



TERNIUM MEXICO, S. A. de C. V.
Consolidated Financial Statements
as of December 31, 2020 and for the year
ended on December 31, 2020

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Independent Auditor's Report

To the Directors of
Ternium México, S. A. de C. V.

Opinion

We have audited the consolidated financial statements of Ternium México, S. A. de C. V. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated income statement and of changes in equity for the year then ended and notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020, and its financial performance for the year then ended in accordance with the accounting policies mentioned in Note 2.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the Professional Code of Ethics of Mexican Institute of Public Accountants together with other requirements applicable to our audit of the consolidated financial statements in Mexico. We have fulfilled our other ethical responsibilities in accordance with those requirements and Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of accounting and restriction on distribution and use

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the accounting policies described in Note 2 to the financial statements and have been specifically prepared by the Company for its shareholders and for the only purpose of: (i) valuing their interest in accordance with the equity method; therefore, the presentation and classification of the financial statements line items were not part of our audit procedures, and (ii) to present them to the National Securities Commission of Argentina. As a result, the financial statements may not be suitable for another purpose.

Our report is intended solely for the parties mentioned in the preceding paragraph, and should not be distributed to or used by parties other than the above-mentioned. Our opinion is not modified in respect to this matter.



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements in accordance with the accounting policies described in Note 2 to the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company and subsidiaries audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers, S. C.

A large, stylized handwritten signature in black ink, consisting of a large loop and a horizontal stroke.

Víctor A. Robledo Gómez
Audit Partner

Monterrey, N. L., February 18, 2021

TERNIUM MEXICO, S. A. de C. V.

Consolidated Financial Statements as of December 31, 2020

(All amounts in USD thousands)

Consolidated Income Statements

	Year ended December 31 2020
Net sales	4,774,783
Cost of sales	(4,057,924)
Gross profit	716,859
Selling, general and administrative expenses	(370,739)
Other operating income, net	11,455
Operating income	357,575
Interest expense	(2,577)
Interest income	7,748
Other financial expenses, net	(8,718)
Equity in earnings of non-consolidated companies	507
Income before income tax expense	354,535
Income tax expense	(140,318)
Profit for the year	214,217
Attributable to:	
Owners of the parents	213,947
Non-controlling interest	270
Profit for the year	214,217

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

TERNIUM MEXICO, S. A. de C. V.

Consolidated Financial Statements as of December 31, 2020

(All amounts in USD thousands)

Consolidated Statements of Financial Position

	Balance as of	
	December 31, 2020	
ASSETS		
Non-current assets		
Property, plant and equipment, net	3,429,891	
Intangible assets, net	312,616	
Investments in non-consolidated companies	65,339	
Deferred tax assets	138,333	
Receivables, net	8,857	3,955,036
Current assets		
Receivables	47,309	
Inventories, net	1,053,801	
Trade receivables, net	574,199	
Cash and cash equivalents	352,822	2,029,703
Non-current assets classified as held for sale		1,708
		2,031,411
Total Assets		5,986,447
EQUITY		
Capital and reserves attributable to the owners of the parent		3,939,599
Non-controlling interest		3,944
Total Equity		3,943,543
LIABILITIES		
Non-current liabilities		
Provisions	1,296	
Deferred income tax	321,764	
Other liabilities	455,273	
Finance lease	4,418	
Borrowings	372,418	1,155,169
Current liabilities		
Current tax liabilities	81,774	
Other liabilities	69,102	
Trade payables	601,137	
Finance lease	1,706	
Borrowings	134,016	887,735
Total Liabilities		2,042,904
Total Equity and Liabilities		5,986,447

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

Consolidated Statements of Changes in Equity

	Attributable to the owners of the parent					Non-controlling interest	Total Equity
	Capital stock	Additional paid in capital	Reserves (1)	Retained earnings	Total		
Balance at December 31, 2019	237,710	164,486	41,529	3,296,691	3,740,416	3,878	3,744,294
Profit for the period	-	-	-	213,947	213,947	270	214,217
Other comprehensive income (loss) for the period							
Remeasurement of post employment benefits obligations, net of tax	-	-	-	(26,741)	(26,741)	-	(26,741)
Currency translation adjustment	-	-	-	(781)	(781)	(204)	(985)
Adjustment to results of previous years	-	-	-	12,758	12,758	-	12,758
Total comprehensive income for the year	-	-	-	199,183	199,183	66	199,250
Balance at December 31, 2020	237,710	164,486	41,529	3,495,874	3,939,599	3,944	3,943,543

