



TERNIUM S.A.

**Consolidated Condensed Interim Financial Statements
as of June 30, 2019
and for the six-month periods
ended on June 30, 2019 and 2018**

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Consolidated Condensed Interim Financial Statements as of June 30, 2019 and for the six-month periods ended June 30, 2019 and 2018

(All amounts in USD thousands)

Consolidated Condensed Interim Income Statements

	Notes	Three-month period ended June 30,		Six-month period ended June 30,	
		2019	2018	2019	2018
		(Unaudited)		(Unaudited)	
Net sales	3	2,813,389	3,022,435	5,598,699	5,819,446
Cost of sales	3 & 4	(2,325,047)	(2,212,439)	(4,583,265)	(4,345,163)
Gross profit	3	488,342	809,996	1,015,434	1,474,283
Selling, general and administrative expenses	3 & 5	(250,443)	(233,992)	(475,607)	(457,821)
Other operating income (expenses), net	3	352	(5,499)	5,887	279
Operating income	3	238,251	570,505	545,714	1,016,741
Finance expense	6	(21,667)	(31,330)	(41,654)	(61,445)
Finance income	6	6,647	5,346	12,601	10,287
Other financial income (expenses), net	6	9,530	(75,472)	(2,142)	(99,260)
Equity in earnings (losses) of non-consolidated companies	9	20,329	12,366	35,207	32,349
Profit before income tax expense		253,090	481,415	549,726	898,672
Income tax expense		(47,350)	(192,164)	(119,813)	(232,752)
Profit for the period		205,741	289,251	429,913	665,920
Attributable to:					
Owners of the parent		181,122	293,651	398,886	632,532
Non-controlling interest		24,619	(4,400)	31,027	33,388
Profit for the period		205,741	289,251	429,913	665,920
Weighted average number of shares outstanding		1,963,076,776	1,963,076,776	1,963,076,776	1,963,076,776
Basic and diluted earnings (losses) per share for profit (loss) attributable to the equity holders of the company (expressed in USD per share)		0.09	0.15	0.20	0.32

The accompanying notes are an integral part of these consolidated condensed interim financial statements. These consolidated condensed interim financial statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the year ended December 31, 2018.

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Consolidated Condensed Interim Financial Statements as of June 30, 2019 and for the six-month periods ended June 30, 2019 and 2018

(All amounts in USD thousands)

Consolidated Condensed Interim Statements of Comprehensive Income

	Three-month period ended June 30,		Six-month period ended June 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
Profit for the period	205,741	289,251	429,913	665,920
Items that may be reclassified subsequently to profit or loss:				
Currency translation adjustment (see note 2)	151,413	(206,953)	115,112	(260,877)
Currency translation adjustment from participation in non-consolidated companies	8,679	(68,196)	5,395	(70,942)
Changes in the fair value of financial instruments at fair value through other comprehensive income	13	(710)	45	(940)
Income tax related to financial instruments at fair value	-	57	-	111
Changes in the fair value of derivatives classified as cash flow hedges	(435)	140	(703)	243
Income tax related to cash flow hedges	131	(42)	211	(185)
Other comprehensive income items	-	-	-	(305)
Other comprehensive income items from participation in non-consolidated companies	2	426	69	485
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of post employment benefit obligations	(416)	1,099	(416)	1,099
Income tax relating to remeasurement of post employment benefit obligations	63	(297)	63	(297)
Remeasurement of post employment benefit obligations from participation in non-consolidated companies	(1,084)	(1,476)	(1,241)	(1,832)
Other comprehensive income (loss) for the period, net of tax	158,366	(275,952)	118,535	(333,440)
Total comprehensive income for the period	364,107	13,299	548,448	332,480
Attributable to:				
Owners of the parent	280,529	102,508	472,605	405,087
Non-controlling interest	83,578	(89,209)	75,843	(72,607)
Total comprehensive income for the period	364,107	13,299	548,448	332,480

The accompanying notes are an integral part of these consolidated condensed interim financial statements. These consolidated condensed interim financial statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the year ended December 31, 2018.

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Consolidated Condensed Interim Financial Statements as of June 30, 2019 and for the six-month periods ended June 30, 2019 and 2018

(All amounts in USD thousands)

