ternium Internacional Guatemala S.A. (13)                      | Guatemala   | Selling of steel products                             | 99.98%  | 99.98%  | 99.98% |
| Ternium USA Inc. (14)  | USA         | Manufacturing and selling of steel products           | 100.00% | 100.00% | 88.72% |
| Consortio Minero Benito Juarez Peña Colorada S.A. de C.V. (15) | Mexico      | Exploration, exploitation and pelletizing of iron ore | 44.36%  | 44.36%  | -      |
| Peña Colorada Servicios S.A. de C.V. (15)                      | Mexico      | Services  | 44.36%  | 44.36%  | -      |
| Exiros B.V. (15)   | Netherlands | Procurement and trading services                      | 50.00%  | 50.00%  | -      |
| Servicios Integrales Nova de Monterrey S.A. de C.V. (16)       | Mexico      | Medical and Social Services                           | 66.09%  | 66.09%  | 66.09% |

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**2. BASIS OF PRESENTATION (continued)**

| Company  | Country of Organization | Main activity                               | Percentage of ownership at December 31, |         |         |
|--|-------------------------|---|---|---------|---------|
|  |                         |   | 2014                                    | 2013    | 2012    |
| Ternium Internacional Nicaragua S.A.             | Nicaragua               | Manufacturing and selling of steel products | 99.38%                                  | 99.38%  | 99.38%  |
| Ternium Internacional Honduras S.A. de C.V.      | Honduras                | Manufacturing and selling of steel products | 99.18%                                  | 99.18%  | 99.18%  |
| Ternium Internacional El Salvador S.A. de C.V.   | El Salvador             | Manufacturing and selling of steel products | 99.91%                                  | 99.91%  | 99.91%  |
| Ternium Internacional Costa Rica S.A.            | Costa Rica              | Manufacturing and selling of steel products | 99.98%                                  | 99.98%  | 99.98%  |
| Ferrasa S.A.S. (17)                              | Colombia                | Manufacturing and selling of steel products | 54.00%                                  | 54.00%  | 54.00%  |
| Perfilamos del Cauca S.A.S. (17)                 | Colombia                | Manufacturing and selling of steel products | 54.00%                                  | 54.00%  | 54.00%  |
| Siderúrgica de Caldas S.A.S. (17)                | Colombia                | Manufacturing and selling of steel products | 54.00%                                  | 54.00%  | 54.00%  |
| Procesadora de Materiales Industriales S.A. (17) | Colombia                | Scrap services company                      | 54.00%                                  | 54.00%  | 32.40%  |
| Figuraciones S.A.S. (18)                         | Colombia                | Manufacturing and selling of steel products | -                                       | 54.00%  | 54.00%  |
| Tenigal S. de R.L. de C.V. (19)                  | Mexico                  | Manufacturing and selling of steel products | 51.00%                                  | 51.00%  | 51.00%  |
| Ternium Internacional S.A. (20)                  | Uruguay                 | Holding and marketing of steel products     | 100.00%                                 | 100.00% | 100.00% |
| Ternium Procurement S.A. (20)                    | Uruguay                 | Procurement services                        | 100.00%                                 | 100.00% | 100.00% |
| Ternium International Inc. (20)                  | Panama                  | Marketing of steel products                 | 100.00%                                 | 100.00% | 100.00% |
|  | Uruguay                 | Financial Services                          | 100.00%                                 | 100.00% | 100.00% |

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|   |             |   |         |         |         |
|---|-------------|---|---------|---------|---------|
| Ternium Treasury Services S.A. (20)                   |             |   |         |         |         |
| Ternium International Ecuador S.A. (21)               | Ecuador     | Marketing of steel products                 | 100.00% | 100.00% | 100.00% |
| Ternium International USA Corporation (21)            | USA         | Marketing of steel products                 | 100.00% | 100.00% | 100.00% |
| Ternium Internacional de Colombia S.A.S. (21)         | Colombia    | Marketing of steel products                 | 100.00% | 100.00% | 100.00% |
| Ternium Internationaal B.V. (22)                      | Netherlands | Marketing of steel products                 | 100.00% | 100.00% | 100.00% |
| Ternium Engineering & Services S.A. (23)              | Uruguay     | Engineering and other services              | 100.00% | 100.00% | 100.00% |
| Ternium Ingeniería y Servicios de Argentina S.A.      | Argentina   | Engineering and other services              | 100.00% | 100.00% | 100.00% |
| Ternium Ingeniería y Servicios de México S.A. de C.V. | Mexico      | Engineering and other services              | 100.00% | 100.00% | 100.00% |
| Ternium Treasury Services B.V. (24)                   | Netherlands | Financial Services                          | -       | 100.00% | 100.00% |
| Soluciones Integrales de Gestión S.A. (25)            | Argentina   | Other services                              | 100.00% | 100.00% | -       |
| Ferrasa Panamá, S.A. (26)                             | Panama      | Manufacturing and selling of steel products | 54.00%  | 54.00%  | 54.00%  |
| Aceros Transformados de Panamá, S.A. (26)             | Panama      | Manufacturing and selling of steel products | 54.00%  | 54.00%  | 54.00%  |

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**2. BASIS OF PRESENTATION (continued)**

- (1) Indirectly through Ternium Investments S.à.r.l. Total voting rights held: 100.00%.
- (2) This company was sold as of January 9, 2014.
- (3) This company was dissolved as of December 17, 2014.
- (4) This company was dissolved as of January 8, 2013.
- (5) Indirectly through Ternium Internacional España S.L.U. Total voting rights held: 60.94%.
- (6) Indirectly through Siderar S.A.I.C and Ternium Internacional S.A. Total voting rights held 100.00%.
- (7) Indirectly through Siderar S.A.I.C., Ternium Internacional S.A. and Ternium Internacional España S.L.U. Total voting rights held 99.93%.
- (8) Indirectly through Ternium Mexico S.A. de C.V. Total voting rights held: 100.00%.
- (9) Indirectly through Ternium Mexico S.A. de C.V. and Tenigal S. de R.L. de C.V. Total voting rights held: 100.00%.
- (10) Merged with Ternium Mexico S.A. de C.V. during the first quarter of 2014.
- (11) This company was dissolved as of September 5, 2014.
- (12) Merged with Ternium Mexico S.A. de C.V. during the fourth quarter of 2011.
- (13) Indirectly through Ternium Internacional España S.L.U. Total voting rights held: 100%.
- (14) Since first quarter 2013, indirectly through Ternium Investments S.à.r.l. (100,00%). Total voting rights held: 100.00%. Before that, indirectly through Ternium Mexico S.A. de C.V.
- (15) Total voting rights held: 50.00%.
- (16) Indirectly through Ternium Mexico S.A. de C.V. Total voting rights held: 74.50%.
- (17) Indirectly through Ternium Internacional España S.L.U.. Total voting rights held: 54.00%.
- (18) This company was dissolved as of December 24, 2014.
- (19) Indirectly through Ternium Internacional España S.L.U.. Total voting rights held: 51.00%.

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(20) Indirectly through Ternium Investments Switzerland AG. Total voting rights held: 100.00%.

(21) Indirectly through Ternium Internacional S.A. Total voting rights held 100.00%.

(22) Since fourth quarter 2014, indirectly through Ternium Investments Switzerland AG (100,00%). Total voting rights held: 100.00%. Before that, indirectly through Ternium Internacional S.A.

(23) Indirectly through Ternium Internacional Inc.. Total voting rights held 100.00%.

(24) Merged with Ternium Internationaal B.V. during the fourth quarter of 2014.

(25) Indirectly through Ternium Investments S.à.r.l. and Ternium Treasury Services S.A. Total voting rights held: 100.00%.

(26) Indirectly through Ternium Treasury Services S.A. Total voting rights held: 54.00%.

The most important non-controlling interest is related to the investment in Siderar S.A.I.C., which is a company listed in the Buenos Aires Stock Exchange. All the information related to this investment could be found in the Buenos Aires Stock Exchange webpage.

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**3. ACQUISITION OF BUSINESS – USINAS SIDERÚRGICAS DE MINAS GERAIS S.A. - USIMINAS**

On November 27, 2011, the Company's wholly-owned Luxembourg subsidiary Ternium Investments S.à r.l. ("Ternium Investments"), together with its Argentine majority-owned subsidiary Siderar S.A.I.C. (and Siderar's wholly-owned Uruguayan subsidiary Prosid Investments S.C.A.), and Confab Industrial S.A., a Brazilian subsidiary of Tenaris S.A. ("TenarisConfab"), entered into share purchase agreements with Camargo Corrêa, Votorantim and Usiminas employee pension fund Previdência Usiminas (f.k.a. Caixa dos Empregados da Usiminas) ("CEU") for the acquisition of 139.7 million ordinary shares of Usinas Siderúrgicas de Minas Gerais S.A. – USIMINAS ("Usiminas"), representing 27.66% of Usiminas' voting capital, at a price of BRL 36.0 (approximately USD 19.0) per ordinary share.

Upon closing of the transaction on January 16, 2012, Ternium Investments, Siderar and TenarisConfab joined Usiminas' existing control group through the acquisition of 84.7, 30.0, and 25.0 million ordinary shares, respectively. In addition, Nippon Steel & Sumitomo Metal Corporation (f.k.a. Nippon Steel Corporation) ("NSSMC") acquired from CEU 8.5 million ordinary shares. In addition, Ternium Investments, Siderar, Prosid and TenarisConfab entered into an amended and restated Usiminas shareholders' agreement with Nippon Steel, Mitsubishi, Metal One and CEU, governing Ternium Investments, Siderar (and Prosid) and TenarisConfab's rights within the Usiminas control group; most decisions in that control group are subject for its approval to a 65% majority of the control group shares. As a result of these transactions, the control group, which held 322.7 million ordinary shares representing the majority of Usiminas' voting rights, was then formed as follows: NSSMC Group 46.1%, Ternium/Tenaris Group 43.3%, and CEU 10.6%. The rights of Ternium Investments, Siderar (and Prosid), and TenarisConfab within the Ternium/Tenaris Group are governed under a separate shareholders agreement.

During 2012, the Company completed its purchase price allocation procedures and determined a notional goodwill included within the investment balance of USD 583 million, according to the following calculation:

|   |                  |
|---|------------------|
| <b>Opening net assets at January 16, 2012</b>                 | <b>9,690,397</b> |
| Percentage of interest of the Company over opening assets (1) | 11.62%           |
| <b>Interest of the Company over opening net assets</b>        | <b>1,126,306</b> |
| Net assets at fair value vs. book value                       | 534,531          |
| Goodwill  | 582,773          |
| <b>Total Purchase consideration</b>                           | <b>2,243,610</b> |

(1) This percentage of interest is calculated considering treasury shares.

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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. There is a significant interaction among the principal assumptions made in estimating Usiminas' cash flow projections, which include iron ore and steel prices, foreign exchange and interest rates, Brazilian GDP and steel consumption in the Brazilian market.

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### 3. ACQUISITION OF BUSINESS – USINAS SIDERÚRGICAS DE MINAS GERAIS S.A. - USIMINAS (continued)

As of December 31, 2012, the Company wrote down its investment in Usiminas by USD 275 million. The impairment was mainly due to expectations of a weaker industrial environment in Brazil, where industrial production and consequently steel demand had suffered 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. As of December 31, 2012, the discount rate used to test the investment in Usiminas for impairment was 9.6%.

On October 2, 2014, Ternium Investments entered into a definitive purchase agreement with Caixa de Previdência dos Funcionários do Banco do Brasil – PREVI for the acquisition of 51.4 million ordinary shares of Usiminas at a price of BRL 12 per share, for a total amount of BRL 616.7 million. On October 30, 2014, Ternium Investments completed the acquisition.

Following the acquisition of these additional shares, Ternium (through Ternium Investments, Siderar and Prosid) owns 166.1 million ordinary shares, representing 32.9% of Usiminas' ordinary shares. Ternium continues to hold 35.6% of Usiminas' voting rights over the control group and has a participation in Usiminas' results of 16.82%.

During 2014, the Company performed its purchase price allocation procedures in connection with the acquisition of these additional shares, determined a higher value of net assets at fair value versus book value and, accordingly, recognized a gain of USD 188.9 million. Set forth below is the Company's calculation:

|  |                  |
|--|------------------|
| <b>Net assets at fair value at September 30, 2014</b>                            | <b>8,415,389</b> |
| Percentage of interest of the Company over net assets at fair value acquired (1) | 5.20%            |
| <b>Interest of the Company over net assets at fair value acquired</b>            | <b>437,920</b>   |
| Gain from bargain purchase   | (188,888)        |
| <b>Total Purchase consideration</b>  | <b>249,032</b>   |

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(1) This percentage of interest is calculated considering treasury shares.

As of December 31, 2014, the Company further wrote down its investment in Usiminas by USD 196.4 million. As a result, the recoverable value of the Company's investment in Usiminas currently amounts to USD 1,390.7 million (see note 14). The impairment was mainly due to expectations of a weaker industrial environment in Brazil, and consequently steel demand, as a result of worsening economic activity, as well as a significant additional downturn in international prices of iron ore and steel, which led to diminished cash flow expectations. As of December 31, 2014 the discount rate used to test the investment in Usiminas for impairment was 9.8%.

Factors that could result in impairment charges in future periods would be an increase in the discount rate or a decrease in steel prices. The Company estimated that a change of 10 bps in the discount rate would have resulted in a change of 2% in the value in use, and a change of 10 USD per ton in the steel price would have resulted in a change of 7% in the value in use.

At December 31, 2014, the closing price of the Usiminas' ordinary shares as quoted on the BM&FBovespa Stock Exchange was BRL 12.30 (approximately USD 4.63) per share, giving Ternium's ownership stake a market value of approximately USD 769.3 million.

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#### **4. ACCOUNTING POLICIES**

These Consolidated Financial Statements have been prepared following the same accounting policies used in the preparation of the audited Consolidated Financial Statements for the year ended December 31, 2013.

The following is a summary of the principal accounting policies followed in the preparation of these consolidated financial statements:

##### **(a) Group accounting**

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

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

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

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

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

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

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#### 4. ACCOUNTING POLICIES (continued)

The Company treats transactions with non-controlling interests as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

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

##### *(2) Investments in non-consolidated companies*

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

Investments in non-consolidated companies are accounted for using the equity method of accounting. Under this method, interests in joint ventures and associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the post-acquisition profits or losses in the income statement, and its share of post-acquisition changes in reserves recognized in reserves and in other comprehensive income in the income statement. Unrealized gains on transactions among the Company and its non-consolidated companies are eliminated to the extent of the Company's interest in such non-consolidated companies; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When the Company's share of losses in a non-consolidated company equals or exceeds its interest in

such non-consolidated company, the Company does not recognize further losses unless it has incurred obligations or made payments on behalf of such non-consolidated company.

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

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

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**4. ACCOUNTING POLICIES (continued)**

**(b) Foreign currency translation**

*(1) Functional and presentation currency*

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

*(2) Subsidiary companies*

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

- (i) assets and liabilities are translated at the closing rate of each statement of financial position;
- (ii) income and expenses for each income statement are translated at average exchange rates; and
- (iii) all resulting translation differences are recognized within other comprehensive income.

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

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*(3) Transactions in currencies other than the functional currency*

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

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

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#### 4. ACCOUNTING POLICIES (continued)

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than the functional currency are recorded as gains and losses from foreign exchange and included in "Other financial income (expenses), net" in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the "fair value gain or loss," while translation differences on non-monetary financial assets such as equities classified as available for sale are included in the "available for sale reserve" in equity. Ternium had no such assets or liabilities for any of the periods presented.