(1) Include legal reserve for USD 41.5 million.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

Ternium Mexico, S. A. C. V. (Ternium Mexico or the Company) is a Mexican holding company, direct subsidiary of Ternium International Spain, S. L., both are subsidiaries of Ternium, S. A., which issues consolidated financial statements available for public use. The principal activity of the Company is manufacturing and marketing in the country and abroad for steel products.

The accompanying consolidated financial statements and notes were authorized for issuance on February 18, 2021, by Juan Luis Llamas (Chief Financial Officer).

2. BASIS OF PRESENTATION

The consolidated financial statements of Ternium Mexico accompanying were prepared specifically for use by its shareholders for the purpose of valuing its stake in the Company and filed with the National Securities Commission of Argentina in compliance with regulatory requirements, and are prepared by the Directors of the Company based on the accounting policies included in the Ternium Reporting Manual.

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

Detailed below are the companies whose financial statements have been consolidated in these consolidated financial statements.

Company	Country of Organization	Main activity	Percentage of ownership at December 31, 2020
Hylsa S.A. de C.V.	Mexico	Services	100.00%
Técnica Industrial S.A. de C.V.	Mexico	Services	100.00%
Servicios Integrales Nova de Monterrey S.A. de C.V.	Mexico	Medical and Social Services	74.50%
Las Encinas S.A. de C.V.	Mexico	Exploration, exploitation and pelletizing of iron ore	100.00%
Ferropak Comercial S.A. de C.V.	Mexico	Scrap services company	100.00%
Transamerica E. & I. Trading Corp.	USA	Scrap services company	100.00%
Ternium Gas México S.A. de C.V.	Mexico	Distribution and Selling Gas	100.00%
Galvacer Chile	Chile	Distributing company	100.00%

2. BASIS OF PRESENTATION (continued)

The main differences between the accounting principles applied by the Company and the Mexican Financial Reporting Standards. (MFRS) are:

- a) the recognition of Deferred employees profit Sharing (as required by MFRS D4),
- b) property, plant and equipment, including the financial leasing acquisitions, under MFRS should be expressed as follows: i) acquisition subsequent to January 1, 2008 at their acquisition cost, and ii) acquisitions up to December 31, 2007 from domestic origin at their restated value determined by applying factors derived from the National Index of Consumer Prices (NICP) up to December 31, 2007 to their acquisition or construction costs iii) acquisitions from foreign origin at the historical cost stated in the currency of origin, factors reflecting inflation in the country of origin through the date of valuation, translated into Mexican pesos at the exchange rate at that date, and
- c) under MFRS permanent investments in associates, are initially recognized with base on the invested, contributed or acquisition amount, subsequently such investments are valued through the equity method, which consists in adjusting the investment contribution or share acquisition value determined with base on the purchase method, by the proportional portion of the comprehensive profit or loss and the distribution of the equity reimbursement profits subsequent to the acquisition date. Comparative information is also required by MFRS and additional information regarding balances and operations with related parties, foreign trade balances, effective tax rate reconciliation and detailed information about fixed assets and inventories between others should be included in footnotes.

3. ACCOUNTING POLICIES

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

(a) Group accounting

Due to changes in the primary economic environment in which it operates Ternium Mexico, the Company conducted a review of the functional currency and concluded that the functional currency prospectively should change the U.S. dollar from January 1, 2012. The main indicators of this change in the economic environment are: an increase in income and certain U.S. dollar denominated (which is expected to continue rising), the elimination of Mexican tariffs on steel products from 2012, an increase raw material which bases its prices in U.S. dollars, and a determination that capital investments in Mexico are mainly made in U.S. dollars.

(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.

