

# Sustainability Report 2017

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# Chairman's letter

Since Ternium was founded in the Argentine city of Ensenada almost half a century ago, the company has based its management philosophy on the concept of sustainability. This is the premise for a long-term industrial project which envisages growth as a member of the communities where the company lives and works.

Over the years, we have consistently published information on many of the areas presented here in our Annual Report (http://www.ternium.com/en/centro-de-inversores/). This year, we are extending the scope of our reporting to provide a more integral vision of the actions we are taking to improve the long-term sustainability of our activity.

Ternium has pursued an agenda of regional expansion, making the company the largest flat steel producer in Latin America. We have grown thanks to a strategy of acquisitions and greenfield investments in the region's main markets, seeking to preserve our identity and act as a positive factor for growth in each of the communities where we are present.

In 2017, Ternium laid the foundations for a new cycle of growth. With the integration of Companhia Siderúrgica do Atlântico (CSA), thyssenkrupp's advanced steel slab production facilities in Rio de Janeiro, Brazil, we are consolidating an agenda centered on industrial and technological excellence, customer service and competitive differentiation. Today we are a team of over 21,000 people, whose motivation, commitment and knowledge are our main assets.

Our safety performance has shown improvement, as evinced by our indicators; in the last five years, we have reduced our Lost Time Injury Frequency Rate (LTIFR) by half, this being the industry's benchmark safety indicator. We are ranked among the best-performing companies in the world of steel. Safety is a top priority for management, and our LTIFR achievement is the result of a sustained effort which we continue to reinforce every year, in the understanding that all work-related accidents can and must be prevented.

As an active participant of the World Steel Association (worldsteel), Ternium is a signatory of its Sustainability Policy and has taken part in industry-wide efforts to minimize steel's  $CO_2$  footprint. The steel industry is an intensive energy user and directly or indirectly generates significant  $CO_2$  emissions. The company has been submitting indicators to the association's monitoring programs for over ten years in the belief that a modern and innovative steel industry can help tackle the issue of climate change, one of today's most pressing challenges, in the move to a low carbon future.

During the first half of 2018, Ternium updated its Environmental Policy in line with a renewed focus on the development of energy efficiency concepts, in which environmental protection plays a vital role as a core value underpinning all of our activities.

In 2017, we continued to invest in improving the environmental performance of our plants. The company completed projects in Argentina, Brazil, Colombia and Mexico, seeking to maximize the efficient use of energy resources, the re-use of by-products and the appropriate treatment and disposal of waste, air emissions and waste-water.

Ternium's industrial project seeks to create a virtuous circle of growth in the locations where we operate, as we believe that our corporate development goes hand-in-hand with that of our employees and the communities. With our ProPymes program, which we launched in 2002 in Argentina and in 2006 in Mexico, we seek to prop up our value chain of small and medium size businesses by enhancing its professional, management and financial capabilities. In 2017 the program provided assistance and training to over 1,500 SMEs.

Our community investment emphasizes education as a source of personal and social development and our programs accordingly support education at all levels, with a special focus on technical schooling. Over the last four years, we have invested almost USD 30 million in building and equipping the Roberto Rocca Technical School in Pesquería, Mexico, which opened its doors in 2016 to its first cohort of graduates, due to complete their three years of preparatory schooling in 2019. The school now has 380 students. Pesqueria is a rural town 35 kilometers from Monterrey in Nuevo León where we inaugurated our Ternium Industrial Center in 2013. The region is being transformed into an industrial hub, and the need for well-trained technicians has grown; the school, which grants scholarships to all its students, is educating the professionals who will fill this gap in the future. In 2013 Tenaris, another company in Ternium's parent organization, the Techint Group, inaugurated the first Roberto Rocca Technical School in Campana, Argentina.

As part of our continued quest to achieve operational excellence and innovation in our processes and products, Ternium is developing and implementing new digital technologies to create the smart factory of the future. Over the last decade we have dedicated substantial efforts to establishing a broad-based digital platform, integrating it into our value chain to promote real-time monitoring and decision-making. Based on this, we will continue to work on a digital transformation that will allow us to further enhance efficiency and productivity, as well as improve our safety and environmental record.

Ternium performed well in 2017 and faces a challenging agenda in the next few years. The publication of this first Annual Sustainability Report enshrines our commitment to keeping our stakeholders informed of the actions we are taking to ensure our business activity is sustainable in the long term.

Paolo Rocca Chairman

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<sup>\*</sup> It also offers a Service and/or Distribution Center

## **Ternium**

Ternium is Latin America's leading flat steel producer with an annual crude steel production capacity of 12.4 million tons. The company operates through its subsidiaries in Mexico, Brazil, Argentina, Colombia, the southern United States and Central America, with its own regional manufacturing, service center and distribution networks.

Our mission is to create value with our customers, improving competitiveness and productivity together, through a highly efficient industrial and technological base and a global commercial network. Ternium is committed to establishing a long-term presence, through local development and education. The company provides customers in varied industries, such as construction, automotive, manufacturing, home appliances, packaging, energy and transport.

By means of a solid positioning, the company supplies with high quality steel all the main regional markets.

Ternium provides steel through a highly integrated production procedure.

Its facilities feature the whole manufacturing process of steelmaking, from the mining of iron ore to the production of high value-added products. The company also promotes the development of other companies from the metallurgical industry.

#### TERNIUM IN FIGURES



17
Production plants



39
Service and/or
Distribution Centers



**2**Mining operations

12.4
Million tons
Production capacity

USD 9.7
Billion
Net Sales (2017)



## Safety and health

Ternium's top priority is safety, and the care of each employee's health and safety a core value, as enshrined in the company's Occupational Health and Safety Policy, This means that people's health and safety cannot be compromised by an emergency situation, production process nor results, and that all work-related injuries and illnesses can and must be prevented.

Ternium's safety indicators have shown significant signs of improvement in recent years; in 2017, the company's Lost Time Injury Frequency Rate (LTIFR) improved by 28% to 0.7. Since 2013, the company has reduced its LTIFR rating by half, in line with other key safety indices.

However, the issue of safety embraces more than just numbers, as management strives to foster a corporate culture embodying values centered on safety as an integral part of its everyday life. In July 2013, despite the company's continuous work to improve safety at its plants, an accident occurred at the Guerrero mill in Monterrey, Mexico, causing the death of 11 employees, the worst in Ternium's history. This tragic event prompted a renewed commitment to improving safety performance and increasing awareness, in the understanding that every accident must be prevented.

The company actively participates in industry-wide efforts to promote safety in the workplace, including the World Steel Association's (worldsteel) Steel Safety Day, which takes place every April 28 coinciding with the International Labor Organization's World Day for Safety and Health at Work.

Since 2014, Ternium has been holding its own yearly Safety Day. Every July 22, throughout the organization, the company organizes activities to mark the day of the Guerrero Plant accident. In every location where we operate, we hold management meetings and discussions to review our

safety performance in the past year and agree on concrete action to improve it.

Ternium's steelmaking and steel processing facilities in Mexico, Argentina, Colombia and Guatemala, are certified under OHSAS 18001. The Occupational Health and Safety Assessment Series (OHSAS) standard is the result of a concerted effort by the world's leading national standards bodies, certification bodies and specialist consultancies to develop safety management systems commensurate with the highest levels of excellence. Ternium is implementing a range of health and safety programs within the management system at its recently-acquired facility in Rio de Janeiro, Brazil, which will be undergoing certification in 2019.

This year, as part of an organizational restructuring process, we gave more hierarchy to our corporate industrial coordination department, in a move to improve the integration of best practices in engineering, automation, safety and environmental protection throughout our industrial system.

#### **Safety first**

Almost a decade ago, Ternium launched a company-wide drive to promote Safety First ("Primero Seguridad") showcasing a number of initiatives to foster a more comprehensive safety culture, prevent accidents and positively impact corporate indicators.

The Safety Hour program, introduced in 2010, is an opportunity for middle and senior managers to tour operating areas for an hour three times a week, and talk to employees about safety conditions in their working environment. This exchange helps to identify potential risks and enables fluid and constructive feedback about implementing improvements.