##### (c) Financial instruments

###### *Non derivative financial instruments*

Non derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Ternium non derivative financial instruments are classified into the following categories:

- Financial instruments at fair value through profit or loss: comprises mainly cash and cash equivalents and investments in debt securities held for trading;
- Held-to-maturity instruments: measured at amortized cost using the effective interest method less impairment losses. As of December 31, 2014 and 2013, there are no instruments classified under this category;
- Loans and receivables: measured at amortized cost using the effective interest method less impairment losses;
- Available-for-sale ("AFS") financial assets: gains and losses arising from changes in fair value are recognized within other comprehensive income ("OCI") with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in OCI is included in the income statement for the period. As of December 31, 2014, there are USD 35 million classified under this category, while as of December 31, 2013, there were no instruments classified

under this category;

- Other financial liabilities: measured at amortized cost using the effective interest method.

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

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

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

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

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**4. ACCOUNTING POLICIES (continued)**

*Impairment of financial assets*

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Company first assesses whether objective evidence of impairment exists.

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

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

*Derivative financial instruments*

Information about accounting for derivative financial instruments and hedging activities is included in Note 28 "Financial Risk management".

**(d) Property, plant and equipment**



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

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

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

Where a tangible fixed asset comprises major components having different useful lives, these components are accounted for as separate items.

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

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**4. ACCOUNTING POLICIES (continued)**

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

|  |                 |
|--|-----------------|
| Land   | No depreciation |
| Buildings and improvements                           | 10-50 years     |
| Production equipment                                 | 5-30 years      |
| Vehicles, furniture and fixtures and other equipment | 5-10 years      |

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

The assets' useful lives are reviewed, and adjusted if appropriate, at each year end. The re-estimation of assets useful lives by the Company did not materially affect depreciation charges in 2014, 2013 and 2012.

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

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

**(e) Intangible assets**

*(1) Information system projects*

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

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

*(2) Mining assets*

Mining assets include:

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

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

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#### 4. ACCOUNTING POLICIES (continued)

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

Amortization charge is calculated by using the unit-of-production method, on the basis of actual mineral extracted in each period compared to the estimated mineral reserves, and is included in cost of sales. Any change in the estimation of reserves is accounted for prospectively. The resulting amortization rate for the years ended December 31, 2014, 2013 and 2012, is approximately 10%, 9% and 9% per year, respectively.

##### *(3) Exploration and evaluation costs*

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

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

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

- Rights to explore in an area have expired or will expire in the near future without renewal;
- No further exploration and evaluation is planned or budgeted;
- A decision to discontinue exploration and evaluation in an area because of the absence of commercial reserves; and

- Sufficient data exists to indicate that the book value will not be fully recovered from future development and production.

When technical feasibility and commercial viability are demonstrated, exploration and evaluation costs are tested for impairment immediately prior to reclassification to the definitive intangible asset. Any impairment charge arising from this test will be included as Other operating expense.

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

*(4) Goodwill*

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

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**4. ACCOUNTING POLICIES (continued)**

Goodwill is allocated to Cash-generating units ("CGU") for the purpose of impairment testing. The allocation is made to those cash-generating units expected to benefit from the business combination which generated the goodwill being tested.

As of December 31, 2014, the carrying amount of goodwill allocated to the Mexico CGUs was USD 662.3 million, of which USD 619.8 million corresponds to steel operations and USD 42.5 million to mining operations.

*(5) Research and development*

Research expenditures are recognized as expenses as incurred. Development costs are recorded as cost of sales in the income statement as incurred because they do not fulfill the criteria for capitalization. Research and development expenditures for the years ended December 31, 2014, 2013 and 2012 totaled USD 8.0 million, USD 7.6 million and USD 8.8 million, respectively.

*(6) Customer relationships acquired in a business combination*

In accordance with IFRS 3 (revised) and IAS 38, Ternium has recognized the value of customer relationships separately from goodwill in connection with the acquisitions of Grupo Imsa and Ferrasa S.A.S..

Customer relationships are amortized using the straight-line method over a useful life of approximately 10 years.

*(7) Trademarks acquired in a business combination*

In accordance with IFRS 3 and IAS 38, Ternium has recognized the value of trademarks separately from goodwill in connection with the acquisitions of Grupo Imsa and Ferrasa S.A.S..

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

**(f) Impairment**

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

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

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#### 4. ACCOUNTING POLICIES (continued)

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

Ternium uses cash flow projections for the next five years based on past performance and expectations of market development; thereafter, it uses a perpetuity rate. Application of the discounted cash flow (DCF) method to determine the value in use of a CGU begins with a forecast of all expected future net cash flows. Variables considered in forecasts include the gross domestic product (GDP) growth rates of the country under study and their correlation with steel demand, level of steel prices and estimated raw material costs as observed in industry reports.

Cash flows are discounted at rates that reflect specific country and currency risks associated with the cash flow projections. The discount rates used are based on Ternium's weighted average cost of capital (WACC), which is considered to be a good indicator of cost of capital. As of December 31, 2014 the discount rate used to test goodwill allocated to the Steel and Mining Mexico CGUs for impairment was 9.44%.

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.

Except for the impairment in connection with the investment in Usiminas in 2014 and 2012, during the years 2014, 2013 and 2012, no impairment provisions were recorded in connection with assets that have an indefinite useful life (including goodwill). For the impairment in connection with the investment in Usiminas, see note 3.

#### (g) Other investments



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

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

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

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#### **4. ACCOUNTING POLICIES (continued)**

Certain fixed income financial instruments purchased by the Company have been categorized as available for sale if designated in this category or not classified in any of the other categories. The results of these financial investments are recognized in Finance Income in the Consolidated Income Statement using the effective interest method. Unrealized gains and losses other than impairment and foreign exchange results are recognized in Other comprehensive income. On maturity or disposal, net gain and losses previously deferred in Other comprehensive income are recognized in Finance Income in the Consolidated Income Statement.

##### **(h) Inventories**

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

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

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

##### **(i) Trade receivables and other receivables**

Trade and other receivables are recognized initially at fair value, generally the original invoice amount. The Company analyzes its trade receivables on a regular basis and, when aware of a specific counterparty's difficulty or inability to meet its obligations, impairs any amounts due by means of a charge to an allowance for doubtful accounts. Additionally, this allowance is adjusted periodically based on the aging of receivables.

**(j) Cash and cash equivalents**

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

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

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

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#### **4. ACCOUNTING POLICIES (continued)**

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

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

The carrying value of non-current assets classified as held for sale, at December 31, 2014 and 2013 totals USD 14.8 million and USD 17.8 million, respectively, which corresponds principally to land and other real estate items. Sale is expected to be completed within a one-year period.

##### **(l) Borrowings**

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

Capitalized costs for issue of debt are amortized over the life of their respective debt.

##### **(m) Income taxes - current and deferred**

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

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

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

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

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**4. ACCOUNTING POLICIES (continued)**

**(n) Employee liabilities**

*(1) Post-employment obligations*

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

The Company applied IAS 19 (amended 2011), "Employee benefits", on January 1, 2013. In accordance with the amended standard, post-employment benefits are accounted as follows:

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

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

Past-service costs are recognized immediately in income.

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

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

Mexico

Ternium Mexico has defined benefit and defined contribution plans.

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#### 4. ACCOUNTING POLICIES (continued)

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

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

##### Argentina

Siderar implemented an unfunded defined benefit employee retirement plan for certain senior officers. The plan is designed to provide certain benefits to those officers (additional to those contemplated under applicable Argentine labor laws) in case of termination of the employment relationship due to certain specified events, including retirement. Benefits provided by the plan are calculated based on a seven-year salary average.

##### *(2) Termination benefits*

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



*(3) Other compensation obligations*

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

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

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#### **4. ACCOUNTING POLICIES (continued)**

As of December 31, 2014 and 2013, the outstanding liability corresponding to the Program amounts to USD 22.5 million and USD 19.3 million, respectively. The total value of the units granted to date under the program, considering the number of units and the book value per share as of December 31, 2014 and 2013, is USD 27.4 million and USD 21.8 million, respectively.

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

##### *(4) Social security contributions*

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

##### **(o) Provisions and other liabilities**

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

##### **(p) Trade payables**

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

**(q) Revenue recognition**

Revenues are recognized as sales when revenue is earned and is realized or realizable. This includes satisfying all of the following criteria: the arrangement with the customer is evident, usually through the receipt of a purchase order; the sales price is fixed or determinable; delivery as defined by the risk transfer provision of the sales contracts has occurred, and collectability is reasonably assured. Revenues are shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

Interest income is recognized on an effective yield basis.

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**4. ACCOUNTING POLICIES (continued)**

**(r) Borrowing Costs**

The Company capitalizes the borrowing costs incurred to finance construction, acquisition or production of qualifying assets. In the case of specific borrowings, Ternium determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. For general borrowings, Ternium determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

The amount of borrowing costs that Ternium capitalizes during a period will not exceed the amount of borrowing costs incurred during that period. At December 31, 2014, 2013 and 2012, the capitalized borrowing costs are not material.

**(s) Cost of sales, selling, general and administrative expenses**

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

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

**(t) Stripping costs**

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

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

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

**(u) Mining development costs**

Mining development costs are the costs associated to the activities related to the establishment of access to the mineral reserve and other preparations for commercial production. These activities often continue during production.

Development expenditures are capitalized and classified as Work in progress. On completion of development, all assets included in Work in progress are individually reclassified to the appropriate category of property, plant and equipment and depreciated accordingly.

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#### **4. ACCOUNTING POLICIES (continued)**

##### **(v) Asset retirement obligations**

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

##### **(w) Earnings per share**

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

##### **(x) Derivative financial instruments and hedging activities**

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

For transactions designated and qualifying for hedge accounting, Ternium documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. At December 31, 2014 and 2013, the effective portion of designated cash flow hedges (net of taxes) amounted to USD (0.4) million and USD 1.1 million, respectively, and were included under "changes in the fair

value of derivatives classified as cash flow hedges" line item in the statement of comprehensive income (see Note 26 (a)).

More information about accounting for derivative financial instruments and hedging activities is included in Note 28 "Financial risk management".

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**4. ACCOUNTING POLICIES (continued)**

**(y) Critical Accounting Estimates**

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

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

*(1) Goodwill impairment test*

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

Goodwill is tested at the level of the CGUs. Impairment testing of the CGUs is carried out and the value in use determined in accordance with the accounting policy stated in Note 4(f). The discount rates used for these tests are based on Ternium's weighted average cost of capital adjusted for specific country and currency risks associated with the cash flow projections. The discount rate used at December 31, 2014 was 9.44% and no impairment charge resulted from the impairment test performed.

*(2) Income taxes*



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

Also, when assessing the recoverability of tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies.

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#### 4. ACCOUNTING POLICIES (continued)

##### (3) *Loss contingencies*

Ternium is subject to various claims, lawsuits and other legal proceedings that arise in the ordinary course of business, including customer claims in which a third party is seeking reimbursement or indemnity. The Company's liability with respect to such claims, lawsuits and other legal proceedings cannot be estimated with certainty. Periodically, management reviews the status of each significant matter and assesses potential financial exposure. If the potential loss from the claim or proceeding is considered probable and the amount can be reasonably estimated, a liability is recorded. Management estimates the amount of such liability based on the information available and the assumptions and methods it has concluded are appropriate, in accordance with the provisions of IFRS. Accruals for such contingencies reflect a reasonable estimate of the losses to be incurred based on information available, including the relevant litigation or settlement strategy, as of the date of preparation of these financial statements. As additional information becomes available, management will reassess its evaluation of the pending claims, lawsuits and other proceedings and revise its estimates. The loss contingencies provision amounts to USD 9.1 million and USD 14.0 million as of December 31, 2014 and 2013, respectively.

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

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

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

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

As of December 31, 2014 and 2013, the Company recorded no allowance for net realizable value and USD 48.0 million and USD 47.8 million, respectively, as allowance for obsolescence.

*(5) Useful Lives and Impairment of Property, Plant and Equipment and Other Long-lived Assets*

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

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**4. ACCOUNTING POLICIES (continued)**

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

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

None of the Company's CGUs were tested for impairment, other than for the investment in Usiminas and goodwill test (see note 4 (y) (1)), in 2014 and 2013, as no impairment indicators were identified. Furthermore, based on information currently available, management believes that the recognition of a future impairment charge is not reasonably possible. For the impairment in connection with the investment in Usiminas in 2014 and 2012, see note 3.

*(6) Allowances for doubtful accounts*

Management makes estimates of the uncollectibility of our accounts receivable. Management analyses the trade accounts receivable on a regular basis and, when aware of a third party's inability to meet its financial commitments

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to the Company, managements impairs the amount due by means of a charge to the allowance for doubtful accounts. Management specifically analyses 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, 2014 and 2013, allowance for doubtful accounts totals USD 11.4 million and USD 12.8 million, respectively.

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**4. ACCOUNTING POLICIES (continued)**

*(7) Mining reserve estimates*

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

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

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

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## 5. SEGMENT INFORMATION

### *REPORTABLE OPERATING SEGMENTS*

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

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

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

The Mining segment includes the sales of mining products, mainly iron ore and pellets, and comprises the mining activities of Las Encinas, an iron ore mining company in which Ternium holds a 100% equity interest and the 50% of the operations and results performed by Peña Colorada, another iron ore mining company in which Ternium maintains that same percentage over its equity interest. Both mining operations are located in Mexico. In the comparative information as of December 31, 2012, the 50% of the operations and results performed by Peña Colorada are only included under management view. Until December 31, 2012, Ternium's investment in Consorcio Minero Benito Juarez Peña Colorada S.A. de C.V. and Peña Colorada Servicios S.A. de C.V. was presented as an investment in non-consolidated companies and its results under the equity in earnings (losses) in non-consolidated companies within the consolidated income statement. Starting on January 1, 2013, and in connection with certain new agreements, the Company began to recognize its assets, liabilities, revenue and expenses in relation to its interest in the joint operation.

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

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principally as follows:

- The use of direct cost methodology to calculate the inventories, while under IFRS is at full cost, including absorption of production overheads and depreciation.

- The use of costs based on previously internally defined cost estimates, while, under IFRS, costs are calculated at historical cost (with the FIFO method).

- Under IFRS, the results of Peña Colorada are aggregated in equity in earnings of non-consolidated companies until December 31, 2012. Starting on January 1, 2013, these results are included considering 50% of the operations on a line by line basis. In the comparative information as of December 31, 2012, the 50% of the operations and results performed by Peña Colorada are only included under management view.

- Other timing and non-significant differences.

Most information on segment assets is not disclosed as it is not reviewed by the CODM.