3. ACCOUNTING POLICIES (continued)

Inter-company transactions, balances and unrealized gains (losses) on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(2) Investments in non-consolidated companies

Associated companies are those entities in which Ternium has significant influence, but which it does not control and are valued at acquisition cost.

(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"). The functional and presentation currency of the Company is the U.S. dollar.

(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.

(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.

3. 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) Derivative financial instruments

Derivative financial instruments used by the Company are basically hedging contracts to reduce its exposure to changes in, foreign exchange and interest rates. The Company does not use derivative financial instruments traded, or other speculative purposes or other exposures.

The Company records all derivatives on the balance sheet at fair value, regardless of the purpose for holding. Derivatives designated as hedging can recognize changes in fair value with any of the following schemes: (1) for fair value, changes in both the derivative and the hedged item is recognized in current earnings, or (2) if flow cash temporarily recognized in other comprehensive income and reclassified to earnings when the hedged item affects. The ineffective portion of the change in fair value is recognized immediately in income. Fluctuations of derivatives not designated as hedges are recognized in current earnings.

For transactions designated hedging derivatives, the Company documents the relationship between hedging instruments and hedged items, as well as their objectives and strategies for risk management to conduct various transactions.

(d) Property, plant and equipment

At the date of acquisition by its owner, the Company chose to revalue the most important items of property, plant and equipment (land, building and machinery) at fair value by an independent appraiser, and use the revalued amount as deemed cost at the transaction date.

Except for the assets mentioned in the previous paragraph: 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.

3. ACCOUNTING POLICIES (continued)

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

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	4-10 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.

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 was greater than its estimated recoverable amount, it would be written down to its recoverable amount.

(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.

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 3 (e) 3); and
- c) Capitalized developmental stripping costs.

3. ACCOUNTING POLICIES (continued)

Mining licenses include the right to exploit the mines and are recognized at its fair value at acquisition date less accumulated amortization.

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

Amortization charge is calculated by using the unit-of-production method, on the basis of actual mineral extracted in each period compared to the estimated mineral reserves, and is included in cost of sales. Any change in the estimation of reserves is accounted for prospectively. The resulting amortization rate for the period ended December 31, 2020, is approximately 5%.

(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 is 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 The Company participation in acquired companies' net assets at the acquisition date. Goodwill is considered to have an indefinite life and not amortized, but is subject to annual impairment testing.

3. 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.

(f) Impairment

Long-lived assets of definite life are subject to annual impairment tests only when there are impairment indicators. At December 31, 2020, these tests have not been carried out, because there are other factors indicating that there are no signs of impairment in these assets.

(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 Mexico commits to purchase or sell the investment.

Dividends from investments in equity instruments are recognized in the income statement when the Company's right to receive payments is established.

(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 stripping costs, depreciation of fixed assets related to the mining activity and amortization of mine exploration costs 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.

(i) Trade receivables and other receivables

Trade and other receivables recognized initially at fair value and subsequently measure at amortized cost using the effective interest rate method less any reserve for uncollectability when applicable.

3. ACCOUNTING POLICIES (continued)

A provision for impairment is established when there is objective evidence that a financial asset or group of assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about a loss event, such as a significant financial difficulty of the obligor or a breach of contract. The amount of the impairment is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognized in the income statement.

(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.

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

Non-current assets are classified as assets held for sale, 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.

(l) Borrowings

Borrowings are recognized initially for an amount equal to the proceeds received. In subsequent periods, borrowings are stated at amortized cost; any difference between proceeds and the redemption value is recognized in the income statement over the period of the borrowings.

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 Mexico 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. 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.

3. ACCOUNTING POLICIES (continued)

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.

(n) Employee liabilities

(1) Pension obligations and other post-employment obligations

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

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at year end, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually (at year end) by independent actuaries using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the employees' expected average remaining working lives.

Past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

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.

3. ACCOUNTING POLICIES (continued)*(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) Social security contributions

Social security laws in force provide for pension benefits to be paid to retired employees from government pension plans and/or private fund managed plans to which employees may elect to contribute. As stipulated by the respective laws, Ternium 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 Mexico has certain contingencies with respect to existing or potential claims, lawsuits and other proceedings. Unless otherwise specified, Ternium Mexico 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 Mexico estimates of the outcomes of these matters and the advice of Ternium Mexico 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 collectibility is reasonably assured.