The program, which has evolved over the years, began as a way of demonstrating management commitment to safety. Next was the development and adoption of a routine designed to detect deviations and define the relevant safety issues, and the current focus is a drive to correct unsafe behavior, which is the main cause of safety incidents and accidents in our plants. In 2017, the company held a total of 128,463 Safety Hour sessions, with the regular participation of 842 people, and which helped to detect, record and correct 69,647 deviations.

In 2016, Ternium consolidated the main principles of its safety program in its document "Ten Life-Saving Rules," enumerating ten basic actions that all employees should follow in order to protect their own lives and those of their colleagues. The Ten Rules are the result of a process which included focus groups and instances of analysis to detect the main causes of risk in operations. The Ten Rules also reflect the scope of legal safety regulations in the countries where the company operates, and are backed by specific behavioral procedures and routines to be followed. The rules have been extensively communicated throughout Ternium's operations to raise employee awareness and help enforce their application. In 2017, 17,328 audits were held to ensure compliance with the Life-Saving Rules.

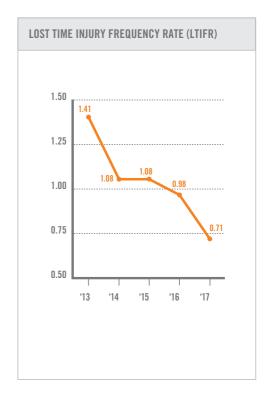
#### Technology to avoid exposure to risk

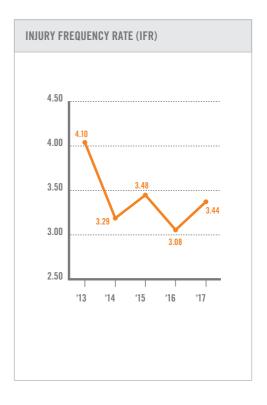
Ternium is committed to training all employees to ensure they are sufficiently fit and knowledgeable to perform their tasks, and that they make appropriate use of the company's health and safety management systems. In 2017, the company delivered 358,662 hours of training on safety issues. The company's investments in technology and innovation throughout its industrial



system, as detailed in the Innovation chapter in this report, reflect a commitment to developing and integrating innovative safety-oriented technologies in the workplace. The emphasis is on avoiding direct human intervention in hazardous tasks wherever possible, and also on the real-time detection and report of dangerous situations that could potentially lead to accidents. The company is increasing its use of drones to perform maintenance inspections at height as well as developing video analytics and tracking systems to detect and report deviations from the safety rules. Virtual reality techniques are also being used in staff safety training courses, and the introduction of RFID technology means that steel coils at the yards can be remotely identified and tracked, protecting inspectors from the need to deal with unnecessary safety risks as they perform their tasks.

#### SAFETY INDICATORS





# Occupational health and safety policy

Ternium, an integrated steel company, along with its subsidiaries is committed to the occupational safety and health of its personnel, clients, contractors, and suppliers. The company's occupational safety and health policy is the baseline for sustainable development across all its operations.

Policy adherence, dissemination, and compliance apply and are to be promoted throughout Ternium and its subsidiaries.

Looking out for the occupational safety and health of every person who works for the company or is inside its facilities is an essential value.

To that end, we promote our commitment through the following principles:

- All work-related injuries and illnesses can and should be prevented.
- Compliance with all applicable legal and other regulations to which Ternium voluntarily agrees.
- Continuous improvement of all processes related to staff's health and safety.
- Occupational safety and health must be integrated into all company processes.
- No emergency situation, production process or results justify putting people's occupational safety or health at risk.
- Commitment from and training of the entire staff is essential.
- Working safely is an employment condition.
- Every person is responsible for looking after his/her own safety and the safety of others.

In each company, everyone is responsible for occupational health and safety:

- The company provides the means and resources for activities to be carried out safely so as to preserve everyone's physical integrity and occupational health.
- Managers are in charge of the occupational health and safety of everyone who works for them or is in their area.
- All other workers must comply with regulations and instructions, and work with their managers to detect, control, and resolve any dangerous situations.
- Contractor companies and their staff must comply with the Safety Regulations in force at the facilities where they provide services.
- People who enter the facility must comply with the applicable Safety Regulations.
- Health and Safety staff must take preventive measures through support, advising and auditing.

At Ternium and its subsidiaries, these principles are shared throughout the entire value chain and in all the communities where it operates in order to promote people's healthcare and safety.

Máximo Vedoya



## **Environment**

Protection of the environment is a fundamental value for Ternium. Our goal is to reach the highest standards of environmental performance in order to minimize the footprint of our operations. In order to achieve that, we are committed to the continuous improvement of our integrated production system.

This commitment is reflected in our Environmental Policy, a document approved in 2014 that states our intentions and principles in relation to our environmental performance. In 2018 we updated our policy.

In accordance with the Policy provisions, we have a solid environmental management system implemented in all the company's production units.

Over the last five years, we have certified our Environmental Management System under the ISO 14001 standard in all our main industrial sites. Periodical recertification helps us to identify improvement opportunities, to make sure we comply with the latest legal regulations, and to communicate our environmental performance to the communities where we operate.

The percentage of our employees working in production facilities operating under a certified management system went down slightly in 2017 following the integration of our new plant in Rio de Janeiro. We aim to obtain the certification of the Rio plant by the end of 2018.

In 2017, the Rio plant certified its energy efficiency management system under the ISO 50001 standard. The aforementioned update of our Policy, formally integrates energy efficiency concepts and establish the principles for the implementation of energy efficiency management systems in all our production sites.

As members of the World Steel Association (worldsteel), we are signatory of its Sustainability Policy. For over a decade, we have consistently submitted our indicators to the association's Climate Action, Sustainability and Life Cycle Inventory programs. These programs, respectively, seek to measure and report the industry's CO<sub>2</sub> emissions globally and provide support on the environmental credentials of steel to customers and users. In 2017, Ternium started to develop life cycle analyses for some of its products in order to elaborate Environmental Product Declarations (EPDs).

In addition, every year Ternium revalidates each steel and in-use mining facility in Mexico with Clean Industry certificates issued by Mexican environmental authorities. The Clean Industry standard is the result of an environmental voluntary program developed by the Mexican government in collaboration with EMA, a network of private companies and industry chambers that design technical standards and rate laboratories, inspection bodies and certification bodies. The standards set for Clean Industry certificates are in line with the requirements of Mexican environmental legislation.

#### GREEN BILLIDINGS

Our production facilities in the Ternium Industrial Center in Pesquería, Mexico, have been certified under the LEED (Leadership in Environment and Energy Certification) standards of the US Green Building Council. The new galvanizing and painting lines currently under construction are also designed under those standards and will seek the certification.

## Investments for continuous improvement

As part of our drive to continuously improve our environmental performance, we invest consistently in the adoption of best-available technologies in several areas. In addition, new facilities like our Ternium Industrial Center in Pesquería that is currently undergoing expansion, adopted best available technologies from the design phase.

During 2017, our investment in environmental projects totaled USD 69 million in several projects in Argentina, Brazil, Colombia and Mexico, and sought to maximize the efficient use of energy resources, the re-use of by-products and the appropriate treatment and disposal of wastes, air emissions and wastewater.

These improvement initiatives require significant investments in new equipment, such as de-dusting systems, scrap-handling facilities or briquetting facilities to clean and recycle material recovered from air emissions; and hydrochloric acid regeneration and coke-oven gas treatment facilities to capture re-usable by-products.

#### **Energy and climate**

Steel is a CO<sub>2</sub> and energy intensive industry. The steel industry is responsible for roughly 8% of GHG (Greenhouse Gas) man-made emissions, but in the last half century the industry has reduced its energy consumption per ton of steel produced by 60%, according to the World Steel Association. Being infinitely recyclable, steel is at the heart of delivering solutions to many of the climate change challenges that the world faces.

Ternium is committed to maximize the energy efficiency of our processes and minimize our CO<sub>2</sub> emissions.

In 2014, we launched an Energy Efficiency program to identify and implement improvements in our energy management. Since then, we have completed 177 projects that, combined, reduced our CO<sub>2</sub> emissions by 85,000 tons a year.