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**5. SEGMENT INFORMATION (continued)**

|   | Year ended December 31, 2014 |               |                            | Total            |
|---|------------------------------|---------------|----------------------------|------------------|
|   | Steel                        | Mining        | Inter-segment eliminations |                  |
| <b>IFRS</b>   |                              |               |                            |                  |
| Net sales   | 8,700,521                    | 313,157       | (287,621)                  | 8,726,057        |
| Cost of sales   | (6,960,009)                  | (255,216)     | 290,056                    | (6,925,169)      |
| <b>Gross profit</b>                                       | <b>1,740,512</b>             | <b>57,941</b> | <b>2,435</b>               | <b>1,800,888</b> |
| Selling, general and administrative expenses              | (799,844)                    | (16,634)      | -                          | (816,478)        |
| Other operating income, net                               | 70,725                       | 1,026         | -                          | 71,751           |
| <b>Operating income - IFRS</b>                            | <b>1,011,393</b>             | <b>42,333</b> | <b>2,435</b>               | <b>1,056,161</b> |
| <b>Management view</b>                                    |                              |               |                            |                  |
| Net sales   | 8,700,521                    | 333,718       | (308,182)                  | 8,726,057        |
| Operating income  | 830,312                      | 65,671        | (1,504)                    | 894,479          |
| <b>Reconciliation items:</b>                              |                              |               |                            |                  |
| Differences in Cost of sales                              |                              |               |                            | 161,682          |
| <b>Operating income - IFRS</b>                            |                              |               |                            | <b>1,056,161</b> |
| Financial income (expense), net                           |                              |               |                            | (69,450)         |
| Equity in (losses) earnings of non-consolidated companies |                              |               |                            | (34,218)         |
| <b>Income before income tax expense - IFRS</b>            |                              |               |                            | <b>952,493</b>   |
| Depreciation and amortization - IFRS                      | (369,197)                    | (45,600)      | -                          | (414,797)        |

|               | Year ended December 31, 2013 |           |                            | Total       |
|---------------|------------------------------|-----------|----------------------------|-------------|
|               | Steel                        | Mining    | Inter-segment eliminations |             |
| <b>IFRS</b>   |                              |           |                            |             |
| Net sales     | 8,459,943                    | 386,466   | (316,397)                  | 8,530,012   |
| Cost of sales | (6,645,180)                  | (268,307) | 313,195                    | (6,600,292) |

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|   |                  |                |                |                  |
|---|------------------|----------------|----------------|------------------|
| <b>Gross profit</b>                                       | <b>1,814,763</b> | <b>118,159</b> | <b>(3,202)</b> | <b>1,929,720</b> |
| Selling, general and administrative expenses              | (820,338)        | (22,973)       | -              | (843,311)        |
| Other operating income, net                               | 23,070           | (56)           | -              | 23,014           |
| <b>Operating income - IFRS</b>                            | <b>1,017,495</b> | <b>95,130</b>  | <b>(3,202)</b> | <b>1,109,423</b> |
| <b>Management view</b>                                    |                  |                |                |                  |
| Net sales   | 8,459,943        | 505,603        | (435,534)      | 8,530,012        |
| Operating income  | 777,505          | 219,610        | (3,202)        | 993,913          |
| <b>Reconciliation items:</b>                              |                  |                |                |                  |
| Differences in Cost of sales                              |                  |                |                | 115,510          |
| <b>Operating income - IFRS</b>                            |                  |                |                | <b>1,109,423</b> |
| Financial income (expense), net                           |                  |                |                | (135,475)        |
| Equity in (losses) earnings of non-consolidated companies |                  |                |                | (31,609)         |
| <b>Income before income tax expense - IFRS</b>            |                  |                |                | <b>942,339</b>   |
| Depreciation and amortization - IFRS                      | (344,415)        | (32,718)       | -              | (377,133)        |

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**5. SEGMENT INFORMATION (continued)**

|   | Year ended December 31, 2012 |               |                            | Total            |
|---|------------------------------|---------------|----------------------------|------------------|
|   | Steel                        | Mining        | Inter-segment eliminations |                  |
| <b>IFRS</b>   |                              |               |                            |                  |
| Net sales   | 8,601,134                    | 190,698       | (183,778)                  | 8,608,054        |
| Cost of sales   | (6,909,538)                  | (132,766)     | 175,925                    | (6,866,379)      |
| <b>Gross profit</b>   | <b>1,691,596</b>             | <b>57,932</b> | <b>(7,853)</b>             | <b>1,741,675</b> |
| Selling, general and administrative expenses                          | (804,690)                    | (4,491)       | -                          | (809,181)        |
| Other operating income, net   | (12,261)                     | 380           | -                          | (11,881)         |
| <b>Operating income - IFRS</b>  | <b>874,645</b>               | <b>53,821</b> | <b>(7,853)</b>             | <b>920,613</b>   |
| <b>Management view</b>  |                              |               |                            |                  |
| Net sales   | 8,601,134                    | 498,171       | (491,251)                  | 8,608,054        |
| Operating income  | 803,487                      | 265,802       | (7,853)                    | 1,061,436        |
| <b>Reconciliation items:</b>  |                              |               |                            |                  |
| Differences in Cost of sales  |                              |               |                            | (120,118)        |
| Differences related to Peña Colorada (Line by line vs. Equity method) |                              |               |                            | (20,704)         |
| <b>Operating income - IFRS</b>  |                              |               |                            | <b>920,613</b>   |
| Financial income (expense), net                                       |                              |               |                            | (121,632)        |
| Equity in (losses) earnings of non-consolidated companies             |                              |               |                            | (346,833)        |
| <b>Income before income tax expense - IFRS</b>                        |                              |               |                            | <b>452,148</b>   |
| Depreciation and amortization - IFRS                                  | (355,247)                    | (15,608)      | -                          | (370,855)        |

**GEOGRAPHICAL INFORMATION**

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

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

|                        | <b>Year ended December 31, 2014</b> |                        |                      | <b>Total</b> |
|------------------------|-------------------------------------|------------------------|----------------------|--------------|
|                        | <b>Mexico</b>                       | <b>Southern region</b> | <b>Other markets</b> |              |
| Net sales              | 4,911,989                           | 2,648,512              | 1,165,556            | 8,726,057    |
| Non-current assets (1) | 4,248,087                           | 916,447                | 265,379              | 5,429,913    |
|                        | <b>Year ended December 31, 2013</b> |                        |                      | <b>Total</b> |
|                        | <b>Mexico</b>                       | <b>Southern region</b> | <b>Other markets</b> |              |
| Net sales              | 4,260,676                           | 2,952,372              | 1,316,964            | 8,530,012    |
| Non-current assets (1) | 4,314,223                           | 1,078,966              | 277,210              | 5,670,399    |
|                        | <b>Year ended December 31, 2012</b> |                        |                      | <b>Total</b> |
|                        | <b>Mexico</b>                       | <b>Southern region</b> | <b>Other markets</b> |              |
| Net sales              | 4,475,139                           | 2,746,585              | 1,386,330            | 8,608,054    |
| Non-current assets (1) | 3,902,868                           | 1,220,886              | 279,570              | 5,403,324    |

(1) Includes property, plant and equipment and intangible assets.

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**5. SEGMENT INFORMATION (continued)****REVENUES BY PRODUCT**

|                             | <b>Year ended December 31,</b> |                  |                  |
|-----------------------------|--------------------------------|------------------|------------------|
|                             | <b>2014</b>                    | <b>2013</b>      | <b>2012</b>      |
| Semi-finished (1)           | 209,061                        | 202,826          | 192,335          |
| Hot rolled (2)              | 3,581,566                      | 3,416,674        | 3,617,300        |
| Cold rolled                 | 1,297,969                      | 1,314,392        | 1,342,036        |
| Coated (3)                  | 3,061,580                      | 2,906,477        | 2,808,765        |
| Roll-formed and tubular (4) | 514,586                        | 585,627          | 611,551          |
| <b>Steel products</b>       | <b>8,664,762</b>               | <b>8,425,996</b> | <b>8,571,987</b> |
| <b>Other products (5)</b>   | <b>61,295</b>                  | <b>104,016</b>   | <b>36,067</b>    |
| <b>TOTAL SALES</b>          | <b>8,726,057</b>               | <b>8,530,012</b> | <b>8,608,054</b> |

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

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

(3) Coated includes tin plate and galvanized products.

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

(5) Other products include pre-engineered metal building systems and pig iron.

**6. COST OF SALES**

|  | <b>Year ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2014</b>                    | <b>2013</b> | <b>2012</b> |

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|  |                  |                  |                  |
|--|------------------|------------------|------------------|
| <b>Inventories at the beginning of the year</b>        | 1,941,130        | 2,000,137        | 2,123,516        |
| Opening inventories - Peña Colorada                    | -                | 18,006           | -                |
| Translation differences                                | (161,983)        | (186,609)        | (103,129)        |
| <b>Plus: Charges for the year</b>                      |                  |                  |                  |
| Raw materials and consumables used and other movements | 5,718,736        | 5,242,806        | 5,474,845        |
| Services and fees                                      | 95,940           | 93,366           | 114,612          |
| Labor cost   | 601,258          | 608,151          | 552,009          |
| Depreciation of property, plant and equipment          | 330,866          | 310,257          | 306,584          |
| Amortization of intangible assets                      | 34,988           | 15,851           | 10,851           |
| Maintenance expenses                                   | 484,929          | 440,328          | 387,672          |
| Office expenses  | 7,238            | 7,034            | 7,360            |
| Insurance  | 12,310           | 14,848           | 7,743            |
| Charge of obsolescence allowance                       | 15,924           | 1,245            | 12,289           |
| Recovery from sales of scrap and by-products           | (39,846)         | (42,556)         | (44,085)         |
| Others   | 17,713           | 18,558           | 16,249           |
| <b>Less: Inventories at the end of the year</b>        | (2,134,034)      | (1,941,130)      | (2,000,137)      |
| <b>Cost of Sales</b>                                   | <b>6,925,169</b> | <b>6,600,292</b> | <b>6,866,379</b> |

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

|  | <b>Year ended December 31,</b> |                |                |
|--|--------------------------------|----------------|----------------|
|  | <b>2014</b>                    | <b>2013</b>    | <b>2012</b>    |
| Services and fees (1)                                  | 75,057                         | 76,450         | 97,443         |
| Labor cost   | 232,837                        | 234,519        | 212,820        |
| Depreciation of property, plant and equipment          | 10,957                         | 13,839         | 8,788          |
| Amortization of intangible assets                      | 37,986                         | 37,186         | 44,632         |
| Maintenance and expenses                               | 5,785                          | 7,443          | 6,904          |
| Taxes  | 133,383                        | 143,834        | 113,898        |
| Office expenses  | 39,831                         | 41,254         | 44,988         |
| Freight and transportation                             | 263,682                        | 271,364        | 263,083        |
| Increase (Decrease) of allowance for doubtful accounts | 1,287                          | (202)          | 855            |
| Others   | 15,673                         | 17,624         | 15,770         |
| <b>Selling, general and administrative expenses</b>    | <b>816,478</b>                 | <b>843,311</b> | <b>809,181</b> |

(1) For the year ended December 31, 2014, it includes fees accrued for professional services rendered by PwC to Ternium S.A. and its subsidiaries that amounted to USD 3,928, including USD 3,450 for audit services, USD 74 for audit-related services, USD 204 for tax services and USD 199 for all other services.

For the year ended December 31, 2013, it includes fees accrued for professional services rendered by PwC to Ternium S.A. and its subsidiaries that amounted to USD 4,288, including USD 3,821 for audit services, USD 391 for audit-related services, USD 39 for tax services and USD 37 for all other services.

For the year ended December 31, 2012, it includes fees accrued for professional services rendered by PwC to Ternium S.A. and its subsidiaries that amounted to USD 4,228, including USD 3,569 for audit services, USD 296 for audit-related services, USD 159 for tax services and USD 204 for all other services.

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

|   | <b>Year ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2014</b>                    | <b>2013</b> | <b>2012</b> |
| Services and fees                             | 778,932                        | 790,378     | 699,899     |
| Labor cost                                    | 25,348                         | 19,680      | 37,176      |
| Depreciation of property, plant and equipment | 29,815                         | 32,612      | 27,754      |

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|                    |                |                |                |
|--------------------|----------------|----------------|----------------|
| <b>Labor costs</b> | <b>834,095</b> | <b>842,670</b> | <b>764,829</b> |
|--------------------|----------------|----------------|----------------|

As of December 31, 2014, 2013 and 2012, the quantity of employees was 16,919, 16,788 and 16,611, respectively.

**9. OTHER OPERATING INCOME (EXPENSES), NET**

|  | <b>Year ended December 31,</b> |                |                 |
|--|--------------------------------|----------------|-----------------|
|  | <b>2014</b>                    | <b>2013</b>    | <b>2012</b>     |
| Results of sundry assets   | 4,111                          | 1,987          | 3,916           |
| Collection of insurance (1)  | 57,500                         | 11,700         | -               |
| Other operating income   | 10,232                         | 16,657         | -               |
| <b>Other operating income</b>                                      | <b>71,843</b>                  | <b>30,344</b>  | <b>3,916</b>    |
| Provision for legal claims and other matters (Note 19 and 24 (ii)) | (92)                           | (7,330)        | (5,754)         |
| Other operating expense  | -                              | -              | (10,043)        |
| <b>Other operating expense</b>                                     | <b>(92)</b>                    | <b>(7,330)</b> | <b>(15,797)</b> |
| <b>Other operating (expense) income, net</b>                       |                                |                |                 |

(1) Includes an insurance collection of USD 57,500 and USD 11,700 in Argentina in the years 2014 and 2013, respectively.



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**10. OTHER FINANCIAL INCOME (EXPENSES), NET**

|   | <b>2014</b>      | <b>Year ended December 31,<br/>2013</b> | <b>2012</b>      |
|---|------------------|---|------------------|
| Interest expense                              | (114,472)        | (121,016)                               | (144,488)        |
| Debt issue costs                              | (3,394)          | (11,097)                                | (5,814)          |
| <b>Finance expense</b>                        | <b>(117,866)</b> | <b>(132,113)</b>                        | <b>(150,302)</b> |
| Interest income                               | 7,685            | 9,517                                   | 17,047           |
| Change in fair value of financial assets      | (1,970)          | (11,875)                                | (5,647)          |
| <b>Finance income</b>                         | <b>5,715</b>     | <b>(2,358)</b>                          | <b>11,400</b>    |
| Net foreign exchange gain                     | 26,664           | 259                                     | 7,145            |
| Derivative contract results                   | 19,748           | (400)                                   | 16,688           |
| Others  | (3,711)          | (863)                                   | (6,563)          |
| <b>Other financial income (expenses), net</b> | <b>42,701</b>    | <b>(1,004)</b>                          | <b>17,270</b>    |

**11. INCOME TAX EXPENSE**

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

|                        | <b>2014</b> | <b>Year ended December 31,<br/>2013</b> | <b>2012</b> |
|------------------------|-------------|---|-------------|
| Current tax            | (336,176)   | (370,349)                               | (298,082)   |
| Deferred tax (Note 20) |             |   |             |
| Deferred tax           | (22,240)    | 78,474                                  | 40,401      |
|                        | (12,702)    | (33,826)                                | (5,769)     |

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## Effect of changes in tax law on deferred income tax

|   |                  |                  |                  |
|---|------------------|------------------|------------------|
| (1)   |                  |                  |                  |
| Withholding tax on dividend distributions (2)       | (10,474)         | (24,046)         | -                |
| Deferred tax included in Other comprehensive income | -                | -                | -                |
| Recovery of income tax (3)                          | 17,884           | 321              | 2,224            |
| <b>Income tax expense</b>                           | <b>(363,708)</b> | <b>(349,426)</b> | <b>(261,227)</b> |

(1) For 2014, it includes mainly the effects of the Colombian tax rate reform which introduced an increase from 34% to 39% in 2015, 40% in 2016, 42% in 2017 and 43% in 2018 and of the Mexican mining tax. For the year 2013, it includes the effects of the 2013 Mexican tax reform package, which mainly maintained the current 30% corporate income tax rate, eliminating the scheduled reduction to 29% in 2014 and to 28% in 2015 and repealed the existing tax consolidation regime.

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

(3) The amounts recorded in 2014, 2013 and 2012 corresponded to the capitalization of tax losses carried forward generated and not recognized in previous years.

