



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

Consolidated Financial Statements
as of December 31, 2022 and for the year
ended on December 31, 2022

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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 of December 31, 2022, and the consolidated income statement and of changes in equity for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Company for the year ended December 31, 2022, are prepared in all material respects, 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 ethical requirements that are relevant to our audit of the financial statements in México, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 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 Company and should not be distributed to or use by parties other than the above-mentioned. Our opinion is not modified in respect of 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.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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 handwritten signature in black ink, appearing to read "Victor Vecchi", is written over a large, light-colored diagonal line that spans across the signature area.

Victor Vecchi
Audit Partner

Monterrey, N. L., February 13, 2023

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

Consolidated Financial Statements as of December 31, 2022

(All amounts in USD thousands)

Consolidated Income Statements

	Year ended December 31 2022
Net sales	10,340,898
Cost of sales	(8,857,852)
Gross profit	1,483,046
Selling, general and administrative expenses	(667,670)
Other operating income, net	24,810
Operating income	840,186
Interest expense	(4,400)
Interest income	38,082
Other financial expenses, net	(53,613)
Equity in earnings of non-consolidated companies	311
Income before income tax expense	820,566
Income tax expense	(76,915)
Profit for the year	743,651
Attributable to:	
Owners of the parents	743,013
Non-controlling interest	638
Profit for the year	743,651

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, 2022

(All amounts in USD thousands)

Consolidated Statements of Financial Position

	Balance as of	
	December 31, 2022	
ASSETS		
Non-current assets		
Property, plant and equipment, net	3,473,905	
Intangible assets, net	341,177	
Investments in non-consolidated companies	64,444	
Deferred tax assets	140,646	
Receivables, net	26,054	4,046,226
Current assets		
Receivables	399,519	
Inventories, net	1,888,452	
Trade receivables, net	850,075	
Cash and cash equivalents	1,689,078	4,827,124
Non-current assets classified as held for sale		1,551
		4,828,675
Total Assets		8,874,901
EQUITY		
Capital and reserves attributable to the owners of the parent		6,943,616
Non-controlling interest		5,996
Total Equity		6,949,612
LIABILITIES		
Non-current liabilities		
Provisions	1,487	
Deferred income tax	133,822	
Other liabilities	435,952	
Finance lease	8,529	579,790
Current liabilities		
Current tax liabilities	134,543	
Other liabilities	67,902	
Trade payables	981,899	
Derivative financial instruments	505	
Finance lease	4,724	
Borrowings	155,926	1,345,499
Total Liabilities		1,925,289
Total Equity and Liabilities		8,874,901

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, 2021	237,710	164,486	41,529	5,737,605	6,181,330	4,714	6,186,044
Profit for the period	-	-	-	743,013	743,013	638	743,651
Other comprehensive income (loss) for the period							
Remeasurement of post employment benefits obligations, net of tax	-	-	-	18,171	18,171	325	18,496
Currency translation adjustment	-	-	-	1,102	1,102	319	1,421
Total comprehensive income for the year	-	-	-	762,286	762,286	1,282	763,568
Balance at December 31, 2022	237,710	164,486	41,529	6,499,891	6,943,616	5,996	6,949,612

(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 10, 2023, 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, 2022
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)

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

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

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

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

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

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

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group. When the entity or entities acquired are, before and after the acquisition, ultimately controlled by the same entity, and such control is not temporary, it is assumed that the entities are under common control and therefore, there is no

3. ACCOUNTING POLICIES (continued)*(1) Subsidiary companies and transactions with non-controlling interests*

business combination. Transactions and exchanges between entities under common control are recognized on the basis of the carrying value of assets and liabilities transferred on the date of the transaction, and therefore, goodwill is not recognized.

(2) Investments in non-consolidated companies

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

Joint arrangements are understood as combinations in which there are contractual agreements by virtue of which two or more companies hold an interest in companies that undertake operations or hold assets in such a way that any financial or operating decision is subject to the unanimous consent of the partners. A joint arrangement is classed as a joint operation if the parties hold rights to its assets and have obligations in respect of its liabilities or as a joint venture if the venturers hold rights only to the investee's net assets.