Since worldsteel launched its Climate Action Recognition Program in 2008, Ternium has been collecting and reporting its CO<sub>2</sub> emissions annually. As an integrated steel producer, we work towards reducing our CO<sub>2</sub> footprint and contributing to the targets established by the United Nations Climate Change Conference (COP 21) in the countries where we operate.

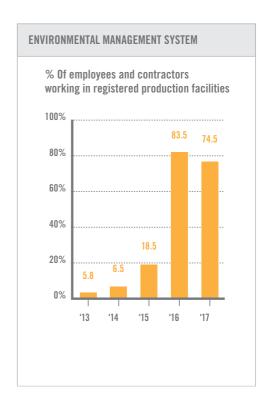
The steel industry has two mains routes of production: Blast Furnace (BF), where pig iron is extracted from iron ore and then further converted to steel in the Basic Oxygen Furnace (BOF), and the Electric Arc Furnace (EAF), which uses either direct reduced iron (DRI) or scrap.

After the incorporation of the Brazilian mill, in 2017 Ternium's production route share was 63 % of Basic Oxygen Furnace (BOF), and 37 % of Electric Arc Furnace (30 % DRI and 7 % scrap).

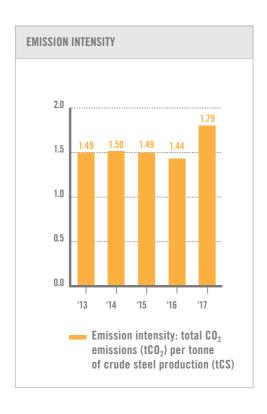
### CO<sub>2</sub> CAPTURED AND REUSED FOR BEVERAGES

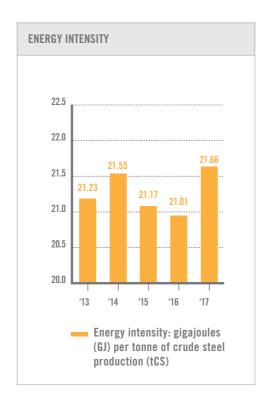
In our steel shops in Puebla and Guerrero, Mexico, Ternium has installed technology to recover 210,000 tons of CO<sub>2</sub> annually. After processing for enhanced quality, the recovered CO<sub>2</sub> is used mainly by the beverage industry to manufacture soft drinks.

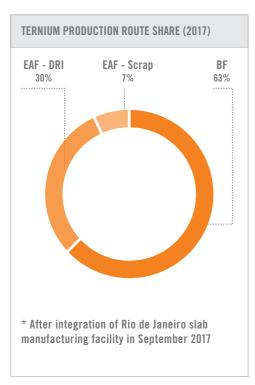
#### **ENVIRONMENTAL INDICATORS**



#### **ENVIRONMENTAL INDICATORS**







Under this production matrix and after the integration of our mill in Brazil, in 2017 our average emissions reached 1.79 tons of CO<sub>2</sub> per ton of liquid steel manufactured, still below the world average of 1.9.

#### Air quality

The steelmaking process, in all its routes of production, is intensive in the generation of particulate material, nitrogen oxides and sulfur oxides. We acknowledge that these emissions are among the main concerns of the communities where we operate, and we have established systems to monitor them and actions to reduce our air pollution footprint.

Over the last five years, we have made investments for over USD 60 million to improve the capture and treatment of air emissions especially in our Guerrero and Apodaca mills in Mexico and our Manizales mill in Colombia. The facilities installed allow for the treatment of 5.4 million cubic meters per hour in the case of Guerrero, 300,000 cubic meters per hour in the case of Apodaca and of 470,000 cubic meters per hour in the case of Manizales. In 2018, we plan to complete the commissioning of a similar system in our plant in Puebla, Mexico. In our General Savio plant in Argentina, meanwhile, we are enhancing the entire primary and secondary de-dusting systems in the steel shop.

#### **Water management**

Water is a scarce resource and we are committed to use it responsibly. Our water management is designed in accordance with the different contexts in which we operate.

Over the last few years, we carried out a series of investments to incorporate best available technologies in the management of water, including a zero discharge treatment plant in our industrial center in Pesquería, municipal sewage water treatment plants in our facilities in Churubusco and Pesquería in order to incorporate it to our production process, and the closing of the gas scrubbing circuit of the Blast Furnace 2 in Planta Savio, in Argentina.

#### **Material efficiency**

Steel can be recycled infinitely without losing any of its properties, and it is the most recycled material in the world. By recycling steel we also save iron ore, energy, coal and other materials, produce less CO<sub>2</sub> emissions and prevent useful material from ending up in landfill as waste. In 2017 we recycled 2 million tons of post consumer scrap.

Ternium is committed to introducing circular economy concepts in its production process, and maximize the efficiency of our use of materials and reduce the amount of materials sent to landfill.

Our material efficiency has remained steady at above 99% over the last five years, and the amount of co-products produced from our production process increased significantly in 2017.

Our co-products are used in the cement, chemical, plastic and construction industries, among others.

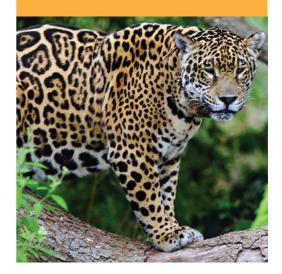
In 2017 we also registered an increase in the level of waste that our production facilities generated, attributed to the integration of our new plant in Brazil.

#### STEEL AND BIODIVERSITY

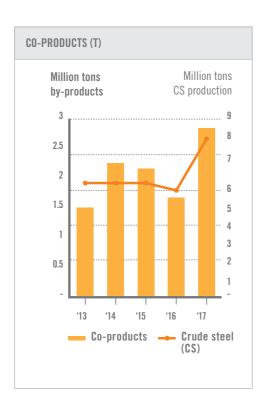
Ternium is engaged in a number of projects to promote biodiversity in the locations where we have our operations and beyond.

In Pesquería, Mexico, we created a 99-hectare natural reserve in the vicinity of our Industrial Center to preserve more than 50,000 specimens of native flora and fauna. In 2016, the reserve obtained recognition from the Nuevo León Flora and Fauna Council. In the state of Colima, where we carry out mining activities, we join local reforest efforts.

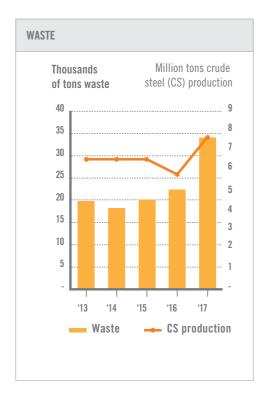
In Argentina, we participated along with our sister companies Tenaris and Tecpetrol in the Techint Group in a project to establish a breeding center for endangered yaguaretés (jaguars) in the province of Corrientes. The project seeks to bring the jaguars back to the Iberá, where they originally belong. The first jaguars to arrive come from zoos. Their offspring will be retrained so that they can hunt and be reintroduced into their natural habitat. Tenaris and Tecpetrol provided seamless steel tubes to serve as posts, and Ternium donated flat galvanized sheets for



#### **ENVIRONMENTAL INDICATORS**







# Environment and energy policy

Ternium is an integrated steel company committed on preserving the environment. Its goal is to achieve the highest standards in environmental and energy performance as a basis for sustainable development throughout its operations in regards to company employees, the community and future generations. The company has committed to develop a high-quality performance integrated and eco-efficient production system based on continuous improvement.

Caring for the environment is a fundamental value, and it's principles are the following:

- Compliance with the applicable legislation, as well as any voluntary agreements in relation to environmental protection and energy use, consumption and efficiency.
- All levels in each area, throughout the chain of command, are responsible for the results of environmental protection.
- The commitment of all our personnel is essential, as is the training provided.
- Environmental protection and energy efficiency are responsibilities of Ternium's staff as well as its subsidiaries, suppliers and contractor personnel.
- Environmental and energy components are an integral part of the company's management processes.
- Continuous improvement in environmental and energy performance is actively
  promoted through the company, in addition to all the efforts necessary to achieve
  the objectives and established goals.
- Pollution must be prevented at the source, controlling the most significant environmental aspects of our operations and minimizing their impacts and risks.
- Promoting the acquisition of energy efficient products, technologies, services and implementing projects that enhance our energy performance.
- Use energy and natural resources efficiently.
- Encourage the use of best technologies and practices, as well as renewable energies, when feasible.
- In each company, everyone is responsible for environmental and energy management:
- The company supplies the means and resources to enable compliance with this policy, thereby supporting the sustainability of all operations, depending on the operations context.
- All persons entering company facilities, such as own personnel, suppliers, contractors and customers, must comply with this Policy.