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**11. INCOME TAX EXPENSE (continued)**

Income tax expense for the years ended December 31, 2014, 2013 and 2012 differed from the amount computed by applying the statutory income tax rate in force in each country in which the company operates to pre-tax income as a result of the following:

|  | <b>Year ended December 31,</b> |                  |                  |
|--|--------------------------------|------------------|------------------|
|  | <b>2014</b>                    | <b>2013</b>      | <b>2012</b>      |
| Income before income tax                       | 952,493                        | 942,339          | 452,148          |
| Income tax expense at statutory tax rate       | (282,777)                      | (302,741)        | (205,408)        |
| Non taxable income                             | 2,073                          | 14,799           | 1,012            |
| Non deductible expenses                        | (21,787)                       | (1,940)          | (58,892)         |
| Effect of currency translation on tax base (1) | (55,925)                       | (1,993)          | 5,607            |
| Withholding tax on dividend distributions      | (10,474)                       | (24,046)         | -                |
| Recovery of income tax                         | 17,884                         | 321              | 2,224            |
| Effect of changes in tax law                   | (12,702)                       | (33,826)         | (5,769)          |
| <b>Income tax expense</b>                      | <b>(363,708)</b>               | <b>(349,426)</b> | <b>(261,227)</b> |

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

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

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

|   | Year ended December 31, 2014 |                            |                      |                                  |                  |                | Total              |
|---|------------------------------|----------------------------|----------------------|----------------------------------|------------------|----------------|--------------------|
|   | Land                         | Buildings and improvements | Production equipment | Vehicles, furniture and fixtures | Work in progress | Spare parts    |                    |
| <b>Cost</b>                                     |                              |                            |                      |                                  |                  |                |                    |
| <b>Values at the beginning of the year</b>      | <b>503,267</b>               | <b>1,839,727</b>           | <b>4,083,016</b>     | <b>125,559</b>                   | <b>741,554</b>   | <b>61,435</b>  | <b>7,354,558</b>   |
| Translation differences                         | (3,036)                      | (246,741)                  | (263,228)            | (18,871)                         | (70,393)         | (5,753)        | (608,022)          |
| Additions                                       | 6,202                        | 5,134                      | 4,461                | 3,256                            | 331,281          | 35,035         | 385,369            |
| Disposals / Consumptions                        | -                            | -                          | (12,452)             | (4,015)                          | (541)            | (13,215)       | (30,223)           |
| Transfers                                       | 21,034                       | 119,712                    | 494,430              | 7,694                            | (649,276)        | 8,309          | 1,903              |
| <b>Values at the end of the year</b>            | <b>527,467</b>               | <b>1,717,832</b>           | <b>4,306,227</b>     | <b>113,623</b>                   | <b>352,625</b>   | <b>85,811</b>  | <b>7,103,585</b>   |
| <b>Depreciation</b>                             |                              |                            |                      |                                  |                  |                |                    |
| <b>Accumulated at the beginning of the year</b> | <b>-</b>                     | <b>(610,740)</b>           | <b>(1,931,231)</b>   | <b>(98,887)</b>                  | <b>-</b>         | <b>(4,805)</b> | <b>(2,645,663)</b> |
| Translation differences                         | -                            | 118,714                    | 213,284              | 16,854                           | -                | 775            | 349,627            |
| Depreciation charge                             | -                            | (83,321)                   | (246,485)            | (7,133)                          | -                | (4,884)        | (341,823)          |
| Disposals / Consumptions                        | -                            | -                          | 11,964               | 2,915                            | -                | 422            | 15,301             |
| <b>Accumulated at the end of the year</b>       | <b>-</b>                     | <b>(575,347)</b>           | <b>(1,952,468)</b>   | <b>(86,251)</b>                  | <b>-</b>         | <b>(8,492)</b> | <b>(2,622,558)</b> |
| <b>At December 31, 2014</b>                     | <b>527,467</b>               | <b>1,142,485</b>           | <b>2,353,759</b>     | <b>27,372</b>                    | <b>352,625</b>   | <b>77,319</b>  | <b>4,481,027</b>   |
|   | Year ended December 31, 2013 |                            |                      |                                  |                  |                | Total              |
|   | Land                         | Buildings and improvements | Production equipment | Vehicles, furniture and fixtures | Work in progress | Spare parts    |                    |
| <b>Cost</b>                                     |                              |                            |                      |                                  |                  |                |                    |
| <b>Values at the beginning of the year</b>      | <b>498,757</b>               | <b>1,768,194</b>           | <b>3,754,450</b>     | <b>142,628</b>                   | <b>1,021,352</b> | <b>52,633</b>  | <b>7,238,014</b>   |

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|  |                |                  |                    |                  |                |                |                    |
|--|----------------|------------------|--------------------|------------------|----------------|----------------|--------------------|
| Translation differences                                      | (4,056)        | (313,836)        | (341,357)          | (25,169)         | (96,771)       | (9,573)        | (790,762)          |
| Interest in joint operation                                  | -              | -                | 79,002             | 909              | 3,233          | 37             | 83,181             |
| Additions  | 7,983          | 20,235           | 3,102              | 3,002            | 793,582        | 29,908         | 857,812            |
| Disposals / Consumptions                                     | -              | (2,235)          | (12,554)           | (3,975)          | (544)          | (5,425)        | (24,733)           |
| Transfers  | 583            | 367,369          | 600,373            | 8,164            | (979,298)      | (6,145)        | (8,954)            |
| <b>Values at the end of the year</b>                         | <b>503,267</b> | <b>1,839,727</b> | <b>4,083,016</b>   | <b>125,559</b>   | <b>741,554</b> | <b>61,435</b>  | <b>7,354,558</b>   |
| <b>Depreciation Accumulated at the beginning of the year</b> | <b>-</b>       | <b>(673,934)</b> | <b>(2,005,899)</b> | <b>(116,999)</b> | <b>-</b>       | <b>(3,065)</b> | <b>(2,799,897)</b> |
| Translation differences                                      | -              | 151,850          | 286,744            | 22,786           | -              | 885            | 462,265            |
| Depreciation charge  | -              | (90,855)         | (223,328)          | (7,091)          | -              | (2,822)        | (324,096)          |
| Disposals / Consumptions                                     | -              | 1,759            | 7,822              | 2,216            | -              | 197            | 11,994             |
| Transfers  | -              | 440              | 3,430              | 201              | -              | -              | 4,071              |
| <b>Accumulated at the end of the year</b>                    | <b>-</b>       | <b>(610,740)</b> | <b>(1,931,231)</b> | <b>(98,887)</b>  | <b>-</b>       | <b>(4,805)</b> | <b>(2,645,663)</b> |
| <b>At December 31, 2013</b>                                  | <b>503,267</b> | <b>1,228,987</b> | <b>2,151,785</b>   | <b>26,672</b>    | <b>741,554</b> | <b>56,630</b>  | <b>4,708,895</b>   |

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**13. INTANGIBLE ASSETS, NET**

|   | Year ended December 31, 2014 |                 |                                  |   |                 |                |                  |
|---|------------------------------|-----------------|----------------------------------|---|-----------------|----------------|------------------|
|   | Information system projects  | Mining assets   | Exploration and evaluation costs | Customer relationships and other contractual rights | Trademarks      | Goodwill       | Total            |
| <b>Cost</b>                                     |                              |                 |                                  |   |                 |                |                  |
| <b>Values at the beginning of the year</b>      | <b>186,681</b>               | <b>122,361</b>  | <b>34,767</b>                    | <b>288,475</b>                                      | <b>73,665</b>   | <b>662,307</b> | <b>1,368,256</b> |
| Translation differences                         | (12,097)                     | -               | -                                | -   | -               | -              | (12,097)         |
| Additions                                       | 28,973                       | 2,341           | 21,628                           | 10,000  | -               | -              | 62,942           |
| Transfers                                       | -                            | 17,956          | (17,956)                         | -   | -               | -              | -                |
| <b>Values at the end of the year</b>            | <b>203,557</b>               | <b>142,658</b>  | <b>38,439</b>                    | <b>298,475</b>                                      | <b>73,665</b>   | <b>662,307</b> | <b>1,419,101</b> |
| <b>Depreciation</b>                             |                              |                 |                                  |   |                 |                |                  |
| <b>Accumulated at the beginning of the year</b> | <b>(88,258)</b>              | <b>(68,432)</b> | <b>-</b>                         | <b>(184,465)</b>                                    | <b>(65,597)</b> | <b>-</b>       | <b>(406,752)</b> |
| Translation differences                         | 9,511                        | -               | -                                | -   | -               | -              | 9,511            |
| Depreciation charge                             | (30,463)                     | (9,241)         | -                                | (29,045)  | (4,225)         | -              | (72,974)         |
| <b>Accumulated at the end of the year</b>       | <b>(109,210)</b>             | <b>(77,673)</b> | <b>-</b>                         | <b>(213,510)</b>                                    | <b>(69,822)</b> | <b>-</b>       | <b>(470,215)</b> |
| <b>At December 31, 2014</b>                     | <b>94,347</b>                | <b>64,985</b>   | <b>38,439</b>                    | <b>84,965</b>                                       | <b>3,843</b>    | <b>662,307</b> | <b>948,886</b>   |

|  | Year ended December 31, 2013 |                |                                  |   |               |                |                  |
|--|------------------------------|----------------|----------------------------------|---|---------------|----------------|------------------|
|  | Information system projects  | Mining assets  | Exploration and evaluation costs | Customer relationships and other contractual rights | Trademarks    | Goodwill       | Total            |
| <b>Cost</b>                                |                              |                |                                  |   |               |                |                  |
| <b>Values at the beginning of the year</b> | <b>165,515</b>               | <b>111,321</b> | <b>26,658</b>                    | <b>290,172</b>                                      | <b>73,665</b> | <b>663,807</b> | <b>1,331,138</b> |
| Translation differences                    | (15,518)                     | -              | -                                | (142)   | -             | -              | (15,660)         |
| Interest in joint operation                | 124                          | 8,533          | 1,755                            | -   | -             | -              | 10,412           |

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|  |                 |                 |               |                  |                 |                |                  |
|--|-----------------|-----------------|---------------|------------------|-----------------|----------------|------------------|
| Additions  | 37,574          | -               | 8,861         | -                | -               | -              | 46,435           |
| Disposals / Consumptions                                     | (1,014)         | -               | -             | (1,555)          | -               | (1,500)        | (4,069)          |
| Transfers  | -               | 2,507           | (2,507)       | -                | -               | -              | -                |
| <b>Values at the end of the year</b>                         | <b>186,681</b>  | <b>122,361</b>  | <b>34,767</b> | <b>288,475</b>   | <b>73,665</b>   | <b>662,307</b> | <b>1,368,256</b> |
| <b>Depreciation Accumulated at the beginning of the year</b> | <b>(85,985)</b> | <b>(59,732)</b> | <b>-</b>      | <b>(156,305)</b> | <b>(63,910)</b> | <b>-</b>       | <b>(365,932)</b> |
| Translation differences                                      | 12,217          | -               | -             | -                | -               | -              | 12,217           |
| Depreciation charge  | (14,490)        | (8,700)         | -             | (28,160)         | (1,687)         | -              | (53,037)         |
| <b>Accumulated at the end of the year</b>                    | <b>(88,258)</b> | <b>(68,432)</b> | <b>-</b>      | <b>(184,465)</b> | <b>(65,597)</b> | <b>-</b>       | <b>(406,752)</b> |
| <b>At December 31, 2013</b>                                  | <b>98,423</b>   | <b>53,929</b>   | <b>34,767</b> | <b>104,010</b>   | <b>8,068</b>    | <b>662,307</b> | <b>961,504</b>   |

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**14. INVESTMENTS IN NON-CONSOLIDATED COMPANIES**

|  | As of December 31, |                  |
|--|--------------------|------------------|
|  | 2014               | 2013             |
| <b>At the beginning of the year</b>              | <b>1,375,165</b>   | <b>1,710,722</b> |
| Equity in earnings of non-consolidated companies | (26,697)           | (31,609)         |
| Other comprehensive income                       | (194,571)          | (188,588)        |
| Dividends from non-consolidated companies        | (1,858)            | (207)            |
| Transfers of joint operations                    | -                  | (115,153)        |
| Acquisitions (note 3)                            | 252,042            | -                |
| Gain from bargain purchase (note 3)              | 188,888            | -                |
| Impairment charge (note 3)                       | (196,409)          | -                |
| <b>At the end of the year</b>                    | <b>1,396,560</b>   | <b>1,375,165</b> |

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

| Company   | Country of incorporation | Main activity                               | Voting rights at  |                   | Value at          |                   |
|---|--------------------------|---|-------------------|-------------------|-------------------|-------------------|
|   |                          |   | December 31, 2014 | December 31, 2013 | December 31, 2014 | December 31, 2013 |
| Usinas Siderurgicas de Minas Gerais S.A. - USIMINAS | Brazil                   | Manufacturing and selling of steel products | 32.88%            | 22.71%            | 1,390,717         | 1,369,820         |
| Techgen S.A. de C.V.                                | Mexico                   | Provision of electric power                 | 48.00%            | -                 | 1,119             | -                 |
| Other non-consolidated companies (1)                |                          |   |                   |                   | 4,724             | 5,345             |
|   |                          |   |                   |                   | <b>1,396,560</b>  | <b>1,375,165</b>  |



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

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**14. INVESTMENTS IN NON-CONSOLIDATED COMPANIES (continued)***Usinas Siderurgicas de Minas Gerais S.A. – USIMINAS*

Usiminas is a Brazilian producer of high quality flat steel products used in the energy, automotive and other industries.

As of December 31, 2014 and 2013, the value of the investment in Usiminas is comprised as follows:

| Value of investment                 | USIMINAS                   |                            |
|-------------------------------------|----------------------------|----------------------------|
|                                     | As of December 31,<br>2014 | As of December 31,<br>2013 |
| <b>At the beginning of the year</b> | <b>1,369,820</b>           | <b>1,592,340</b>           |
| Share of results (1)                | (25,135)                   | (35,267)                   |
| Other comprehensive income          | (193,621)                  | (187,253)                  |
| Dividends                           | (1,858)                    | -                          |
| Acquisitions (note 3)               | 249,032                    | -                          |
| Gain from bargain purchase (note 3) | 188,888                    | -                          |
| Impairment charge (note 3)          | (196,409)                  | -                          |
| <b>At the end of the year</b>       | <b>1,390,717</b>           | <b>1,369,820</b>           |

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

On February 17, 2015, Usiminas approved its annual accounts as of and for the year ended December 31, 2014, which state that revenues, post-tax gains from continuing operations and shareholders' equity amounted to USD 5,017 million, USD 63 million and USD 6,293 million, respectively.

| Summarized balance sheet (in million USD) | USIMINAS                   |                            |
|---|----------------------------|----------------------------|
|   | As of December<br>31, 2014 | As of December<br>31, 2013 |
| <b>Assets</b>                             |                            |                            |
| Non-current                               | 8,372                      | 9,348                      |

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|                             |               |               |
|-----------------------------|---------------|---------------|
| Current                     | 3,104         | 4,038         |
| <b>Total Assets</b>         | <b>11,476</b> | <b>13,386</b> |
| <b>Liabilities</b>          |               |               |
| Non-current                 | 2,618         | 3,174         |
| Current                     | 1,796         | 2,172         |
| <b>Total Liabilities</b>    | <b>4,414</b>  | <b>5,346</b>  |
| <b>Minority interest</b>    | <b>769</b>    | <b>906</b>    |
| <b>Shareholders' equity</b> | <b>6,293</b>  | <b>7,134</b>  |

| Summarized income statement (in million USD)      | USIMINAS                   |                            |
|---|----------------------------|----------------------------|
|   | As of December<br>31, 2014 | As of December<br>31, 2013 |
| Net sales   | 5,017                      | 5,971                      |
| Cost of sales                                     | (4,569)                    | (5,294)                    |
| <b>Gross Profit</b>                               | <b>448</b>                 | <b>677</b>                 |
| Selling, general and administrative expenses      | (337)                      | (422)                      |
| Other operating income (loss), net                | 118                        | (22)                       |
| <b>Operating income</b>                           | <b>229</b>                 | <b>233</b>                 |
| Financial expenses, net                           | (220)                      | (420)                      |
| Equity in earnings of associated companies        | 79                         | 84                         |
| <b>Profit (Loss) before income tax</b>            | <b>88</b>                  | <b>(103)</b>               |
| Income tax benefit                                | 8                          | 101                        |
| <b>Net profit (loss) before minority interest</b> | <b>96</b>                  | <b>(2)</b>                 |
| Minority interest in other subsidiaries           | (33)                       | (73)                       |
| <b>Net profit (loss) for the year</b>             | <b>63</b>                  | <b>(75)</b>                |

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**14. INVESTMENTS IN NON-CONSOLIDATED COMPANIES (continued)***Techgen S.A. de C.V.*

Techgen is a Mexican project company currently undertaking the construction and operation of a natural gas-fired combined cycle electric power plant in the Pesquería area of the State of Nuevo León, Mexico. As of February 2014, Ternium, Tenaris, and Tecpetrol International S.A. (a wholly-owned subsidiary of San Faustin S.A., the controlling shareholder of both Ternium and Tenaris) completed their initial investments in Techgen. Techgen is currently owned 48% by Ternium, 30% by Tecpetrol and 22% by Tenaris. Ternium and Tenaris also agreed to enter into power supply and transportation agreements with Techgen, pursuant to which Ternium and Tenaris will contract 78% and 22%, respectively, of Techgen's power capacity of between 850 and 900 megawatts. During 2014, each of Techgen's shareholders made additional investments in Techgen, primarily in the form of subordinated loans; however, as of December 31, 2014, all such shareholder loans have been fully repaid with the proceeds of an up to USD 800 million syndicated loan facility.