Interest income is recognized on an effective yield basis.

3. 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 Mexico 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 Mexico 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 Mexico capitalizes during a period will not exceed the amount of borrowing costs incurred during that period.

(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) Derivative financial instruments and hedging activities

Ternium Mexico 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 Other Comprehensive income (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 Mexico documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions.

4. CONTINGENCIES, COMMITMENTS

Ternium Mexico 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 Mexico consolidated financial position, results of operations or liquidity.

(i) Contingencies

In March 2015, the Mexican tax authorities, as part of a tax audit to Ternium Mexico with respect to fiscal year 2008, challenged the deduction by Ternium Mexico's predecessor IMSA Acero of a tax loss arising from an intercompany sale of shares in December 2008. Although the tax authorities have not yet determined the amount of their claim, they have indicated in a preliminary report that they have observations that may result in an income tax adjustment currently estimated at approximately USD 54.2 million, including interest and fines. Additionally, in September 2018 Mexican tax authority, as a result of a tax audit for fiscal year 2011 to Ternium México, as predecessor of APM, objected mainly the deduction of the tax loss remaining of 2008, the income tax adjustment estimated at approximately USD 26.6 million, including interest and fines.

Ternium Mexico requested an injunction from the Mexican courts against the audit observations of 2008 and the fiscal credit of 2011, and also filed its defense and supporting documents with the Mexican tax authorities. The injunction for the year 2008 was resolved favorable to Ternium Mexico in August 2020, because of that, in November 2020 SAT issued a new preliminary report in which continues having the same observations with different arguments that may result in the same tax adjustment mentioned in the above paragraph. The Company, based on the advice of counsel, believes that an unfavorable outcome in connection with this matter is not probable and, accordingly, no provision has been recorded in its financial statements.

(ii) Commitments

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

(a) On December 20, 2000, Hylsa (Ternium Mexico's predecessor) entered into a 25-year contract with Iberdrola Energía Monterrey, S.A. de C.V. ("Iberdrola"), a Mexican subsidiary of Iberdrola Energía, S.A., for the supply to four of Ternium Mexico's plants. On March 31, 2008 two of those plants were terminated by Iberdrola. The contracted electrical demand as of December 2020 is 51.7 MW. Iberdrola currently supplies approximately 7% 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 to Ternium Mexico a credit of USD 750 thousand per MW of the 111.2 MW originally contracted capacity, resulting over time in a total value of USD 83.4 million. In addition, Iberdrola agreed to recognize to Ternium Mexico USD 15.0 million through discounted rates. The above mentioned credit and discount ended in June 2019 and Ternium Mexico's rates under the contract are now market rates with a 2.5% discount; however Ternium Mexico is entitled to terminate the contract without penalty. On October 21, 2020 Ternium Mexico decided to terminate the contract effective November 15, 2021.

4. CONTINGENCIES, COMMITMENTS (continued)

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

(c) Ternium Mexico issued a Corporate Guarantee covering 100% of the obligations of Ternium Investments S.à.r.l. under a loan agreement between Ternium Investments S.à.r.l. and several banks, with Natixis, New York Branch acting as Administrative Agent. The loan agreement amounted USD 1,500 million and the proceeds were used by Ternium S.A. in the purchase of all the shares of thyssenkrupp Slab International B.V. The loan was disbursed on September 5, 2017 and the final maturity date is on September 5, 2022, being payable in eight consecutive and equal semi-annual installments commencing on March 5, 2019. During 2019 and 2018 the Company made prepayments of principal for USD 725.0 million and USD 375 million respectively. As of December 31, 2020, the balance was USD 400 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, 2020, Ternium Mexico was in compliance with all of its covenants.

(d) Ternium Mexico issued a guarantee letter covering up to approximately USD 25 million of the obligations of Gas Industrial de Monterrey, S.A. de C.V. ("GIMSA"), under the natural gas trading agreement between GIMSA and BP Energía México ("BPEM"). The credit line granted by BPEM in connection with this natural gas trading agreement amounted to approximately USD 25 million. As of December, 2020, the outstanding amount under the natural gas trading agreement was USD 9.5 million, which is below the amount included in the guarantee letter issued by Ternium Mexico.