The company seeks to share these principles throughout its value chain and across the communities where it operates, to promote the protection of the environment, encourage the efficient use and consumption of energy resources and foster an open dialogue with stakeholders.

This Policy applies to Ternium and its subsidiaries. It will be actively disseminated with a view to ensuring compliance throughout the organization.

Máximo Vedoya CEO Ternium



### **Innovation**

The properties inherent to steel are what make innovation possible: over 70% of the structural steel parts used to build a car today involves solutions that simply did not exist 20 years ago. Ternium's corporate production strategy is based on offering a complete range of value-added, high-end products, with an emphasis on creating and manufacturing increasingly sophisticated steel for groundbreaking applications and new industries.

Ternium works to stay up-to-date with the latest technological advances in product development and industrial processes, strengthening its partnership with customers by promoting digital transformation and integrating the online value chain. Innovation in these areas is a vital aspect of differentiation, as the company's commercial strategy targets highly demanding industries, such as the automobile and housing appliances sectors.

Over the last five years, Ternium has invested over USD 40 million in research activities. In 2016, the Mexican edition of Forbes magazine placed Ternium among the top 10 of the most innovative companies in the country.

The inauguration of the Ternium Industrial Center in Pesqueria, Nuevo Leon, Mexico, in 2013 saw the start of an intensive process to develop new products and provide customers with more effective technological assistance. As its customers' market share in the industrial sector rises, Ternium has identified ways to partner with them in the early stages of their projects in order to find better synergies.

Over the last five years, Ternium has received almost 400 certifications from the automobile industry, and in 2017 the company was admitted to WorldAutoSteel, an organization comprising 22 of the world's major steel producers.

The group is dedicated to advancing and communicating steel's ability to meet the automotive industry's needs under the aegis of the World Steel Association.

Ternium's research program is open to a broad-based international network of industry consortiums, with over 50 universities and research laboratories taking part from both the public and private sectors. The goal is to find and develop the best solutions to support an agenda aimed at achieving better and more sustainable steel. The research spans the entire production cycle, from primary steelmaking and metallurgy, to rolling and galvanizing. Over the last five years, Ternium has achieved an average of 100 product developments projects a year in partnership with industrial customers, and a total of 40 research projects involving university researchers and students from some of the world's most prestigious institutions.

Although the industrial sector, particularly the automobile industry, is heading up innovation in the steel industry, Ternium also seeks to introduce new products for construction customers, such as woodresembling panels, metal roof tiles and sides showcasing original designs and colors, and innovative antibacterial products for cold chamber panels, among other applications.

Ternium believes that staying up-to-date with the fast-paced changes in technology means consolidating a culture of innovation throughout the organization. In 2017, the company held the second edition of its internal Innova TX (Ternium Innovates) program, which encourages employees to work together in groups to develop new ideas for improving the way the company does things in four main areas: Quality, Work Environment, Productivity and Safety.

After being reviewed by a committee, the ideas presented by the winning team are implemented.

#### A digital transformation process

Ternium has launched a process of continuous digital transformation in order to make the most of the business advantages offered by the disruptive information and exponential technologies in vogue today.

The process involves three stages:

1) bringing the company online in real time, 2) extending the benefits of real-time information management to its value chain, and 3) moving toward the construction of a S.M.A.R.T. factory (the acronym for Social, Mobile, Analytics, Robotics and Internet of Things).

Prior to the greenfield construction of the Industrial Center in Pesqueria, Ternium's growth strategy was largely based on acquisitions. Integration into the company required a complex process of system updates that, in the case of the Mexican mills acquired by Ternium (Hylsa and Imsa in 2005 and 2007, respectively) implied merging 28 different systems into one.

After this process finalized, the company began extending its digital tools to suppliers and customers to enable the integration of their processes with those of Ternium. A digital marketplace called Webservice was launched, and today, over 80% of the company's customers in the commercial sector use the tool as a way of achieving efficient interaction. The Webservice has 75 functions covering the entire business relationship with customers, including mobile product catalogs, order placement (end-to-end orders, sale from stock, or bidding and auction), production and inventory monitoring, transportation tracking

and payment through a direct connection with banks.

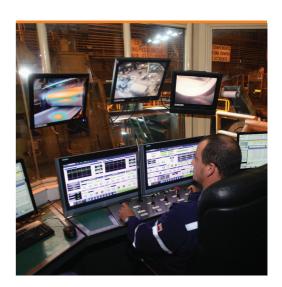
In May 2017, after a two-year preparation process, the company certified its IT system under the ISO 20000 standard, the international Service Management Standard describing the processes and functions aligning IT with organizational goals. Follow-up audits under the certification process are taking place in 2018 and 2019, and every two years after that. The certification has allowed the company to optimize costs, resources and processes, enhance customer satisfaction, strengthen the measurement of the IT system performance, comply with multiple regulations more efficiently, and increase overall business competitiveness.

During 2017, a number of technological projects were implemented to make Ternium a SMART company, improving productivity, efficiency and safety. Over 1,000 employees in the industrial and commercial areas are now equipped with mobile devices enabling them to perform all their tasks and workflows on site and/or remotely.

In the area of safety, substantial progress has been made using drone technology to replace human inspection at height and minimize the risks inherent to this task. We are installing video analytics on 600 cameras to track operations in our Argentine and Mexican facilities, as the platform for the adoption of an early alarm system. The objective is to achieve the early detection of plant deviations and prevent accidents.

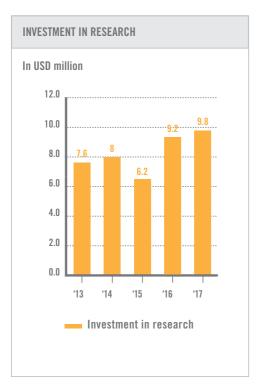
Other projects that are vital for improving safety and productivity are virtual reality for training, augmented reality for remote assistance, 3D printing and 3D scanning. We have specific projects to advance on each of these areas.





#### INNOVATION INDICATORS





In May 2018, the company received an RFID project award granted by the US-based RFID Journal in the category of Best Logistics/Supply Chain RFID Implementation. Ternium's RFID project identifies and tracks each coil from the moment it reaches the yards until shipment, making inspections easier, improving inspector safety and reducing operations timeframes. The tracking system has already been implemented in five yards in Mexico and is undergoing implementation in another 12 yards in Mexico and Argentina.

What's next? Our goal in the coming years is to deepen and extend this S.M.A.R.T concept throughout our industrial system without neglecting the day-to-day control and operations. We will work towards implementing digital transformation across all processes, and, like in any process, in stages. Each stage is a necessary building block for the next one. The progress we have made on this field makes us ready to stay up to date with the fast-moving pace of technology in our time.

# **Quality** policy

At Ternium, we are committed to high quality standards for our products and services. We recognize that complying with our customers and exceeding their expectations are responsibilities of the entire organization.

As a part of this policy, Ternium commits to:

- Implement and continuously improve the Quality Management System to provide excellent products and services.
- Maintain transparent communication with our customers, measure their level of satisfaction and establish mutually beneficial relationships to ensure the competitiveness and profitability of the Company.
- Generate reliable long-term relationships with our suppliers, assessing the quality of their products and services.
- Promote an organizational culture that prioritizes planning, integration, quality of life and safety of our personnel, as well as the well-being of local communities and the preservation of the environment.
- Assess, train and motivate our employees on an ongoing basis.
- Review, communicate and ensure the application of this Quality Policy throughout the organization.

Máximo Vedoya CEO Ternium



## Human resources

Ternium has become a steel market leader in the Americas, consolidating its position thanks to the commitment, hard work, skills and innovation of a highly qualified and diverse team, which is its main asset.