For commitments from Ternium in connection with Techgen, see note 24.

**15. RECEIVABLES, NET – NON CURRENT AND CURRENT**

|  | <b>2014</b>   | <b>As of December 31,<br/>2013</b> |
|--|---------------|------------------------------------|
| Receivables with related parties (Note 25)   | -             | 43                                 |
| Employee advances and loans  | 5,804         | 6,288                              |
| Advances to suppliers for the purchase of property, plant and equipment                                | 17,218        | 22,250                             |
| Advances to suppliers for the purchase of property, plant and equipment with related parties (Note 25) | 467           | 330                                |
| Tax credits  | 21,644        | 46,828                             |
| Others   | 2,349         | 3,668                              |
| <b>Receivables, net – Non-current</b>  | <b>47,482</b> | <b>79,407</b>                      |

**As of December 31,**

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|  | <b>2014</b>    | <b>2013</b>    |
|--|----------------|----------------|
| Value added tax                                      | 9,300          | 19,459         |
| Tax credits  | 51,120         | 45,963         |
| Employee advances and loans                          | 8,282          | 8,196          |
| Advances to suppliers                                | 6,830          | 6,784          |
| Advances to suppliers with related parties (Note 25) | 37             | 10             |
| Expenses paid in advance                             | 10,864         | 6,068          |
| Government tax refunds on exports                    | 6,631          | 4,530          |
| Receivables with related parties (Note 25)           | 5,441          | 5,581          |
| Others   | 13,724         | 15,797         |
| <b>Receivables, net – Current</b>                    | <b>112,229</b> | <b>112,388</b> |

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**16. TRADE RECEIVABLES, NET – NON CURRENT AND CURRENT**

|   | <b>2014</b> | <b>As of December 31,<br/>2013</b> |
|---|-------------|------------------------------------|
| Trade receivables                           | 91          | 1,754                              |
| <b>Trade receivables, net – Non-current</b> | <b>91</b>   | <b>1,754</b>                       |

|  | <b>2014</b>    | <b>As of December 31,<br/>2013</b> |
|--|----------------|------------------------------------|
| Current accounts                                 | 710,173        | 659,871                            |
| Trade receivables with related parties (Note 25) | 21,413         | 24,385                             |
| Allowance for doubtful accounts (Note 19)        | (11,372)       | (12,803)                           |
| <b>Trade receivables, net - Current</b>          | <b>720,214</b> | <b>671,453</b>                     |

|  | <b>Trade receivables, net as of December 31, 2014</b> |                         |                 |
|--|---|-------------------------|-----------------|
|  | <b>Total</b>  | <b>Fully performing</b> | <b>Past due</b> |
| Guaranteed                                   | 442,100   | 413,518                 | 28,582          |
| Not guaranteed                               | 289,577   | 242,859                 | 46,718          |
| <b>Trade receivables</b>                     | <b>731,677</b>  | <b>656,377</b>          | <b>75,300</b>   |
| Allowance for doubtful accounts<br>(Note 19) | (11,372)  | -                       | (11,372)        |
| <b>Trade receivables, net</b>                | <b>720,305</b>  | <b>656,377</b>          | <b>63,928</b>   |

|  | <b>Trade receivables, net as of December 31, 2013</b> |                         |                 |
|--|---|-------------------------|-----------------|
|  | <b>Total</b>  | <b>Fully performing</b> | <b>Past due</b> |
| Guaranteed                                   | 534,400   | 497,261                 | 37,139          |
| Not guaranteed                               | 151,610   | 101,849                 | 49,761          |
| <b>Trade receivables</b>                     | <b>686,010</b>  | <b>599,110</b>          | <b>86,900</b>   |
| Allowance for doubtful accounts<br>(Note 19) | (12,803)  | -                       | (12,803)        |
| <b>Trade receivables, net</b>                | <b>673,207</b>  | <b>599,110</b>          | <b>74,097</b>   |

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**17. INVENTORIES, NET**

|  | As of December 31, |                  |
|--|--------------------|------------------|
|  | 2014               | 2013             |
| Raw materials, materials and spare parts | 539,611            | 560,720          |
| Goods in process                         | 1,119,123          | 934,909          |
| Finished goods                           | 374,981            | 330,098          |
| Goods in transit                         | 148,337            | 163,228          |
| Obsolescence allowance (Note 19)         | (48,018)           | (47,825)         |
| <b>Inventories, net</b>                  | <b>2,134,034</b>   | <b>1,941,130</b> |

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**18. CASH, CASH EQUIVALENTS AND OTHER INVESTMENTS**

|  | As of December 31, |                |
|--|--------------------|----------------|
|  | 2014               | 2013           |
| <b>(i) Other investments</b>                     |                    |                |
| Deposits with maturity of more than three months | 149,995            | 169,503        |
| <b>Other investments</b>                         | <b>149,995</b>     | <b>169,503</b> |
| <b>(ii) Cash and cash equivalents</b>            |                    |                |
| Cash and banks                                   | 75,354             | 102,465        |
| Restricted cash                                  | 93                 | 869            |
| Deposits with maturity of less than three months | 137,856            | 203,884        |
| <b>Cash and cash equivalents</b>                 | <b>213,303</b>     | <b>307,218</b> |

**19. ALLOWANCES AND PROVISIONS – NON CURRENT AND CURRENT**

| Provisions and allowances - Non current | Deducted from<br>assets<br>Allowance for<br>doubtful accounts | Liabilities<br>Legal claims and<br>other matters | Liabilities<br>Asset retirement<br>obligation |
|---|---|--|---|
| <b>Year ended December 31, 2014</b>     |   |  |   |
| Values at the beginning of the year     | -   | 13,984   | 19,853  |
| Translation differences                 | -   | (3,126)  | (2,643)                                       |
| Additions                               | -   | 2,269  | 4,534   |
| Reversals                               | -   | (2,177)  | -   |
| Uses                                    | -   | (1,883)  | -   |
| <b>At December 31, 2014</b>             | <b>-</b>  | <b>9,067</b>                                     | <b>21,744</b>                                 |
| <b>Year ended December 31, 2013</b>     |   |  |   |
| Values at the beginning of the year     | -   | 17,498   | -   |
| Translation differences                 | -   | (3,753)  | -   |

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|                             |   |               |               |
|-----------------------------|---|---------------|---------------|
| Additions                   | - | 11,518        | 19,853        |
| Reversals                   | - | (4,188)       | -             |
| Uses                        | - | (7,091)       | -             |
| <b>At December 31, 2013</b> | - | <b>13,984</b> | <b>19,853</b> |

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

| <b>Provisions and allowances - Current</b> | <b>Deducted from assets</b> | <b>Liabilities</b> |              |
|--|-----------------------------|--------------------|--------------|
|  | <b>Allowance for</b>        | <b>Asset</b>       |              |
|  | <b>doubtful</b>             | <b>retirement</b>  |              |
|  | <b>accounts</b>             | <b>obligation</b>  |              |
|  | <b>Obsolescence</b>         |                    |              |
|  | <b>allowance</b>            |                    |              |
| <b>Year ended December 31, 2014</b>        |                             |                    |              |
| Values at the beginning of the year        | 12,803                      | 47,825             | -            |
| Translation differences                    | (1,245)                     | (1,792)            | (73)         |
| Additions                                  | 2,879                       | 28,116             | 2,154        |
| Reversals                                  | (1,592)                     | (12,192)           | -            |
| Uses                                       | (1,473)                     | (13,939)           | -            |
| <b>At December 31, 2014</b>                | <b>11,372</b>               | <b>48,018</b>      | <b>2,081</b> |
| <b>Year ended December 31, 2013</b>        |                             |                    |              |
| Values at the beginning of the year        | 15,304                      | 66,102             | -            |
| Translation differences                    | (756)                       | (2,856)            | -            |
| Interest in joint operation                | -                           | 679                | -            |
| Additions                                  | 1,678                       | 21,396             | -            |
| Reversals                                  | (1,880)                     | (20,151)           | -            |
| Uses                                       | (1,543)                     | (17,345)           | -            |
| <b>At December 31, 2013</b>                | <b>12,803</b>               | <b>47,825</b>      | <b>-</b>     |

**20. DEFERRED INCOME TAX**

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

Changes in deferred income tax are as follows:

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|  | <b>As of December 31,</b> |                  |
|--|---------------------------|------------------|
|  | <b>2014</b>               | <b>2013</b>      |
| At the beginning of the year                   | (580,981)                 | (644,670)        |
| Interest in joint operation                    | -                         | (8,116)          |
| Translation differences                        | 20,309                    | 49,199           |
| Effect of changes in tax law (note 11)         | (12,702)                  | (33,826)         |
| Withholding tax on dividend distributions      | (10,474)                  | (24,046)         |
| Charges directly to other comprehensive income | 8,704                     | 1,683            |
| Deferred tax credit (charge)                   | (4,356)                   | 78,795           |
| <b>At the end of the year</b>                  | <b>(579,500)</b>          | <b>(580,981)</b> |

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**20. DEFERRED INCOME TAX (continued)**

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

|  |                  |                 |                 |                 |                  |
|--|------------------|-----------------|-----------------|-----------------|------------------|
| At the beginning of the year                   | (516,811)        | (52,680)        | (44,136)        | (135,129)       | (748,756)        |
| Translation differences                        | 18,906           | (800)           | 173             | 9,259           | 27,538           |
| Charges directly to other comprehensive income | -                | -               | -               | 638             | 638              |
| Withholding tax on dividend distributions      | -                | -               | -               | (10,474)        | (10,474)         |
| Effect of changes in tax law                   | (10,814)         | (504)           | (1,467)         | (29)            | (12,814)         |
| Income statement credit (charge)               | (81,143)         | (26,233)        | (1,425)         | 58,095          | (50,706)         |
| <b>At the end of the year</b>                  | <b>(589,862)</b> | <b>(80,217)</b> | <b>(46,855)</b> | <b>(77,640)</b> | <b>(794,574)</b> |

|  | <b>Deferred tax assets</b> | <b>Provisions</b> | <b>Trade receivables</b> | <b>Tax losses (1)</b> | <b>Other</b>  | <b>Total at December 31, 2014</b> |
|--|----------------------------|-------------------|--------------------------|-----------------------|---------------|-----------------------------------|
| At the beginning of the year                   |                            | 58,237            | 7,991                    | 27,571                | 73,976        | 167,775                           |
| Translation differences                        |                            | (3,829)           | (432)                    | -                     | (2,968)       | (7,229)                           |
| Charges directly to other comprehensive income |                            | -                 | -                        | -                     | 8,066         | 8,066                             |
| Effect of changes in tax law                   |                            | 37                | -                        | -                     | 75            | 112                               |
| Income statement credit (charge)               |                            | 3,614             | 3,183                    | 35,958                | 3,595         | 46,350                            |
| <b>At the end of the year</b>                  |                            | <b>58,059</b>     | <b>10,742</b>            | <b>63,529</b>         | <b>82,744</b> | <b>215,074</b>                    |

(1) As of December 31, 2014, the recognized deferred tax assets on tax losses amount to USD 63,529 and the net unrecognized deferred tax assets amount to USD 2,064. According to the tax law in force in the jurisdictions in which the tax losses are generated, these amounts do not have a certain expiration date.

| <b>Deferred tax liabilities</b> | <b>PP&amp;E</b> | <b>Inventories</b> | <b>Intangible assets</b> | <b>Other</b> | <b>Total at December</b> |
|---------------------------------|-----------------|--------------------|--------------------------|--------------|--------------------------|
|---------------------------------|-----------------|--------------------|--------------------------|--------------|--------------------------|

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31, 2013

|  |                  |                 |                 |                  |                  |
|--|------------------|-----------------|-----------------|------------------|------------------|
| At the beginning of the year                   | (515,943)        | (68,710)        | (48,382)        | (166,582)        | (799,617)        |
| Translation differences                        | 26,774           | 1,128           | 255             | 29,414           | 57,571           |
| Interest in joint operation                    | (6,277)          | (2,467)         | (3,024)         | -                | (11,768)         |
| Charges directly to other comprehensive income | -                | -               | -               | -                | -                |
| Effect of changes in tax law                   | (26,476)         | -               | (3,108)         | (24,046)         | (53,630)         |
| Income statement credit (charge)               | 5,111            | 17,369          | 10,123          | 24,402           | 57,005           |
| <b>At the end of the year</b>                  | <b>(516,811)</b> | <b>(52,680)</b> | <b>(44,136)</b> | <b>(136,812)</b> | <b>(750,439)</b> |

| Deferred tax assets                            | Provisions    | Trade receivables | Tax losses (2) | Other         | Total at December 31, 2013 |
|--|---------------|-------------------|----------------|---------------|----------------------------|
| At the beginning of the year                   | 54,659        | 8,291             | 18,193         | 73,804        | 154,947                    |
| Translation differences                        | (8,054)       | 109               | -              | (427)         | (8,372)                    |
| Interest in joint operation                    | 1,806         | -                 | -              | 1,846         | 3,652                      |
| Charges directly to other comprehensive income | -             | -                 | -              | 1,683         | 1,683                      |
| Effect of changes in tax law                   | -             | -                 | -              | (4,242)       | (4,242)                    |
| Income statement credit (charge)               | 9,826         | (409)             | 9,378          | 2,995         | 21,790                     |
| <b>At the end of the year</b>                  | <b>58,237</b> | <b>7,991</b>      | <b>27,571</b>  | <b>75,659</b> | <b>169,458</b>             |

(2) As of December 31, 2013, the recognized deferred tax assets on tax losses amount to USD 27,571 and the net unrecognized deferred tax assets amount to USD 17,782. According to the tax law in force in the jurisdictions in which the tax losses are generated, these amounts do not have a certain expiration date.