(e) Ternium Mexico issued a guarantee letter covering up to approximately USD 62.5 million of the obligations of Techgen, S.A. de C.V. ("Techgen"), under the Clean Energy Certificates trading agreement between Techgen and Enel Green Power ("ENEL"). The amount equals the remnant balance if Techgen decides to terminate the agreement prior to the expiration date (and decreases as time of the contract passes). The contract was signed in May 25, 2018 and terminates on June 30, 2041.

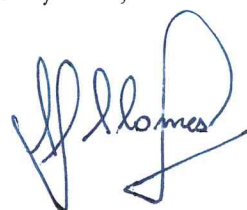
5. CONTINGENCIES, COMMITMENTS (continued)

(f) In June, 2018, Ternium Mexico entered into a loan agreement with a syndicate of banks for a USD 1,000 million syndicated loan facility for the purpose of financing capital expenditures, the repayment or prepayment of existing debt, and other general corporate purposes. The Company entered the Facility on June 12, 2018, and the final maturity date is on June 12, 2023, with a twelve months availability period for disbursing, and being payable in eight consecutive and equal semi-annual installments commencing on December 13, 2019. The main financial covenant that the Facility requires to meet is the consolidated net senior leverage ratio to be not greater than 3.5 to 1.00. During 2019, the facility was fully disbursed (USD 400 million was disbursed during 2018 and USD 600 million by the end of June 2019); however, the outstanding balance as of December 31, 2020 is USD 500 million. The company has complied with the aforementioned financial covenant.

(g) In June 2008, Ternium México signed an Industrial Gas supply contract with Praxair México for the Guerrero and Juventud facilities until December 2024 and for a total of USD 421 million. In 2011, an amendment agreement was signed to add the purchase of Hydrogen for the Juventud (valid until April 2025 and for an amount equivalent to USD 8.8 million according to the exchange rate of December 31, 2020) and Universidad (valid until July 2021 and for an amount equivalent to USD 6.1 million according to the exchange rate of December 31, 2020) facilities. Currently, the contract foresees a minimum annual oxygen consumption of 96 million cubic meters, valued at approximately USD 4.5 million per year. We are in compliance with the minimum annual quotas established, which represent less than half of the average annual consumption.

(h) On May 9, 2018, Ternium Mexico entered into a 10-year contract (effective as of July 1, 2018) with Kinder Morgan Texas Pipeline L.L.C., Kinder Morgan Tejas Pipeline L.L.C. and Kinder Morgan Border Pipeline L.L.C. for the transportation of Natural Gas in the United States of America (Texas). The contracted capacity is 60,000 MMBTU/day and the annual cost is USD 3.7 million approximately.

(i) On December 30, 2019, Ternium Mexico entered into a 15-year contract (effective as of July 1, 2021) with Kinder Morgan Texas Pipeline L.L.C., Kinder Morgan Tejas Pipeline L.L.C. and Kinder Morgan Gas Natural de México S. de R.L. de C.V. for the transportation of Natural Gas in the United States of America (Texas) and in México. The contracted capacity is 31,000 MMBTU/day and the annual cost is USD 4.8 million approximately.



Juan Luis Llames
Chief Financial Officer



Consolidado Ternium México – Diciembre 2020

Sociedad	Importe USD
<u>Patrimonio Neto</u>	
Ternium México s/EEFF	3,939,598,675
Ajuste inversiones a VPP	125,414,691
Aj. Rdos no trascendidos	(8,620,946)
Aj Income Tax	(10,813,414)
Patrimonio Neto Consolidado	4,045,579,006

Resultado

Ternium México s/EEFF	213,946,864
Ajuste resultados inv a VPP	16,967,854
Aj. Rdos no trascendidos	(4,897,783)
Aj Income Tax	0
Aj Margen Interco	12,758,098
Resultado Integral Consolidado	238,775,034

JUAN LUIS LLAMES
Director de Administración y Finanzas