In 2017, the Ternium team grew by 27% to reach over 21,000 people across the Americas with the incorporation of over 4,000 employees at the new plant in Rio de Janeiro. The Brazilian team has brought greater diversity into the company, integrating practices, systems and procedures in record time.

The talent and determination of Ternium's people will be a defining factor in the shape of the company's growth over the coming years, as it embarks upon a new stage of expansion.

The company's Human Resources policy is focused on managing talent and attracting, retaining and helping motivated professionals to develop their careers.

Ternium is an equal opportunity employer and embraces diversity in all its forms, gender, age, ethnicity, race, creed or nationality, on the understanding that diverse points of view and perspectives contribute to the rational solution of problems and the effective accomplishment of team goals.

Over the years, we have grown increasingly diverse and we will continue to welcome and adopt new and different points of view. A total of 30 nationalities are represented among our staff. We are currently working on formalizing this commitment with the launching of a Diversity program.

The company's Code of Conduct forbids unlawful discrimination in employment relations and grants all persons the right to apply for a position in Ternium or be considered for a new position in accordance with the commensurate skills requirements. In the first quarter of 2018, the company held its periodic employee opinion survey polling 16,747 people working at each of our operations. As in previous editions (2006, 2008, 2010, 2012 and 2015), the international consultancy firm Willis Towers Watson, was commissioned to conduct the salaried employees survey in order to guarantee confidentiality. The overall rate of response among salaried and hourly employees reached 88%. Some of the highlights of the results include:

- Among the hourly employees, 96% expressed overall satisfaction and 97% said they were proud to be working at Ternium. This is the second edition of the hourly employees' survey (2015, 2018)
- 87% of salaried employees expressed overall satisfaction and 95% said they were proud to be working at Ternium.

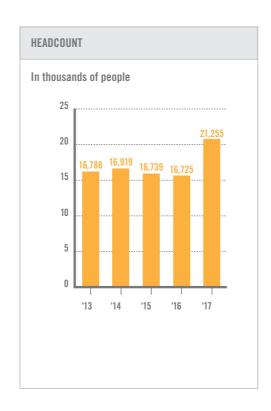
The company is now developing corporate and regional action plans based on the results of the survey to tackle those areas singled out for improvement.

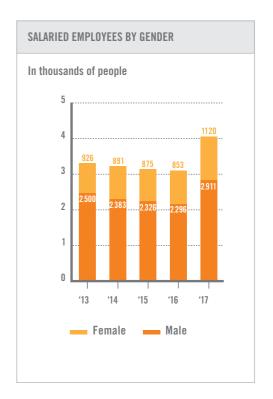
#### **Development and training**

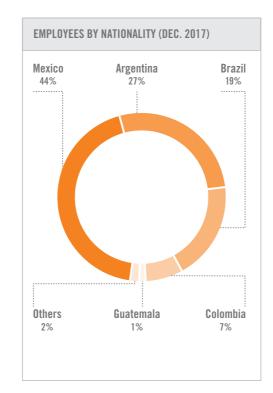
The company's constant pursuit of excellence in its operations requires teams to grow and develop in the quest for continuous improvement and innovation, and training is the principal tool used to achieve this. Over the last five years, each salaried employee has received an average of 40 hours of training per year, while each hourly employee has had an average of 103 hours of annual training, including on-the-job formation. The program spans a person's entire career from young professional to management levels.

More recently, the company has begun to focus on training and developing its leaders and supervisors.

#### HR INDICATORS







In 2017, supervisors received an average of 119 hours' training, accounting for roughly 5% of this segment's total working hours during the course of the year. In 2018, the "Elements of the Supervisor's Role" course received the Excellence in Practice Award from the Association for Talent Development (ATD); over 950 supervisors have taken part in the 40-hour course since it was launched in 2015.

Dedicated training has been provided for the company's current and future leaders since 2014 through the Leaders' Development Program (PDL, for its acronym in Spanish), a course designed to enhance middle management leadership skills as executives progress in their careers. Roughly half the company's middle—level managers have benefited so far from the program, which has garnered 100% of positive recommendations from all the program's participants.

In 2017, with the addition of a new feature to the program, the first edition of a leadership course for managers was held, a joint effort between the EGADE Business School of Monterrey's TEC in Mexico and the Torcuato Di Tella University in Buenos Aires, Argentina. The first line-up for the managerial stage of the program involved 20 participants from Argentina and 24 from Mexico.

In the search for excellence, we are working toward restructuring our learning model in order to foster accountability among learners as responsible for their own development.

#### Performance management

The company believes in enhancing its employees' working experience from the moment they join the company and throughout their careers. The performance management system is an important

aspect of our Human Resources policy, and efforts are continuously being made to ensure it is as transparent as possible. The aim is to enhance the relationship between employees and their supervisors, ensuring that everyone's goals are aligned with the company's objectives. This is a key component of the performance management evaluation process, as it guarantees transparency and fairness in the assessment of each employee's work throughout year.

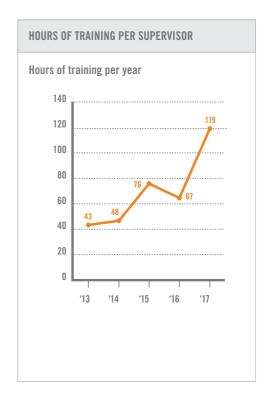
Over the years, the company has sought to consolidate a 360-degree approach to the evaluation of its people. The performance management process functions on an annual cycle by setting measurable objectives which include input from a range of different sources: employee selfassessments, internal customer-supplier appraisals, evaluation committees and feedback stages, as well as a mid-year review. Since the option for employees to provide upward feedback concerning their supervisors was introduced in 2013, the number of people providing feedback which is confidential and only accessible to the supervisor's supervisor - has increased from 50% to 77%, a clear indication that the system is gaining credibility.

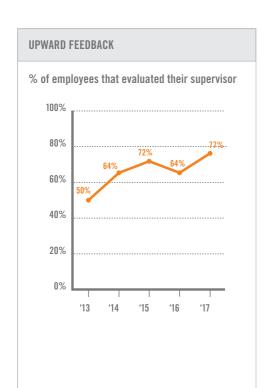
During 2018, the company has continued to introduce features designed to improve the performance management system in order to give employees more options to provide and receive evaluations. These changes include the possibility of submitting spontaneous client-supplier opinions related to specific objectives, and the introduction of more clearly-worded descriptions for the upward feedback review stage.

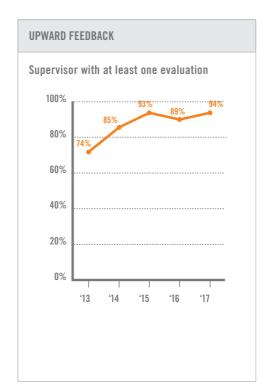
#### HR INDICATORS

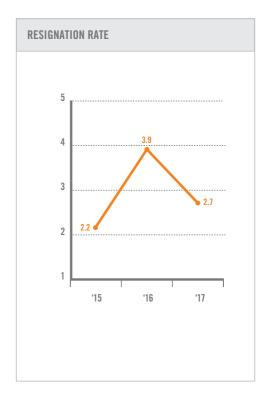














# ProPymes program

Ternium believes that an industrial project such as the one it pursues must grow in tandem with the communities where it operates. Ternium's community, program as described in a dedicated chapter of this report, places major emphasis on education, and technical education in particular.

The small and medium-sized enterprises (SMEs) making up Ternium's value chain are key players for the social integration of its communities, as they generate an average of 70% of the jobs in the local environment. The market in Latin America is subject to periods of economic volatility and the industrial value chain needs to be prepared and able to withstand the difficulties presented by such conditions. Ternium believes that its role as a large industrial project is to work with small and medium-sized businesses to enhance their professional, management and financial capabilities, and help them integrate competitively in both domestic and foreign markets.

The company's ProPymes program was first launched in Argentina in 2002, named after the Spanish language acronym Pyme, which stands for small and medium-sized enterprise. In Mexico, the program was introduced four years later. ProPymes institutionalizes cooperation between Ternium and the company's small and medium-sized customers and suppliers. In 2017, the program provided assistance and training to some 1,500 SMEs in Mexico and Argentina.