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

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**20. DEFERRED INCOME TAX (continued)**

The amounts shown in the statement of financial position include the following:

|  | As of December 31, |                  |
|--|--------------------|------------------|
|  | 2014               | 2013             |
| Deferred tax assets to be recovered after more than 12 months    | 159,918            | 115,201          |
| Deferred tax assets to be recovered within 12 months             | 55,155             | 51,936           |
| Deferred tax liabilities to be settled after more than 12 months | (700,031)          | (681,459)        |
| Deferred tax liabilities to be settled within 12 months          | (94,542)           | (66,659)         |
|  | <b>(579,500)</b>   | <b>(580,981)</b> |

**21. OTHER LIABILITIES – NON CURRENT AND CURRENT**

|  | As of December 31, |                |
|--|--------------------|----------------|
|  | 2014               | 2013           |
| <b>(i) Other liabilities - Non current</b> |                    |                |
| Termination benefits                       | 203                | 474            |
| Post-employment benefits                   | 313,146            | 291,822        |
| Other employee benefits                    | 35,351             | 30,111         |
| Asset retirement obligation (note 19) (1)  | 21,744             | 19,853         |
| Other                                      | 1,456              | 3,171          |
| <b>Other liabilities – Non-current</b>     | <b>371,900</b>     | <b>345,431</b> |

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

*Post-employment benefits*

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

|   | <b>Post-employment benefits<br/>As of December 31,</b> |                |
|---|--|----------------|
|   | <b>2014</b>  | <b>2013</b>    |
| Present value of unfunded obligations                   | 313,146  | 313,269        |
| Fair value of plan assets                               | -  | (21,447)       |
| <b>Liability in the statement of financial position</b> | <b>313,146</b>   | <b>291,822</b> |

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

|                                      | <b>Post-employment benefits<br/>Year ended December 31,</b> |               |
|--------------------------------------|---|---------------|
|                                      | <b>2014</b>   | <b>2013</b>   |
| Current service cost                 | 8,603   | 8,355         |
| Interest cost                        | 20,794  | 22,976        |
| Amortization of prior service costs  | 418   | 1,281         |
| <b>Total included in labor costs</b> | <b>29,815</b>   | <b>32,612</b> |

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

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

|   | <b>Post-employment benefits<br/>As of December 31,</b> |                |
|---|--|----------------|
|   | <b>2014</b>  | <b>2013</b>    |
| At the beginning of the year                        | 291,822  | 261,415        |
| Interest in joint operation                         | -  | 8,103          |
| Transfers, new participants and funding of the plan | (1,595)  | 7,592          |
| Total expense                                       | 29,815   | 32,612         |
| Remeasurements                                      | 27,474   | 7,787          |
| Translation differences                             | (30,929)   | (2,477)        |
| Contributions paid                                  | (3,441)  | (23,210)       |
| <b>At the end of the year</b>                       | <b>313,146</b>   | <b>291,822</b> |

The principal actuarial assumptions used were as follows:

| <b>Mexico</b>            | <b>Year ended December 31,</b> |             |
|--------------------------|--------------------------------|-------------|
|                          | <b>2014</b>                    | <b>2013</b> |
| Discount rate            | 7.75%                          | 8.50%       |
| Compensation growth rate | 4.00%                          | 4.00%       |
| <b>Argentina</b>         | <b>Year ended December 31,</b> |             |
|                          | <b>2014</b>                    | <b>2013</b> |
| Discount rate            | 7.00%                          | 7.00%       |
| Compensation growth rate | 2.00%                          | 2.00%       |

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

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**Impact on defined benefit obligation**

|                          | <b>Change in<br/>assumption</b> | <b>Increase in<br/>assumption</b> | <b>Decrease in<br/>assumption</b> |
|--------------------------|---------------------------------|-----------------------------------|-----------------------------------|
| Discount rate            | 1.00%                           | -10.6%                            | 12.8%                             |
| Compensation growth rate | 1.00%                           | 2.6%                              | -2.2%                             |
| Pension growth rate      | 1.00%                           | 1.0%                              | -1.1%                             |
| Life expectancy          | 1 year                          | -0.2%                             | 0.2%                              |

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

|   | As of December 31, |                |
|---|--------------------|----------------|
|   | 2014               | 2013           |
| <b>(ii) Other liabilities - Current</b> |                    |                |
| Payroll and social security payable     | 99,509             | 92,188         |
| VAT liabilities                         | 57,031             | 50,765         |
| Other tax liabilities                   | 39,620             | 46,042         |
| Termination benefits                    | 3,298              | 4,584          |
| Related Parties (Note 25)               | 3,704              | 3,901          |
| Asset retirement obligation (Note 19)   | 2,081              | -              |
| Others                                  | 4,963              | 5,846          |
| <b>Other liabilities – Current</b>      | <b>210,206</b>     | <b>203,326</b> |

**22. DERIVATIVE FINANCIAL INSTRUMENTS****Net fair values of derivative financial instruments**

The net fair values of derivative financial instruments at December 31, 2014 and 2013 were as follows:

|   | As of December 31, |              |
|---|--------------------|--------------|
|   | 2014               | 2013         |
| <b>Contracts with positive fair value</b> |                    |              |
| Interest rate swap contracts              | -                  | 1,535        |
| Foreign exchange contracts                | 4,338              | -            |
|   | <b>4,338</b>       | <b>1,535</b> |
| <b>Contracts with negative fair value</b> |                    |              |
| Interest rate swap contracts              | (1,342)            | -            |

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|                            |         |   |
|----------------------------|---------|---|
| Foreign exchange contracts | (34)    | - |
|                            | (1,376) | - |

Derivative financial instruments breakdown is as follows:

*(a) Interest rate contracts*

Fluctuations in market interest rates create a degree of risk by affecting the amount of the Company's interest payments and the value of its floating-rate debt. As of December 31, 2014, most of the Company's long-term borrowings were at variable rates.

During 2012 and 2013, Ternium entered into several forward starting interest rate swap agreements in order to fix the interest rate to be paid over an aggregate amount of USD 100 million, in an average rate of 1.92%. These agreements are effective from July 2014, will due on July 2022 and have been accounted for as cash flow hedges. As of December 31, 2014, the after-tax cash flow hedge reserve related to these agreements amounted to USD (0.4) million.

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**22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

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

|                                      | Gross amount | Cash flow hedges<br>Income tax | Total        |
|--------------------------------------|--------------|--------------------------------|--------------|
| <b>At December 31, 2012</b>          | <b>(270)</b> | <b>81</b>                      | <b>(189)</b> |
| (Decrease) / Increase                | 1,805        | (541)                          | 1,264        |
| Reclassification to income statement | -            | -                              | -            |
| <b>At December 31, 2013</b>          | <b>1,535</b> | <b>(460)</b>                   | <b>1,075</b> |
| (Decrease) / Increase                | (2,876)      | 863                            | (2,013)      |
| Reclassification to income statement | 748          | (225)                          | 523          |
| <b>At December 31, 2014</b>          | <b>(593)</b> | <b>178</b>                     | <b>(415)</b> |

The gross amount of the pre-tax reserve recorded in other comprehensive income at December 31, 2014 (amounting to a loss of USD 0.6 million) is expected to be reclassified to the income statements in accordance to the payments of interests in connection with the borrowings hedged by these derivative contracts, during 2015 and up to the end of the life of the borrowing in 2022.

*(b) Foreign exchange contracts*

From time to time, Ternium's subsidiaries enter into derivative agreements to manage their exposure to currencies other than the USD.

During 2013 and 2014, Prosid Investments entered into several non-deliverable forward agreements to manage the exchange rate exposure generated by Siderar's debt in ARS against USD. As of December 31, 2014, the notional amount on these agreements amounted to USD 280.3 million.

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Furthermore, during 2014, Ferrasa S.A.S. has entered into non-deliverable forward agreements to manage the exposure of certain trade receivables denominated in its local currency. As of December 31, 2014, the notional amount on these agreements was USD 2.0 million.

The net fair values of the exchange rate derivative contracts as of December 31, 2014 and December 31, 2013 were as follows:

| Currencies | Contract   | Notional amount | Fair value at December 31, |      |
|------------|------------|-----------------|----------------------------|------|
|            |            |                 | 2014                       | 2013 |
| ARS/USD    | ND Forward | 2.5 billion ARS | 4,338                      | -    |
| COP/USD    | ND Forward | 4.8 billion COP | (34)                       | -    |
|            |            |                 | <b>4,304</b>               | -    |

USD: US dollars; COP: Colombian pesos; ARS: Argentine pesos.

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**23. BORROWINGS**

|                         | As of December 31, |                  |
|-------------------------|--------------------|------------------|
|                         | 2014               | 2013             |
| <b>(i) Non-current</b>  |                    |                  |
| Bank borrowings         | 906,161            | 1,212,070        |
| Less: debt issue costs  | (5,550)            | (7,190)          |
|                         | <b>900,611</b>     | <b>1,204,880</b> |
| <b>(ii) Current</b>     |                    |                  |
| Bank borrowings         | 1,266,126          | 800,791          |
| Less: debt issue costs  | (1,918)            | (2,847)          |
|                         | <b>1,264,208</b>   | <b>797,944</b>   |
| <b>Total Borrowings</b> | <b>2,164,819</b>   | <b>2,002,824</b> |

The maturity of borrowings is as follows:

|               | Expected Maturity Date |                |                        |                     |                  |
|---------------|------------------------|----------------|------------------------|---------------------|------------------|
|               | 2015                   | 2016           | 2017 and<br>thereafter | At December 31, (1) |                  |
|               |                        |                |                        | 2014                | 2013             |
| Fixed Rate    | 784,860                | 10,334         | 958                    | 796,152             | 486,955          |
| Floating Rate | 479,348                | 329,434        | 559,885                | 1,368,667           | 1,515,869        |
| <b>Total</b>  | <b>1,264,208</b>       | <b>339,768</b> | <b>560,843</b>         | <b>2,164,819</b>    | <b>2,002,824</b> |

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

The weighted average interest rates - which incorporate instruments denominated mainly in US dollars and Argentina pesos and which do not include the effect of derivative financial instruments nor the devaluation of these local

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currencies - at year-end were as follows:

|                 | <b>As of December 31,</b> |             |
|-----------------|---------------------------|-------------|
|                 | <b>2014</b>               | <b>2013</b> |
| Bank borrowings | 4.64%                     | 4.89%       |

The nominal average interest rates shown above were calculated using the rates set for each instrument in its corresponding currency and weighted using the dollar-equivalent outstanding principal amount of said instruments at December 31, 2014 and 2013, respectively.

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**23. BORROWINGS (continued)**

Breakdown of borrowings by currency is as follows:

| Currencies | Contract | As of December 31, |                  |
|------------|----------|--------------------|------------------|
|            |          | 2014               | 2013             |
| USD        | Floating | 1,268,691          | 1,391,298        |
| USD        | Fixed    | 497,970            | 150,790          |
| ARS        | Floating | -                  | 152              |
| ARS        | Fixed    | 278,840            | 313,366          |
| BRL        | Floating | -                  | -                |
| COP        | Floating | 99,976             | 124,418          |
| CRC        | Fixed    | 2,963              | 6,975            |
| GTQ        | Fixed    | 16,379             | 15,825           |
|            |          | <b>2,164,819</b>   | <b>2,002,824</b> |

USD: US dollars; ARS: Argentine pesos; COP: Colombian pesos; GTQ: Guatemalan quetzales; CRC: Costa Rican colon.

Ternium's most significant borrowings as of December 31, 2014, were those incurred under Ternium México's syndicated loan facilities, in order to improve its maturity profile in 2013 and in relation to the Grupo Imsa transaction in July 2007, and under Tenigal's syndicated loan facility, in order to finance the construction of its hot-dipped galvanizing mill in Pesquería, Mexico:

| Date                | Borrower       | Type            | In USD million            |  | Maturity      |
|---------------------|----------------|-----------------|---------------------------|--|---------------|
|                     |                |                 | Original principal amount | Outstanding principal amount as of December 31, 2014 |               |
| November 2013       | Ternium Mexico | Syndicated loan | 800                       | 800  | November 2018 |
| Years 2012 and 2013 | Tenigal        | Syndicated loan | 200                       | 200  | July 2022     |

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The main covenants on these loan agreements are limitations on liens and encumbrances, limitations on the sale of certain assets and compliance with financial ratios (i.e. leverage ratio and interest coverage ratio). As of December 31, 2014, Ternium was in compliance with all of its covenants.

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**24. CONTINGENCIES, COMMITMENTS AND RESTRICTIONS ON THE DISTRIBUTION OF PROFITS**

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

*(i) Tax claims and other contingencies*

*(a) Siderar. AFIP – Income tax claim for fiscal years 1995 to 1999*

The Argentine tax authority (Administración Federal de Ingresos Públicos, or "AFIP") has challenged the deduction from income of certain disbursements treated by Siderar as expenses necessary to maintain industrial installations, alleging that these expenses should have been treated as investments or improvements subject to capitalization. Accordingly, AFIP made income tax assessments against Siderar with respect to fiscal years 1995 through 1999.

As of December 31, 2014, Siderar's aggregate exposure under these assessments (including principal, interest and fines) amounts to approximately USD 11.4 million. Siderar appealed each of these assessments before the National Tax Court, which, in successive rulings, reduced the amount of each of the assessments made by AFIP; the National Tax Court decisions were, however, further appealed by both Siderar and AFIP.

On May 15, 2014, Siderar was notified of a new National Tax Court ruling approving the AFIP assessment for fiscal year 1997 in an amount of approximately USD 0.8 million (including principal and interest); as the Tax Court did not grant a stay with respect to this decision, Siderar paid the full amount of the ruling, reserving its right to seek reimbursement of that payment.

Based on the recent National Tax Court decision, management believes that there could be an additional potential cash outflow in connection with this assessment and, as a result, Siderar recognized a provision which, as of December 31, 2014, amounts to USD 0.6 million.

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

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

On September 23, 2013, the first instance court issued its decision finding in favor of the defendants and dismissing the CSN lawsuit. The claimants appealed the court decision and the defendants filed their response to the appeal. It is currently expected that the court of appeals will issue its judgment on the appeal within 2015.

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

Ternium is aware that on November 10, 2014, CSN filed a separate complaint with Brazil's securities regulator Comissão de Valores Mobiliários (CVM) on the same grounds and with the same purpose as the lawsuit referred to above. The CVM proceeding is underway and the Company has not yet been served with process or requested to provide its response.

Finally, on December 11, 2014, CSN filed a claim with Brazil's antitrust regulator Consejo Administrativo de Defesa Econômica (CADE). In its claim, CSN alleges that the antitrust clearance request related to the January 2012 acquisition, which was approved by CADE without restrictions in August 2012, contained a false and deceitful description of the acquisition aimed at frustrating the minority shareholders' right to a tag-along tender offer, and requests that CADE investigate and reopen the antitrust review of the acquisition and suspend the Company's voting rights in Usiminas until the review is completed. The case is currently under review by CADE's Administrative Tribunal.

Ternium believes that all of CSN's claims and allegations are groundless and without merit, as confirmed by several opinions of Brazilian counsel and previous decisions by CVM, including a February 2012 decision determining that the above mentioned acquisition did not trigger any tender offer requirement, and, more recently, the first instance court decision on this matter first referred to above. Accordingly, no provision was recorded in these Consolidated Financial Statements.

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

Following Ternium's October 2, 2014 announcement of its acquisition of 51.4 million ordinary shares of Usiminas from PREVI, the CVM has been analyzing, at the request of Usiminas' shareholders, whether, as a result of this acquisition, Ternium would be required under applicable Brazilian laws and rules to launch a mandatory tender offer to all non-controlling holders of Usiminas ordinary shares for a fair price. Ternium has presented its reasons and the CVM's analysis is currently ongoing. While no decision has yet been adopted, it is expected that the CVM will issue its decision in the first quarter of 2015; any such decision would, however, be subject to administrative appeal. As indicated in its October 2, 2014 announcement, Ternium believes that the transaction did not trigger any tender offer requirement. In any event, if the CVM were to determine that Ternium's purchase of Usiminas shares exceeded the threshold that triggers a mandatory tender offer requirement, Ternium may elect to sell to third parties any shares acquired in excess of the threshold so determined, in which case no tender offer would be required either.