Investments in non-consolidated companies (associated companies) are accounted for using the equity method of accounting. Under this method, associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the post-acquisition profits or losses in the income statement, and its share of post-acquisition changes in reserves recognized in reserves and in other comprehensive income in the income statement. Unrealized gains on transactions among the Company and its non-consolidated companies are eliminated to the extent of the Company's interest in such non-consolidated companies; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When the Company's share of losses in a non-consolidated company equals or exceeds its interest in such non-consolidated company, the Company does not recognize further losses unless it has incurred obligations or made payments on behalf of such non-consolidated company.

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

(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, as it is the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Company.

3. ACCOUNTING POLICIES (continued)

(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; (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions) 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.

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.

3. ACCOUNTING POLICIES (continued)

(c) Financial instruments

Non derivative financial instruments

Non derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Company classifies its financial instruments in the following measurement categories:

- Amortized cost: instruments that are held for collection or repayment of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income and expenses from these financial instruments are included in finance income or expense using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in finance income or expense, together with foreign exchange gains and losses. Impairment losses are presented as separate line items in the statement of profit or loss.

- Fair value through other comprehensive income ("FVOCI"): financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- Fair value through profit or loss ("FVPL"): financial instruments that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

The classification depends on the Company's business model for managing the financial instruments and the contractual terms of the cash flows.

For financial instruments measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

3. ACCOUNTING POLICIES (continued)

At initial recognition, the Company measures a financial instrument at its fair value plus, in the case of a financial instrument not at FVPL, transaction costs that are directly attributable to the acquisition of the financial instrument. Transaction costs of financial instruments carried at FVPL are expensed in profit or loss. Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement.

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

(d) Property, plant and equipment

(1) Property, plant and equipment

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

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

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

Where a tangible fixed asset comprises major components having different useful lives, these components are accounted for as separate items. Spare parts are included in property, plant and equipment.

3. ACCOUNTING POLICIES (continued)

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

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

Depreciation charges are included in cost of sales, selling, general and administrative expenses.

(2) Right-of-use assets

The Company is a party to lease contracts for:

- Land
- Plants and equipment for the production of industrial gases and other production materials.
- Transportation and maintenance equipment.
- Warehouses and office spaces.

These leases are recognized, measured and presented in accordance to IFRS 16 "Leases", following the guidelines described below.

Depreciation of the right-of-use asset is calculated using the straight-line method over the estimated duration of the lease contract, as follows:

Buildings and facilities	1-5 years
Machinery	3-5 years

If the lease transfers ownership of the underlying asset to the Company by the end of the lease term, or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

3. ACCOUNTING POLICIES (continued)

Accounting by the lessor

When the Company is acting as a lessor, each of its leases is classified as either operating or finance lease:

- Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.
- Leases where all substantial risks and rewards of ownership are transferred by the lessor to the lessee are classified as finance leases.

(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.

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, 2022, is approximately 4%.

3. ACCOUNTING POLICIES (continued)

(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 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.

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, 2022, 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.

3. ACCOUNTING POLICIES (continued)

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 are recognized initially at fair value, generally the original invoice amount. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due. The Company keeps an allowance for trade receivables, recorded in an asset account to offset the trade receivables in an amount estimated sufficient to cover the losses resulting from the impossibility for the debtors to cancel the amounts owed. This allowance for trade receivables is recorded with a charge to selling expenses.

(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) Assets (disposal groups) classified as held for sale

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

3. ACCOUNTING POLICIES (continued)

(l) Borrowings

Borrowings are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost using the effective interest method.

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

(m) Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at such date, including the following concepts:

- Fixed payments, less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate as of the commencement date;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Variable lease liabilities with payments dependent on external factors, such as minimum volumes sold or used, are not included in the initial measurement of the lease liabilities and such payments are recognized directly in profit and loss.

Lease payments are discounted using incremental borrowing rates for the location and currency of each lease contract or, if available, the rate implicit in the lease contract.

The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease term determined by the Company comprises:

- Non-cancelable period of lease contracts;
- Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

After the commencement date, the Company measures the lease liability by:

- Increasing the carrying amount to reflect interest on the lease liability;
- Reducing the carrying amount to reflect lease payments made; and
- Re-measuring the carrying amount to reflect any reassessment or lease modifications.