The initiative seeks to improve the quality of management structures and effectiveness among the SMEs taking part, helping them to make their investments as productive as possible, promoting their exporting capacity and encouraging efficient market import substitution.

The program offers a variety of services,

including training, industrial assistance, institutional assistance, commercial support and financial aid. Over the years, ProPymes has helped to create an industrial network which actively promotes professionalization and excellence in the SME sector.

The program offers in-house training, or courses at universities or business schools, with a curriculum designed to meet the increasingly sophisticated range of needs facing SMEs. The course contents are continuously updated and broadened to keep pace with the expanding requirements of managers and their salaried and hourly employees.

In Argentina in 2017, ProPymes delivered 56,311 hours of training to over 3,700 people. In Mexico, over 2,300 people have been trained since the program was launched.

The company's industrial assistance programs cover areas such as the use of automation technology, production facility optimization, the development of environmental, health and safety protocols, and human resources management.

The institutional assistance program helps SMEs to develop strategies to help them compete more successfully in the local market, in the context of the potential threat represented by unfairly-traded imports affecting the markets as a whole. Tactics include actions to set up industry chambers, the development of technical standards for industrial products, and institutional initiatives aimed at fostering competitiveness among SMEs.

Commercial support initiatives in Mexico are geared towards fostering commercial relations between SMEs and potential customers in the automotive sector as well as other industries in Ternium's

value chain. In addition, the company provides assistance to help SMEs complete the processes required to become a supplier of a large company and make the most of opportunities to leverage the Techint Group's global commercial offices network in order to enhance market reach. The financial assistance program provides advice on investments to improve productivity and increase installed capacity, taking advantage of government-sponsored low-cost financing instruments. In Argentina the program has financed industrial investment projects for USD 63.9 million since 2002. In Mexico, it has financed projects for USD 37 million.

#### Advancing the SME agenda

The ProPymes program plays an important role in advancing the SME policy agenda in Argentina and Mexico.

Ternium organizes major events under the auspices of the ProPymes initiative, bringing SME representatives together with government officials, economists and journalists to discuss the sector's economic context and outlook. In Argentina, the event is held in December and features several panels designed to allow SME executives to share their experiences and learnings. In Mexico, the first ProPymes biennial event was held in 2015, showcasing awards for SMEs excelling in areas such as industrial safety, logistics services, delivery, raw materials handling and overall services. The occasion also included a Supplier of the Year award.

In 2017, the Argentine government launched the "Ecosistema Pyme" program (SME Ecosystem) which uses the ProPymes program as a model to be replicated by other large companies in the management of their value chains. In Argentina, the stories of SMEs that are part of Ternium's ProPymes program appeared in video

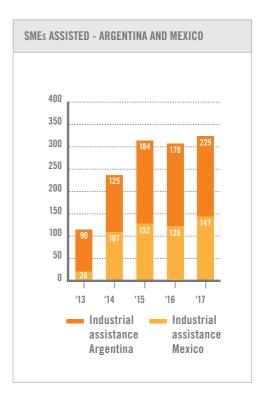


stories published by La Nación, one of the country's largest media groups. The founders and owners are featured talking about how their companies started and grew, the difficulties they had to overcome, and the potential they envisage for the future. The video-stories were published on La Nación's web platform and have been widely circulated on

social media.

In 2017, Mexico's Automotive Industry Cluster (CLAUT) gave ProPymes the CLAUT 2017 Award for the best Supplier Development program, while in Argentina, the program has been nominated to compete for the prestigious Konex Award in the "Business and Community" category in September 2018.

#### PROPYMES INDICATORS





# **Community**

Our community program reflects the values and heritage of our corporate family, the Techint Group, whose industrial history spans seventy years of activity.

The underlying premise for our community work is that the long-term success of an industrial project depends on the support it receives from the community around it and on its ability to grow together with its neighbors.

Our programs seek to promote a culture of effort, diversity and social mobility, and over the years, we have focused our community work on two key areas: education and culture. Since 2011, we have designed and implemented eight global programs in these areas, which we have replicated at all the locations where we operate, adapting to local particularities when necessary.

Our total investment in community programs has totaled over USD 54 million over the last five years. In 2017, we invested USD 12.4 million, 64% of the total, in education. Our flagship educational project is the Roberto Rocca Technical School (ETRR, for its acronym in Spanish), a network of technical schools sponsored by the Techint Group; we have invested USD 30 million in the project since its inauguration in Pesquería, Mexico, in 2014.

# Our technical school

Our education programs span the entire school cycle, from elementary to higher education, in the knowledge that the steel manufacturing industry seeks to employ skilled employees who need a solid education all the way through to tertiary level.

Latin America is one of the world's most unequal regions and access to quality education is extremely limited in many areas. This landscape of economic and social inequality is exemplified in the lack of technicians and professionals capable of responding to industry needs. Manufacturing today demands experts with increasingly more sophisticated skills and knowledge, all part of a process of technological transformation known as Industry 4.0.

In 2016, we opened the Roberto Rocca Technical School in Pesquería, Mexico. Our sister company in the Techint Group, Tenaris, had opened the first Roberto Rocca school in Campana, Argentina, in 2013. These modern schools are the spearhead of an international educational network geared towards providing a high-quality technical education which enshrines our industrial values of progress, quality, merit, and effort.

By December 2017, 248 young people were studying at the Pesquería school, which is reaching full capacity in 2018 with an intake of 384 students. Offering two specializations, Mechatronics and Electromechanics, the school's first cohort will graduate by mid-2019 after three years of study. Every student in the school is there thanks to a scholarship which covers from 50% to 100% of their tuition fees, according to their socio-economic background. We have invited other companies in the state of Nuevo León to join efforts to fund scholarships for current and future students. The list of sponsor companies already includes Kia Motors, Corporativo Alfa (and its affiliates Nemak, Sigma, Alpek, Axtel and Newpek), Festo and Techgen.

The Pesquería Roberto Rocca Technical School is fully equipped with state-of-theart laboratories and classrooms, and the building itself was issued with the gold category of the LEED environmental certification awarded by the US Green Building Council. The schools aim to help students acquire the tools needed to succeed in an increasingly competitive international labor and academic environment. In order to help them achieve their goals, we are implementing a Project Based Learning methodology in technical classes as an innovative way of learning and developing teamwork and leadership skills.

The first two academic years of the Pesquería school yielded good academic and attendance results. In 2017, students attended on average 96% of the classes and 70% of the students passed all their subjects without any retakes.

The ETRRs hold standardized testing for math, reading and socio-emotional skills which include items from the Programme for International Student Assessment (PISA) Math and Reading tests. The ETRR students performed better in terms of the overall percentage of correct answers than the average for Mexico, and in math they scored higher on average than their peers in OECD countries. Three students from the Pesquería school were recognized for their outstanding performance in the Olympics of Knowledge and received an award from the President of Mexico. Our students also participated in the national competition which is part of the World Educational Robot Contest.

At Ternium, we have developed another flagship program designed to support technical education. The Technical Gene program seeks to narrow the gap between the technical skills required by industry and the national school curriculum by supporting several state-run technical schools near our facilities.

The program provides training to students and teachers at the schools and technical internships at the mills. We also provide technical training for teachers and support

for school management. During 2017, the program provided 360 training hours to teachers, 6,330 training hours to students, and 138 students performed 27,600 hours of internships in our mills. Through the program, we are funding plans for infrastructure expansion and improvements, and helping schools to purchase new equipment or upgrade existing materials.

# **Education at all levels**

Although our focus is on technical education, we also support education at elementary and higher levels.

# After school program

The After School program offers three extra hours of non-formal education, four days a week, in addition to the four hours of daily formal schooling most children receive. During 2017, 252 children attended our programs in Monterrey, Mexico, and San Nicolás/Ramallo in Argentina. Children have to attend at least 70 percent of the classes in the program in order to qualify as regular students, and following a drive to improve attendance rates, these rose from 31% in 2014 to 84% in 2017.