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*(ii) Commitments*

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

(a) Siderar entered into a contract with Tenaris, a related company of Ternium, for the supply of steam generated at the power generation facility that Tenaris owns in the compound of the Ramallo facility of Siderar. Under this contract, Tenaris has to provide 250 tn/hour of steam, and Siderar has the obligation to take or pay this volume. The amount of this outsourcing agreement totals USD 52.5 million and is due to terminate in 2018.

(b) Siderar, within the investment plan, has entered into several commitments to acquire new production equipment for a total consideration of USD 79.2 million.

(c) Siderar assumed fixed commitments for the purchase of raw materials for a total amount of USD 123.8 million to be expended during the next three years.

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

(d) Siderar is a party to a long-term contract with Air Liquide Argentina S.A. for the supply of oxygen, nitrogen and argon. The agreement requires Siderar to take or pay minimum daily amounts of these gases for an aggregate amount of USD 40.2 million to satisfy Siderar's current production needs through 2021, and to make incremental purchases of these gases for an aggregate amount of USD 133.8 million to satisfy the requirements through 2030.

(e) On December 20, 2000, Hylsa (Ternium Mexico's predecessor) entered into a 25-year contract with Iberdrola Energia Monterrey, S.A. de C.V. ("Iberdrola"), a Mexican subsidiary of Iberdrola Energía, S.A., for the supply to four of Ternium Mexico's plants of a contracted electrical demand of 111.2 MW. Iberdrola currently supplies approximately 23% of Ternium Mexico's electricity needs under this contract. Although the contract was to be effective through 2027, on April 28, 2014, Ternium Mexico and Iberdrola entered into a new supply contract and terminated the previous one. In consideration of the termination of the previous contract, Iberdrola has granted Ternium Mexico a credit of USD 750 thousand per MW of the 111.2 MW contracted capacity, resulting over time in a total value of USD 73.5 million. In addition, Iberdrola agreed to recognize to Ternium México USD 15 million through discounted rates. As a result of the above mentioned credit and discount, the company expects to incur in electricity rates comparable to those obtained in the past under the previous contract's terms for a period that is estimated to be approximately 2 years. Following such period, Ternium Mexico's rates under the contract will increase to market rates with a 2.5% discount; however, Ternium Mexico will be entitled to terminate the contract without penalty.

(f) Several Ternium Mexico's subsidiaries which have facilities throughout the Mexican territory are parties to a long term energy purchase agreement for purchased capacity of electricity with Tractebel Energía de Monterrey, S. de R.L. de C.V., distributed among each plant defined as a capacity user. Each capacity user is committed to pay Tractebel for the purchased capacity and for the net energy delivered. Ternium Mexico is required to provide its best estimate of its expected nomination for capacity and energy under the specific limits and timelines. The monthly payments are calculated considering the capacity charges, energy charges, back-up power charges, and transmission charges, less any steam credits. The contracted amount is of USD 114.8 million and the contract will terminate in 2018.

(g) Following the maturity of a previously existing railroad freight services agreement during 2013, in April 2014, Ternium México and Ferrocarril Mexicano, S. A. de C. V. ("Ferromex") entered into a new railroad freight services agreement pursuant to which Ferromex will transport Ternium Mexico's products through railroads operated by Ferromex for a term of five years through 2019. Subject to Ternium's board approval, both Ternium Mexico and Ferromex would be required to make (within a period of 36 months) certain investments to improve the loading and unloading of gondolas. Ternium Mexico's total investment commitment would amount to approximately USD 15.5 million, while Ferromex's would amount to approximately USD 5.4 million. Under the agreement, Ternium Mexico

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has guaranteed to Ferromex a minimum average transport load of 200 metric tons per month in any six-month period.

In the event that the actual per-month average transport loads in any six-month period were lower than such guaranteed minimum, Ternium Mexico would be required to compensate Ferromex for the shortfall so that Ferromex receives a rate equivalent to a total transport load of 1,200 metric tons for such six-month period. However, any such compensation will not be payable if the lower transport loads were due to adverse market conditions, or to adverse operating conditions at Ternium Mexico's facilities.

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

(h) Techgen is a party to transportation capacity agreements with Kinder Morgan Gas Natural de Mexico, S. de R.L. de C.V., Kinder Morgan Texas Pipeline LLC and Kinder Morgan Tejas Pipeline LLC for a purchasing capacity of 150,000 MMBtu/Gas per day starting on June 1, 2016 and ending on May 31, 2036. As of December 31, 2014, the outstanding value of this commitment was approximately USD 285 million. Ternium's exposure under the guarantee in connection with these agreements amounts to USD 136.7 million, corresponding to the 48% of the agreements' outstanding value as of December 31, 2014.

(i) Techgen is a party to a contract with GE Power Systems, Inc. and General Electric International Operations Company, Inc Mexico Branch for the purchase of power generation equipment and other services related to the equipment for an outstanding amount of approximately USD 238 million. These agreements required Techgen to issue stand-by letters of credit up to an amount of USD 47.5 million. Ternium's exposure under the guarantee in connection with these stand-by letters of credit issued by Techgen is of USD 15.5 million.

(j) Ternium issued a Corporate Guarantee covering 48% of the obligations of Techgen under a syndicated loan agreement between Techgen and several banks led by Citigroup Global Markets Inc., Credit Agricole Corporate and Investment Bank, and Natixis, New York Branch acting as joint bookrunners. The loan agreement amounted to USD 800 million and the proceeds will be used by Techgen in the construction of the facility. As of December 31, 2014, disbursements under the loan agreement amounted USD 440 million, as a result the amount guaranteed by Ternium was approximately USD 211 million. If the loan is disbursed in full, the amount guaranteed by Ternium will be approximately USD 384 million. The main covenants under the Corporate Guarantee are limitations on the sale of certain assets and compliance with financial ratios (e.g. leverage ratio). As of December 31, 2014, Techgen was in compliance with all of its covenants.

*(iii) Restrictions on the distribution of profits*

Under Luxembourg law, at least 5% of net income per year calculated in accordance with Luxembourg law and regulations must be allocated to a reserve until such reserve has reached an amount equal to 10% of the share capital. At December 31, 2014, this reserve reached the above-mentioned threshold.



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As of December 31, 2014, Ternium may pay dividends up to USD 5.4 billion in accordance with Luxembourg law and regulations.

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

|   | <b>As of December 31,<br/>2014</b> |
|---|------------------------------------|
| Share capital   | 2,004,743                          |
| Legal reserve   | 200,474                            |
| Non distributable reserves                              | 1,414,122                          |
| Accumulated profit at January 1, 2014                   | 5,687,690                          |
| Loss for the year                                       | (289,975)                          |
| <b>Total shareholders' equity under Luxembourg GAAP</b> | <b>9,017,054</b>                   |

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**25. RELATED PARTY TRANSACTIONS**

As of December 31, 2014, Techint owned 62.02% of the Company's share capital and Tenaris held 11.46% of the Company's share capital. Each of Techint and Tenaris were controlled by San Faustin S.A., a Luxembourg company ("San Faustin"). Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin ("RP STAK"), a Dutch private foundation (Stichting), held shares in San Faustin sufficient in number to control San Faustin. No person or group of persons controls RP STAK.

For commitments with Related parties, see note 24.

The following transactions were carried out with related parties:

|  | <b>2014</b>    | <b>Year ended December 31,<br/>2013</b> | <b>2012</b>    |
|--|----------------|---|----------------|
| <b>(i) Transactions</b>  |                |   |                |
| <b>(a) Sales of goods and services</b>                         |                |   |                |
| Sales of goods to non-consolidated parties                     | 1,675          | 23                                      | 171            |
| Sales of goods to other related parties                        | 224,909        | 210,622                                 | 216,392        |
| Sales of services and others to non-consolidated parties       | 2,459          | 2,270                                   | 173            |
| Sales of services and others to other related parties          | 1,273          | 2,004                                   | 616            |
|  | <b>230,316</b> | <b>214,919</b>                          | <b>217,352</b> |
| <b>(b) Purchases of goods and services</b>                     |                |   |                |
| Purchases of goods from non-consolidated parties               | 200,167        | 228,065                                 | 399,495        |
| Purchases of goods from other related parties                  | 45,946         | 86,883                                  | 75,482         |
| Purchases of services and others from non-consolidated parties | 13,584         | 13,433                                  | 45,033         |
| Purchases of services and others from other related parties    | 131,413        | 234,372                                 | 248,647        |
|  | <b>391,110</b> | <b>562,753</b>                          | <b>768,656</b> |
| <b>(c) Financial results</b>                                   |                |   |                |
| Income with non-consolidated parties                           | 1,043          | -                                       | -              |
| Expenses with non-consolidated parties                         | -              | -                                       | (308)          |
|  | <b>1,043</b>   | <b>-</b>                                | <b>(308)</b>   |

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**(d) Dividends received**

|   |              |            |              |
|---|--------------|------------|--------------|
| Dividends from non-consolidated parties | 1,858        | 207        | 4,718        |
|   | <b>1,858</b> | <b>207</b> | <b>4,718</b> |

**(e) Other income and expenses**

|  |              |              |          |
|--|--------------|--------------|----------|
| Income (expenses), net with non-consolidated parties | 6,051        | 4,597        | -        |
| Income (expenses), net with other related parties    | (640)        | -            | -        |
|  | <b>5,411</b> | <b>4,597</b> | <b>-</b> |

**As of December 31,**  
**2014**                      **2013**

**(ii) Year-end balances****(a) Arising from sales/purchases of goods/services and other transactions**

|  |                 |                 |
|--|-----------------|-----------------|
| Receivables from non-consolidated parties        | 6,357           | 5,218           |
| Receivables from other related parties           | 20,497          | 24,802          |
| Advances from non-consolidated parties           | 7               | -               |
| Advances to suppliers with other related parties | 498             | 330             |
| Payables to non-consolidated parties             | (24,626)        | (40,244)        |
| Payables to other related parties                | (39,895)        | (35,451)        |
|  | <b>(37,162)</b> | <b>(45,345)</b> |

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**25. RELATED PARTY TRANSACTIONS (continued)**

(iii) Officers and Directors' compensation

During the year ended December 31, 2014 the cash compensation of Officers and Directors amounted to USD 12,924. In addition, Officers received 1.059.320 Units for a total amount of USD 2,793 in connection with the incentive retention program mentioned in note 4 (n)(3).

**26. OTHER REQUIRED DISCLOSURES****(a) Statement of comprehensive income**

|                                      | <b>Gross<br/>amount</b> | <b>Cash flow hedges<br/>Income tax</b> | <b>Total</b> | <b>Currency<br/>translation<br/>adjustment</b> |
|--------------------------------------|-------------------------|--|--------------|--|
| <b>At December 31, 2012</b>          | <b>(270)</b>            | <b>81</b>                              | <b>(189)</b> | <b>(1,530,411)</b>                             |
| (Decrease) / Increase                | 1,805                   | (541)                                  | 1,264        | (503,305)                                      |
| Reclassification to income statement | -                       | -                                      | -            | -  |
| <b>At December 31, 2013</b>          | <b>1,535</b>            | <b>(460)</b>                           | <b>1,075</b> | <b>(2,033,716)</b>                             |
| (Decrease) / Increase                | (2,876)                 | 863                                    | (2,013)      | (459,768)                                      |
| Reclassification to income statement | 748                     | (225)                                  | 523          | -  |
| <b>At December 31, 2014</b>          | <b>(593)</b>            | <b>178</b>                             | <b>(415)</b> | <b>(2,493,484)</b>                             |

**(b) Statement of cash flows**

Year ended December 31,

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|  | <b>2014</b>      | <b>2013</b>     | <b>2012</b>   |
|--|------------------|-----------------|---------------|
| <b>(i) Changes in working capital (1)</b>    |                  |                 |               |
| Inventories                                  | (357,023)        | (115,843)       | 20,250        |
| Receivables and others                       | 4,760            | 78,797          | (86,319)      |
| Trade receivables                            | (90,725)         | 58,332          | 38,219        |
| Other liabilities                            | 30,640           | 58,591          | (41,456)      |
| Trade payables                               | (138,632)        | 34,734          | 92,839        |
|  | <b>(550,980)</b> | <b>114,611</b>  | <b>23,533</b> |
| <b>(ii) Income tax accrual less payments</b> |                  |                 |               |
| Tax accrued (Note 11)                        | 363,708          | 349,426         | 261,227       |
| Taxes paid                                   | (378,634)        | (373,603)       | (220,197)     |
|  | <b>(14,926)</b>  | <b>(24,177)</b> | <b>41,030</b> |
| <b>(iii) Interest accruals less payments</b> |                  |                 |               |
| Interest accrued                             | 117,866          | 132,113         | 150,302       |
| Interest paid                                | (112,704)        | (148,982)       | (149,486)     |
|  | <b>5,162</b>     | <b>(16,869)</b> | <b>816</b>    |

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

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## 27. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The following standards, amendments to standards and interpretations are not mandatory for the financial year beginning January 1, 2014 and have not been early adopted:

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

In May 2014, the IASB issued IFRS 15, "Revenue from contracts with customers", which sets out the requirements in accounting for revenue arising from contracts with customers and which is based on the principle that revenue is recognized when control of a good or service is transferred to the customer. IFRS 15 must be applied annual periods beginning on or after January 1, 2017.

### *International Financial Reporting Standard 9, "Financial instruments"*

In July 2014, the IASB issued IFRS 9, "Financial instruments", which replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities, as well as an expected credit losses model that replaces the current incurred loss impairment model. IFRS 9 must be applied on annual periods beginning on or after January 1, 2018.

### *Amendments to IFRS 10, "Consolidated financial statements" and IAS 28, "Investments in associates and joint ventures"*

In September 2014, the IASB issued the Amendments to IFRS 10, "Consolidated financial statements" and IAS 28, "Investments in associates and joint ventures", which addresses and inconsistency between the requirements of both standards in dealing with the sale or contribution of assets between an investor and its associate or joint venture. These amendments must be applied annual periods beginning on or after January 1, 2016.

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

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## **28. FINANCIAL RISK MANAGEMENT**

### **1) Financial risk factors**

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

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

#### **1.1) Market Risk**

##### *(i) Foreign exchange rate risk*

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

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



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

The following table shows a breakdown of Ternium's assessed financial position exposure to currency risk as of December 31, 2014. These balances include intercompany positions where the intervening parties have different functional currencies.

| USD million Exposure to | Functional currency |     |
|-------------------------|---------------------|-----|
|                         | USD                 | ARS |
| US dollar (USD)         | -                   | 67  |
| EU euro (EUR)           | (0)                 | 3   |
| Argentine peso (ARS)    | (7)                 | -   |
| Mexican peso (MXN)      | (298)               | -   |
| Colombian peso (COP)    | (40)                | -   |
| Other currencies        | (1)                 | -   |

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**28. FINANCIAL RISK MANAGEMENT (continued)**

The main relevant exposures correspond to:

(a) Argentine peso vs. US dollar

A change of 1% in the exchange rate of the Argentine peso against the US dollar would have generated a pre-tax gain of USD 0.6 million and a pre-tax loss of USD 0.2 million as of December 31, 2014 and 2013, respectively.

(b) Mexican peso vs. US dollar

A change of 1% in the exchange rate of the Mexican peso against the US dollar would have generated a pre-tax gain of USD 2.9 million and USD 2.7 million as of December 31, 2014 and 2013, respectively.