3. ACCOUNTING POLICIES (continued)**(n) Income taxes - current and deferred**

The tax is recognized in the income statement except in cases where it is recognized in other comprehensive income.

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.

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.

(o) 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.

3. ACCOUNTING POLICIES (continued)

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

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

(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.

(p) 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.

(q) Trade payables

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

3. ACCOUNTING POLICIES (continued)**(r) Revenue recognition**

Revenue is recognized at a point of time from sales to direct customers upon the satisfaction of performance obligations, which occurs when control of the goods transfers to the customer and the customer obtains the benefits from the goods, the potential cash flows and the transaction price can be measured reliably, and it is probable that the Company will collect the consideration in connection with the exchange of the goods. The control over the goods is obtained by the customer depending on when the goods are made available to the shipper or the customer takes possession of the goods, depending on the delivery terms. The Company considers that it has completed its performance obligations when the goods are delivered to its customers or to a shipper who will transport the goods to its customers. The revenue recognized by the Company is measured at the transaction price of the consideration received or receivable to which the Company is entitled to, reduced by estimated returns and other customer credits, such as discounts and volume rebates, based on the expected value to be realized and after eliminating sales within the group.

Interest income is recognized on an effective yield basis

(s) 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.

(t) 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.

(u) 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

3. ACCOUNTING POLICIES (continued)

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 64.7 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 31.7 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.

Recently, Ternium México withdrew all his legal defense because after having some reunions with his advisors and SAT officials, where the company provided some additional information and documentation, the Tax Authority would accept to reduce the tax adjustments above mentioned, closing both audits with a payment of \$15.5 USD million, for the year 2008, and \$31.7 million for the year 2011. If the company does not close the audits with the terms mentioned could continue interposing legal defense against the 2008 audit.

4. CONTINGENCIES, COMMITMENTS (continued)

(ii) Commitments

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

(a) 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.

(b) 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 2021, 2019 and 2018 the Company made prepayments of principal for USD 25 million, USD 725 million and USD 375 million respectively. As of June 30, 2022, the balance was fully repaid. 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, 2022, Ternium Mexico was in compliance with all of its covenants, however the guarantee is no longer valid.

(c) Ternium Mexico issued a guarantee letter covering up to approximately USD 16.592 million of the obligations of Gas Industrial de Monterrey, S.A. de C.V. ("GIMSA"), under the natural gas trading agreement between GIMSA and NEG Natural S.A. de C.V. The credit line granted by NEG in connection with this natural gas trading agreement amounted to approximately USD 17 million. As of December, 2022, the outstanding amount under the natural gas trading agreement was USD 17 million, which is above the amount included in the guarantee letter issued by Ternium Mexico due to recent volatility in natural gas prices. The contract with NEG was renewed in June 28, 2022 and a guarantee letter covering up to USD 28.8 million was requested and will be issued in January 2023.

(d) Ternium Mexico issued a guarantee letter covering up to approximately USD 62 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.

4. CONTINGENCIES, COMMITMENTS (continued)

(e) 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); the outstanding balance as of December 31, 2022 is USD 125 million. However, on January 12, 2023, the company prepaid the remainder, leaving the loan fully amortized. The company has complied with the aforementioned financial covenant.

(f) 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 and Universidad facilities valid until April 2025. 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.

(g) 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.

(h) 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 Llamas
Chief Financial Officer



Consolidado Ternium México – Diciembre 2022

Sociedad	Importe USD
<u>Patrimonio Neto</u>	
Ternium México s/EEFF	<u>6,943,616,457</u>
Ajuste inversiones a VPP	167,956,508
Aj. Rdos no trascendidos	(3,320,733)
Aj Income Tax	(10,813,414)
Patrimonio Neto Consolidado	<u>7,097,438,818</u>
<u>Resultado</u>	
Ternium México s/EEFF	<u>743,012,968</u>
Ajuste resultados inv a VPP	16,809,255
Aj. Rdos no trascendidos	18,793,113
Resultado Integral Consolidado	<u>778,615,336</u>

JUAN LUIS LLAMES
Director de Administración y Finanzas