# Merit awards

The Merit Awards were founded in 1976 by the Techint Group in Argentina, making this the company's longest-lasting program. Initially designed to benefit the children of our employees, it was opened in 2007 to the entire community and focuses on fostering academic excellence at high-school level. In 2017, we awarded over 400 scholarships as part of the program, based on its original criteria of academic performance, attendance and commitment to the educational process through good behavior.

### STEEL UNITING COMMUNITIES

Toni Rüttiman has literally been bridging the gap in the lives of more than one million people in Latin America and Southeast Asia for over three decades. He builds suspension bridges in remote locations with the collaboration and work of the local community benefiting from the initiative, using steel and pipes donated by Ternium and Tenaris.

Beat Anton Rüttiman, known as Toni, is a Swiss national who launched his bridge-building mission after visiting Ecuador in the aftermath of the 1987 earthquake that left dozens of villages stranded and cut-off. Since then, he has not only erected 308 bridges in this mountainous country, but also expanded his mission to help communities in the rest of Latin America and also in Southeast Asia. To-date, he has built more than 779 bridges in 13 different countries.

"Over the years, the quality of the bridges has also improved substantially as a result of the good condition of the materials donated," Mr. Rüttiman says.

In 2017 Ternium continued supporting Toni's mission with the donation of 101 tons of steel from the Savio plant in Argentina. Some 20% of the bridges he has built over the years are made with steel plates provided by Ternium.

MERIT AWARDS - TOTAL SCOLARSHIPS				
ARGENTINA				
2017	298			
2016	317			
2015	350			
MÉXICO				
2017	135			
2016	200			
2015	125			

ROBERTO ROCCA EDUCATION PROGRAM Scholarships granted (2017)			
COUNTRY			
ARGENTINA	129		
MÉXICO	94		
COLOMBIA	11		
GUATEMALA	5		
TOTAL	239		

# **Roberto Rocca Education Program**

We also continued to award fellowships and scholarships under the Roberto Rocca Education Program, which started in 2005 and seeks to promote the study of engineering and the applied sciences at undergraduate and graduate level in the countries where we have a major presence. In 2017, the program funded 18 fellowships for students pursuing PhDs and 239 scholarships for undergraduate students.

# Volunteers in action

The company's volunteer program is a vital part of the long-term relationship it seeks to build with the communities where it lives and works. Employees are encouraged to become involved in activities ranging from painting and repairing schools, to cleaning and improving public spaces and mentoring school children. Volunteers help schools or other institutions to improve their infrastructure, as well as furnishings and paint work, in addition to other community tasks. In 2017, a total of 289 employees and 968 members of the Ternium communities (a total of 1,257) gave 9,709 hours of their time to work on 16 volunteering actions organized by the company. In 2018, we will be undertaking our first volunteering activities in Brazil following the integration of the company's new plant in Rio de Janeiro.

We have also coordinated help for crisis situations in our communities. In January 2017, after the neighborhood of La Emilia near our Savio Plant in Argentina was affected by severe flooding, Ternium coordinated immediate help for the victims. In September 2017, the company organized a fund-raising collection and matched the funds raised by employees to provide much-needed assistance in the wake of the two earthquakes in southern Mexico.

# Arts and culture for diversity and integration

Ternium's Art and Culture programs, which are in line with those of the Techint Group, aim to bring the company's diverse cultures together as well reinforce the identity of each community.

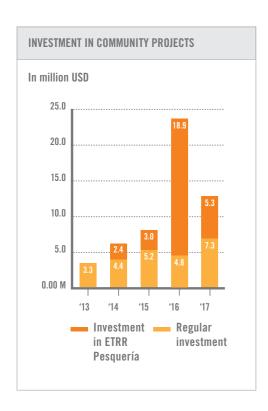
Two key Ternium cultural initiatives are the Film Festival and the Photo Library. The Film Festival introduces employees and the community to movies made by independent filmmakers from the countries where we have a presence. In 2017, we held four film festivals at locations in Argentina and Mexico, attended in total by over 15,000 people. En San Nicolás, Argentina, Ternium also sponsors and organizes along with the PROA Foundation the "Ternium Cultural program" at the local Rafael de Aguiar theater.

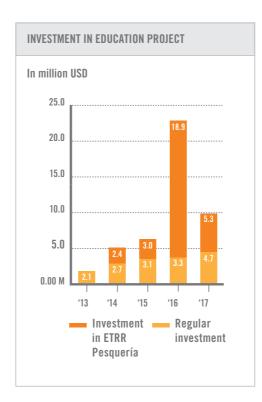
The Photo Library is a way of honoring the history and tradition of the communities by preserving and sharing their visual memoirs. In a joint effort with community organizations, our curators source and compile historic photos into digital archives, painting a unique portrait of the past and present of these communities. As of 2017, the Photo Libraries in the cities of San Nicolás, Argentina, and Monterrey, Mexico, had digitalized over 20,000 images.

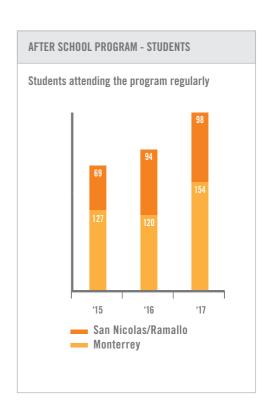
# Sports and a healthy lifestyle

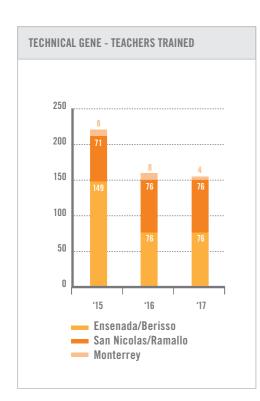
As part of our drive to promote a healthy lifestyle, Ternium organizes annual 10k runs in its main locations. In 2017, more than 4,000 people participated in the 13th annual edition of the Ternium 10k race in San Nicolás, Argentina; 5,000 in the 9th annual edition of the race in Monterrey, Mexico; and over 1,500 in Colima, Mexico, where we have our mining operations. The proceedings from the San Nicolás race (plus a matching fund from the company) are donated to a local hospital.

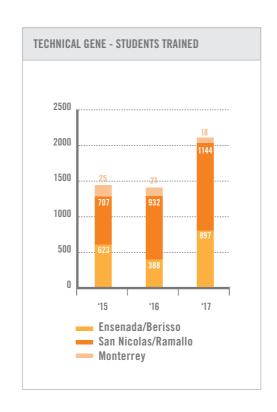
# **COMMUNITY INDICATORS**

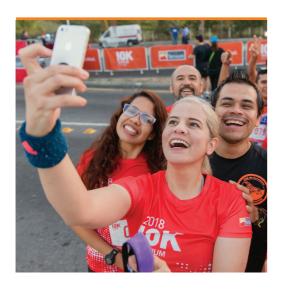












In Monterrey, Mexico, Ternium also manages the Nova clinical center.
For over a decade, the company has joined with local authorities to organize in Monterrey and in other locations where it has operations annual health fairs to raise awareness among its employees, their families and the entire community about the importance of leading a healthy lifestyle. More than 4,000 people attended the 2017 edition of the Monterrey fair.





# Governance & economic indicators

Ternium S.A. was formed as a public limited liability company (société anonyme), subject to the laws of the Grand Duchy of Luxembourg. The Company holds a controlling interest in steel companies operating in Latin America and the southern United States. San Faustín S.A., the holding company of the Techint Group, an international group of companies, has a 62% stake in Ternium. San Faustín also has controlling interests in Tenaris, a global supplier of steel pipes providing related services mainly for the energy industry which itself holds an additional 11% interest in Ternium; Tecpetrol, an oil and gas company; Techint, an engineering and construction company; Tenova, which supplies equipment and technology for the metals and mining industries; and Humanitas, a network of hospitals in Italy.

The Company has an authorized share capital of a single class of 3.5 billion shares with a nominal value of USD 1.00 per share. The general extraordinary meeting of shareholders held on May 6, 2015, renewed the validity of the Company's authorized share capital until 2020. As of December 31, 2017, there were 2,004,743,442 shares issued and outstanding, of which 41,666,666 are held in the Company's treasury. The Company's American Depositary Shares (ADSs) are listed on the New York Stock Exchange. Each ADS represents ten shares.