(c) Colombian peso vs. US dollar

A change of 1% in the exchange rate of the Colombian peso against the US dollar would have generated a pre-tax gain of USD 0.4 million and USD 0.5 million as of December 31, 2014 and 2013, respectively.

We estimate that if the Argentine peso, Mexican peso and Colombian peso had weakened simultaneously by 1% against the US dollar with all other variables held constant, total pre-tax income for the year would have been USD 3.9 million higher (USD 2.9 million higher as of December 31, 2013), as a result of foreign exchange gains/losses on translation of US dollar-denominated financial position, mainly trade receivables, trade payables and other liabilities.

Considering the same variation of the currencies against the US dollar of all net investments in foreign operations amounting to USD 2.4 billion, the currency translation adjustment included in total equity would have been USD 24.1 million lower (USD 23.4 million lower as of December 31, 2013), arising mainly from the adjustment on translation of the equity related to the Argentine peso and the Brazilian real.

(ii) *Interest rate risk*

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Ternium manages its exposure to interest rate volatility through its financing alternatives and hedging instruments. Borrowings issued at variable rates expose the Company to the risk of increased interest expense in the event of a raise in market interest rates, while borrowings issued at fixed rates expose the Company to a variation in its fair value. The Company's interest-rate risk mainly arises from long-term borrowings that bear variable-rate interest that is partially fixed through different derivative transactions, such as swaps and structures with options. The Company's general policy is to maintain a balance between instruments exposed to fixed and variable rates; which can be modified according to long term market conditions.

Ternium's nominal weighted average interest rate for its debt instruments, which do not include the effect of derivative financial instruments nor the devaluation of the local currencies, was 4.64% and 4.89% for 2014 and 2013, respectively. These rates were calculated using the rates set for each instrument in its corresponding currency and weighted using the dollar-equivalent outstanding principal amount of each instrument as of December 31, 2014 and 2013, respectively.

Ternium's total variable interest rate debt amounted to USD 1,369 million (63.2% of total borrowings) at December 31, 2014 and USD 1,516 million (75.7% of total borrowings) at December 31, 2013.

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## 28. FINANCIAL RISK MANAGEMENT (continued)

If interest rates on the aggregate average notional of US dollar denominated borrowings held during 2014, excluding borrowings with derivatives contracts mentioned in Note 22 (a), had been 100 basis points higher with all other variables held constant, total pre-tax income for the year ended December 31, 2014 would have been USD 20.7 million lower (USD 20.2 million lower as of December 31, 2013).

### *(iii) Commodity price risk*

In the ordinary course of its operations, Ternium purchases raw materials (such as iron ore, coal and slabs) and other commodities (including electricity and gas). Commodity prices are generally volatile as a result of several factors, including those affecting supply and demand, political, social and economic conditions, and other circumstances. Ternium monitors its exposure to commodity price volatility on a regular basis and applies customary commodity price risk management strategies. For further information on long-term commitments, see note 24(ii).

### 1.2) Credit risk

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

Ternium invests in financial assets with a minimum credit rating of investment grade established by an international qualification agency renowned in the financial market, in line with corporate investment portfolio policies. Approximately 80.7% of the Company's liquid financial assets correspond to investment grade rated instruments as of December 31, 2014, in comparison with approximately 80.9% as of December 31, 2013.

Ternium has no significant concentrations of credit risk from customers. No single customer accounts for more than five percent of Ternium's sales. Ternium's subsidiaries have policies in place to ensure that sales are made to customers with an appropriate credit history, and that credit insurances, letters of credit or other instruments are requested to

reduce credit risk whenever deemed necessary. The subsidiaries maintain allowances for potential credit losses. The utilization of credit limits is regularly monitored.

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

As of December 31, 2014, trade receivables total USD 720.3 million. These trade receivables are collateralized by guarantees under letter of credit and other bank guarantees of USD 10.6 million, credit insurance of USD 424.3 million and other guarantees of USD 7.2 million.

As of December 31, 2014, trade receivables of USD 656.4 million were fully performing.

As of December 31, 2014, trade receivables of USD 75.3 million were past due.

The amount of the allowance for doubtful accounts was USD 11.4 million as of December 31, 2014.

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**28. FINANCIAL RISK MANAGEMENT (continued)**

The carrying amounts of the Company's trade and other receivables as of December 31, 2014, are denominated in the following currencies:

| Currency             | USD million |
|----------------------|-------------|
| US dollar (USD)      | 562         |
| EU euro (EUR)        | 16          |
| Argentine peso (ARS) | 30          |
| Mexican peso (MXN)   | 190         |
| Colombian peso (COP) | 80          |
| Other currencies     | 2           |
|                      | <b>880</b>  |

**1.3) Liquidity risk**

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

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

| USD million                          | 2015         | 2016       | 2017       | 2018       | Thereafter |
|--------------------------------------|--------------|------------|------------|------------|------------|
| Borrowings                           | 1,264        | 340        | 238        | 223        | 100        |
| Interests to be accrued (1)          | 36           | 16         | 8          | 5          | 2          |
| Trade payables and other liabilities | 540          | 7          | 6          | 6          | 15         |
| <b>Total</b>                         | <b>1,840</b> | <b>363</b> | <b>252</b> | <b>234</b> | <b>117</b> |

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

As of December 31, 2014, total borrowings less cash and cash equivalents and other current investments amounted to USD 1,801.5 million.

#### **1.4) Capital risk**

Ternium seeks to maintain an adequate debt/equity ratio considering the industry and the markets where it operates. The year-end ratio debt over debt plus equity is 0.26 and 0.24 as of December 31, 2014 and 2013, respectively. The Company does not have to comply with regulatory capital adequacy requirements as known in the financial services industry.

#### **2) Financial instruments by category and fair value hierarchy level**

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

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**28. FINANCIAL RISK MANAGEMENT (continued)**

| As of December 31, 2014 (in USD thousands)               | Loans and<br>receivables | Assets at fair<br>value<br>through<br>profit and<br>loss | Available for<br>sale | Total            |
|--|--------------------------|--|-----------------------|------------------|
| <b>(i) Assets as per statement of financial position</b> |                          |  |                       |                  |
| Receivables  | 35,599                   | -  | -                     | 35,599           |
| Derivative financial instruments                         | -                        | 4,338  | -                     | 4,338            |
| Trade receivables  | 720,305                  | -  | -                     | 720,305          |
| Other investments  | 67,492                   | 47,555   | 34,948                | 149,995          |
| Cash and cash equivalents                                | 16,246                   | 197,057  | -                     | 213,303          |
| <b>Total</b>   | <b>839,642</b>           | <b>248,950</b>   | <b>34,948</b>         | <b>1,123,540</b> |

| As of December 31, 2014 (in USD thousands)                     | Derivatives  | Other<br>financial<br>liabilities | Available for<br>sale | Total            |
|--|--------------|-----------------------------------|-----------------------|------------------|
| <b>(ii) Liabilities as per statement of financial position</b> |              |                                   |                       |                  |
| Other liabilities  | -            | 32,493                            | -                     | 32,493           |
| Trade payables   | -            | 541,330                           | -                     | 541,330          |
| Derivative financial instruments                               | 1,376        | -                                 | -                     | 1,376            |
| Borrowings   | -            | 2,164,819                         | -                     | 2,164,819        |
| <b>Total</b>   | <b>1,376</b> | <b>2,738,642</b>                  | <b>-</b>              | <b>2,740,018</b> |

| As of December 31, 2013 (in USD thousands)               | Loans and<br>receivables | Assets at fair<br>value<br>through<br>profit and<br>loss | Available for<br>sale | Total   |
|--|--------------------------|--|-----------------------|---------|
| <b>(i) Assets as per statement of financial position</b> |                          |  |                       |         |
| Receivables  | 39,575                   | -  | -                     | 39,575  |
| Derivative financial instruments                         | -                        | 1,535  | -                     | 1,535   |
| Trade receivables  | 673,207                  | -  | -                     | 673,207 |
| Other investments  | 58,198                   | 111,305  | -                     | 169,503 |
| Cash and cash equivalents                                | 2,002                    | 305,216  | -                     | 307,218 |

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|  |                    |                    |                      |                  |
|--|--------------------|--------------------|----------------------|------------------|
| <b>Total</b>   | <b>772,982</b>     | <b>418,056</b>     | <b>-</b>             | <b>1,191,038</b> |
|  |                    | <b>Other</b>       | <b>Available for</b> |                  |
| <b>As of December 31, 2013 (in USD thousands)</b>              | <b>Derivatives</b> | <b>financial</b>   | <b>sale</b>          | <b>Total</b>     |
|  |                    | <b>liabilities</b> |                      |                  |
| <b>(ii) Liabilities as per statement of financial position</b> |                    |                    |                      |                  |
| Other liabilities  | -                  | 44,841             | -                    | 44,841           |
| Trade payables   | -                  | 689,092            | -                    | 689,092          |
| Borrowings   | -                  | 2,002,824          | -                    | 2,002,824        |
| <b>Total</b>   | <b>-</b>           | <b>2,736,757</b>   | <b>-</b>             | <b>2,736,757</b> |

***Fair Value by Hierarchy***

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

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

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**28. FINANCIAL RISK MANAGEMENT (continued)**

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

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

The following table presents the assets and liabilities that are measured at fair value as of December 31, 2014 and 2013:

| Description   | Fair value measurement as of December 31, 2014<br>(in USD thousands): |                |               |
|---|---|----------------|---------------|
|   | Total   | Level 1        | Level 2       |
| <b>Financial assets at fair value through profit or loss</b>      |   |                |               |
| Cash and cash equivalents   | 197,058   | 197,057        | -             |
| Other investments   | 82,502  | 56,466         | 26,036        |
| Derivative financial instruments                                  | 4,338   | -              | 4,338         |
| <b>Total assets</b>   | <b>283,898</b>  | <b>253,524</b> | <b>30,374</b> |
| <b>Financial liabilities at fair value through profit or loss</b> |   |                |               |
| Derivative financial instruments                                  | 1,376   | -              | 1,376         |
| <b>Total liabilities</b>  | <b>1,376</b>  | <b>-</b>       | <b>1,376</b>  |

| Description | Fair value measurement as of December 31, 2013<br>(in USD thousands): |         |         |
|-------------|---|---------|---------|
|             | Total   | Level 1 | Level 2 |

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**Financial assets at fair value through profit or loss**

|                                  |                |                |               |
|----------------------------------|----------------|----------------|---------------|
| Cash and cash equivalents        | 305,216        | 300,212        | 5,005         |
| Other investments                | 111,305        | 64,971         | 46,334        |
| Derivative financial instruments | 1,535          | -              | 1,535         |
| <b>Total assets</b>              | <b>418,057</b> | <b>365,183</b> | <b>52,874</b> |

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

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

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## **28. FINANCIAL RISK MANAGEMENT (continued)**

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

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

### **3) Accounting for derivative financial instruments and hedging activities**

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

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

For transactions designated and qualifying for hedge accounting, Ternium documents at inception the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking

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various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. At December 31, 2014, the effective portion of designated cash flow hedges amounts to USD (0.4) million (net of taxes) and is included as “Cash flow hedges” line item in the statement of comprehensive income.

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

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

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**28. FINANCIAL RISK MANAGEMENT (continued)**

**4) Fair value estimation**

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

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

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

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

**29. SUBSEQUENT EVENTS**

On January 20, 2015, Ternium S.A. announced it has entered into a definitive agreement to acquire the remaining 46% minority interest in its Colombian subsidiary Ferrasa for a total consideration of USD 74 million. The transaction, which is subject to customary conditions, is expected to close in the second quarter of 2015. Prior to this transaction, Ternium was already fully consolidating Ferrasa's assets and liabilities and results of operations.

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Ferrasa is a leading long and flat steel products processor and distributor in Colombia and a scrap-based long steel manufacturer, with finished steel annual production capacity of approximately 480,000 tons and annual sales of close to 600,000 tons, of which approximately 70% are long products and 30% are flat and tubular products, used mainly in the construction sector. Ternium holds, since August 25, 2010, a 54% ownership interest in Ferrasa.

Ternium also has agreed to sell its 54% ownership interest in Ferrasa Panamá for a total consideration of USD 2 million. Ferrasa Panamá is a long steel products processor and distributor based in Panama, with annual sales of approximately 25,000 tons.

Pablo Brizzio

Chief Financial Officer

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**Ternium S.A.**

**Subsequent Information**

May 6, 2015

**SEC review of the carrying value of the Company's investment in Usiminas**

Following the approval by the board of directors of Ternium S.A. (the "Company") of the Company's consolidated condensed interim financial statements for the three-month period ended March 31, 2015 and the publication, the Company has informed the market that as part of its regular reviews of the Company's filings of financial statements, the Staff of the U.S. Securities and Exchange Commission ("SEC") has issued comments regarding the carrying value of the Company's investment in Usinas Siderúrgicas de Minas Gerais S.A. – Usiminas ("Usiminas"), including seeking explanations on the Company's value in use calculations and on the differences between value in use and certain fair value indicators.

After receiving the Staff's comments, the Company provided additional information to the Staff supporting the Company's accounting treatment of the Usiminas investment under IFRS as of September 30, 2014, and the Company had further discussions with members of the Staff.

Discussions with the Staff continue. The Company believes that its accounting of the Usiminas investment is in accordance with IFRS; however, if it is determined after the conclusion of this process that an additional impairment of the investment in Usiminas should be recorded in 2014, the Company could be required to restate its financial statements for the year ended December 31, 2014.

The value of the Company's investment in Usiminas, which was determined by the application of IFRS and tested for impairment using the value in use calculation as per IAS 36, amounted to USD 1,301.5 million as of September 30, 2014, USD 1,390.7 million as of December 31, 2014 and USD 1,020.0 million as of March 31, 2015. The increase in the carrying value from September 30, 2014 to December 31, 2014 was related with the acquisition of additional Usiminas shares from PREVI at BRL12.0 (approximately USD 4.8) per ordinary share pursuant to an October 2, 2014 agreement.



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The table below sets out certain information, expressed in U.S. dollars, regarding the Company's carrying value for its investment in Usiminas (expressed on a per share basis) at each of September 30, 2014, and December 31, 2014, as well as other potentially relevant indicators of the value of Usiminas ordinary shares.

| <b>Per share amount in USD</b> | <b>Company's reported carrying value</b> | <b>Usiminas book value</b> | <b>Quoted market value</b> |
|--------------------------------|--|----------------------------|----------------------------|
| September 30, 2014             | 11.3                                     | 7.0                        | 2.7                        |
| December 31, 2014              | 8.4                                      | 6.4                        | 4.6                        |

At September 30, 2014 and December 31, 2014, the Company owned 114.7 million ordinary shares and 166.1 million ordinary shares of Usiminas, respectively.

The carrying value of the Company's investment in Usiminas as of September 30, 2014, was equivalent to USD 11.3 per ordinary share. If a further impairment charge is required to be recorded as of that date, for each USD 1.00 per share of impairment recorded, the aggregate carrying value would decrease by approximately USD 115 million and pre-tax profit for the nine months as of September 30, 2014, would decrease by the same amount.

As for the full year 2014, if the reported carrying value at September 30, 2014 was adjusted to a level between USD 11.3 and USD 9.2 per ordinary share, there would be no significant impact on the Company's profit or other comprehensive income, assuming no changes in the assumptions used for the value in use calculation at December 31, 2014. For each additional USD 1.00 reduction in adjusted carrying value per ordinary share at a level lower than USD 9.2, the effect on pre-tax profit and other comprehensive income for the full year 2014 would be a loss of USD 164 million and a gain of USD 11 million, respectively, and the aggregate carrying value would decrease by USD 153 million at December 31, 2014.