The Company's board of directors is currently comprised of eight directors, of whom three are independent according to the articles of association and SEC regulations applicable to foreign private issuers. The board of directors has an audit committee consisting of three independent members.

Its charter defines the audit committee's purpose and duties, which include the responsibility to review material

transactions with related parties to determine whether their terms are consistent with market conditions or are otherwise fair to the Company and/ or its subsidiaries. In addition, the audit committee reports to the board of directors concerning the adequacy of internal controls over financial reporting.

# **Commitment to transparency**

Ternium has adopted a Code of Conduct incorporating guidelines and standards of integrity and transparency applicable to all directors, officers and employees. In addition, it has adopted a Code of Ethics for Senior Financial Officers, a Business Conduct Policy, a Code of Conduct for Suppliers, a Securities Trading Policy and a Human Rights Policy.

Ternium's internal audit area reports both to the Chairman of the Board of Directors and to the Audit Committee as regards internal control over financial reporting. The internal audit area evaluates and confirms the effectiveness of control processes, risk management and governance. Ternium has also established a web-based anonymous Compliance Line for employees, suppliers and third parties to report any situations contrary to the Code of Conduct. The Compliance Line operates according to the procedures designed by the internal audit area.

Reporting to the CEO, Ternium's Internal Control and Business Conduct Compliance Officer is responsible for identifying and mitigating corruption risks and fostering a culture of ethical and transparent conduct. These duties also include developing norms in line with national and international laws against corruption and bribery.

Ternium purchases most of its supplies through Exiros, a specialized procurement

firm whose ownership is shared with Tenaris, another Techint Group company. Ternium's suppliers undergo a rigorous selection process to ensure they operate according to acceptable governance standards, and applicable laws and regulations, as well as follow the group's Health and Safety and Environmental policies and Code of Conduct. Ternium's Code of Conduct for Suppliers establishes rules for ethical behavior and compliance with the law, and sets standards for health, safety and environmental care.

# Our economic performance

Ternium reports our its financial results in detail in our in its Annual Report (available here: http://www.ternium.com/en/centro-de-inversores/). In this Sustainability Report we have included our main economic indicators and the distribution of the economic value generated.

Ternium is Latin America's leading flat steel producer. The company operates through subsidiaries in Argentina, Brazil, Mexico, Colombia, the southern United States and Central America, with its own regional manufacturing, service center and distribution networks.

Our customers range from small businesses to large global companies across the Americas, and we supply a broad range of high value- added steel products and have advanced customer integration systems.

Ternium has a consolidated presence in the region's main markets, enjoying solid business partnerships with suppliers and customers which strengthen the steel value chain (see also the chapter on ProPymes of this report). It has 17 production facilities and 39 service centers throughout the continent. The company's business strategy seeks to enhance its position as a competitive steel producer by developing key drivers such as high-margin value-added products, strategic growth opportunities, implementing best practices and maximizing the benefits of a broad distribution network.

Ternium's main markets performed well in 2017. The Mexican steel market, of late the most attractive in Latin America, has continued to grow, and flat steel consumption in Mexico is now 50% higher than in was in 2011. The market has also recovered in Argentina, where after a 20% decline in 2016 steel consumption increased 17% in 2017, driven by the construction, automotive and housing appliance industries, as well as the oil and gas sector.

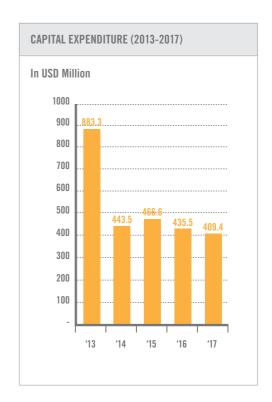
In this context, net sales reached USD 9.7 billion in 2017, a year-on-year increase of 34%. The incorporation of the new steel slab operations in Brazil last September boosted sales and shipments in the second part of the year.

Shipments have grown consistently over the last five years, from 9 million tons in 2013 to 11.6 million tons in 2017. EBITDA rose 25% to USD 1.9 billion while margins remained at an industry-leading level. Net income for the year amounted to USD 886.2 million, or USD 4.51 per ADS, a 49% increase over the previous year.

In 2017, the company's capital expenditure reached USD 409.4 million, down from 434.5 million in 2016. Its investment program is slated to grow in the next few years with the construction of a new hot rolling mill and new galvanizing and painting lines at the Pesqueria industrial center in Nuevo Leon, Mexico, in addition to a new bar reinforcing facility in Colombia. These investments are expected to be in excess of USD 1.4 billion through 2020.

# ECONOMIC VALUE GENERATED AND DISTRIBUTED (2017, IN USD)





	2017	2016	2015	2014	2013
STEEL SHIPMENTS (THOUSAND TONS)					
Mexico	6,622.8	6,405.2	5,933.4	5,632.2	4,984.9
Southern Region	2,456.0	2,220.8	2,552.2	2,510.9	2,633.1
Other Markets	2,517.7	1,138.1	1,114.6	1,238.5	1,370.3
Total	11,596.6	9,764.0	9,600.3	9,381.5	8,988.4
FINANCIAL INDICATORS (\$ MILLION)					
Net sales	9,700.3	7,224.0	7,877.4	8,726.1	8,530.0
Operating income	1,456.8	1,141.7	639.3	1,056.2	1,109.4
EBITDA (1)	1,931.1	1,548.6	1,073.1	1,471.0	1,486.6
Equity in earnings (losses) of non-consolidated companies (2)	68.1	14.6	(272.8)	(751.8)	(31.6)
Profit before income tax expense	1,359.8	1,118.5	267.1	234.9	942.3
Profit (loss) for the year attributable to:					
Owners of the Parent	886.2	595.6	8.1	(198.8)	455.4
Non-controlling interest	136.7	111.3	51.7	94.6	137.5
Profit (loss) for the year	1,022.9	706.9	59.8	(104.2)	592.9
Capital expenditures	409.4	435.5	466.6	443.5	883.3
Free cash flow (3)	(25.5)	664.1	856.8	62.4	208.9
BALANCE SHEET (\$ MILLION)					
Total assets	12,122.6	8,322.9	8,062.6	9,690.2	10,372.6
Total financial debt	3,221.9	1,218.6	1,521.0	2,164.8	2,002.8
Net financial debt (4)	2,748.3	884.3	1,132.3	1,801.5	1,526.1
Total liabilities	6,269.8	3,156.3	3,259.6	4,055.5	4,034.6
Capital and reserves attributable to the owners of the parent	5,010.4	4,391.3	4,033.1	4,697.2	5,340.0
Non-controlling interest	842.3	775.3	769.8	937.5	998.0
STOCK DATA (\$ PER SHARE / ADS (5))					
Basic earnings (losses) per share	0.45	0.30	0.00	(0.10)	0.23
Basic earnings (losses) per ADS	4.51	3.03	0.04	(1.01)	2.32
Proposed dividend per ADS	1.10	1.00	0.90	0.90	0.75
Weighted average number of shares outstanding <sup>(6)</sup> (thousand shares)	1,963,076.8	1,963,076.8	1,963,076.8	1,963,076.8	1,963,076.8

<sup>(1)</sup> EBITDA is operating income adjusted to exclude depreciation and amortization.

<sup>(2)</sup> Equity in earnings (losses) of non-consolidated companies includes in 2014 and 2015 impairment charges on the Usiminas investment of \$739.8 million and \$191.9 million, respectively; no impairments were recorded in 2013, 2016 and 2017.

<sup>(3)</sup> Free cash flow equals net cash provided by operating activities less capital expenditures.(4) Net financial debt equals total financial debt less cash and cash equivalents plus other investments.

<sup>(5)</sup> Each ADS represents 10 shares.

<sup>(6)</sup> Shares outstanding were 1,963,076,776 as of December 31 of each year.
(\*) In 2017, the financial statements of Ternium Brasil Ltda. (Ternium Brasil, formerly known as CSA Siderúrgica do Atlântico Ltda.) were consolidated into Ternium's, starting in September. For more information, see note 3 to our consolidated financial statements included in this annual report.