Consolidated Condensed Interim Statements of Financial Position

	Notes	Balances as of	
		June 30, 2019 (Unaudited)	December 31, 2018
ASSETS			
Non-current assets			
Property, plant and equipment, net	7	6,375,120	5,817,609
Intangible assets, net	8	968,590	1,012,524
Investments in non-consolidated companies	9	533,963	495,241
Other investments		5,141	7,195
Derivative financial instruments		166	818
Deferred tax assets		139,405	134,224
Receivables, net		621,697	649,447
Trade receivables, net		2,832	4,766
		8,646,914	8,121,824
Current assets			
Receivables, net		390,846	309,750
Derivative financial instruments		88	770
Inventories, net		2,447,577	2,689,829
Trade receivables, net		1,289,534	1,128,470
Other investments		28,645	44,529
Cash and cash equivalents		777,528	250,541
		4,934,218	4,423,889
Non-current assets classified as held for sale		2,125	2,149
		4,936,343	4,426,038
Total Assets		13,583,257	12,547,862
EQUITY			
Capital and reserves attributable to the owners of the parent		6,630,291	6,393,255
Non-controlling interest		1,137,570	1,091,321
Total Equity		7,767,861	7,484,576
LIABILITIES			
Non-current liabilities			
Provisions		646,132	643,950
Deferred tax liabilities		470,241	474,431
Other liabilities		434,005	414,541
Trade payables		953	935
Lease liabilities	14	289,989	65,798
Borrowings		1,829,147	1,637,101
		3,670,467	3,236,756
Current liabilities			
Current income tax liabilities		26,792	150,276
Other liabilities		321,583	351,216
Trade payables		1,014,292	904,171
Derivative financial instruments		3,792	12,981
Lease liabilities	14	52,263	8,030
Borrowings		726,207	399,856
		2,144,929	1,826,530
Total Liabilities		5,815,396	5,063,286
Total Equity and Liabilities		13,583,257	12,547,862

The accompanying notes are an integral part of these consolidated condensed interim financial statements. These consolidated condensed interim financial statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the year ended December 31, 2018.

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Consolidated Condensed Interim Financial Statements as of June 30, 2019 and for the six-month periods ended June 30, 2019 and 2018

(All amounts in USD thousands)

Consolidated Condensed Interim Statements of Changes in Equity

	Attributable to the owners of the parent (1)								Non-controlling interest	Total Equity
	Capital stock (2)	Treasury shares (2)	Initial public offering expenses	Reserves (3)	Capital stock issue discount (4)	Currency translation adjustment	Retained earnings	Total		
Balance as of January 1, 2019	2,004,743	(150,000)	(23,295)	1,385,701	(2,324,866)	(2,702,477)	8,203,449	6,393,255	1,091,321	7,484,576
Profit for the period							398,887	398,887	31,026	429,913
Other comprehensive income (loss) for the period										
Currency translation adjustment						75,403		75,403	45,104	120,507
Remeasurement of post employment benefit obligations				(1,520)				(1,520)	(74)	(1,594)
Cash flow hedges and others, net of tax				(251)				(251)	(241)	(492)
Others				86				86	28	114
Total comprehensive income (loss) for the period	-	-	-	(1,685)	-	75,403	398,887	472,605	75,843	548,448
Dividends paid in cash (5)							(235,569)	(235,569)	-	(235,569)
Dividends paid in cash to non-controlling interest								-	(29,594)	(29,594)
Balance as of June 30, 2019 (unaudited)	2,004,743	(150,000)	(23,295)	1,384,016	(2,324,866)	(2,627,074)	8,366,767	6,630,291	1,137,570	7,767,861

(1) Shareholders' equity determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 25 (iii) of the audited Consolidated Financial Statements and notes for the year ended December 31, 2018.

(2) The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD 1.00 per share. As of June 30, 2019, there were 2,004,743,442 shares issued. All issued shares are fully paid. Also, as of June 30, 2019, the Company held 41,666,666 shares as treasury shares.

(3) Include legal reserve under Luxembourg law for USD 200.5 million, undistributable reserves under Luxembourg law for USD 1.4 billion and reserves related to the acquisition of non-controlling interest in subsidiaries for USD (88.5) million.

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

(5) See note 10.

Dividends may be paid by Ternium to the extent distributable retained earnings calculated in accordance with Luxembourg law and regulations exist. Therefore, retained earnings included in these consolidated condensed interim financial statements may not be wholly distributable.

The accompanying notes are an integral part of these consolidated condensed interim financial statements. These consolidated condensed interim financial statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the year ended December 31, 2018.

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Consolidated Condensed Interim Financial Statements as of June 30, 2019 and for the six-month periods ended June 30, 2019 and 2018

(All amounts in USD thousands)

Consolidated Condensed Interim Statements of Changes in Equity

	Attributable to the owners of the parent (1)								Non-controlling interest	Total Equity
	Capital stock (2)	Treasury shares (2)	Initial public offering expenses (3)	Reserves (3)	Capital stock issue discount (4)	Currency translation adjustment	Retained earnings	Total		
Balance as of January 1, 2018	2,004,743	(150,000)	(23,295)	1,416,121	(2,324,866)	(2,403,664)	6,491,385	5,010,424	842,347	5,852,771
Impact of adopting IFRS 9 at January 1, 2018	-	-	-	450	-	-	(147)	303	204	507
Impact of adopting IAS 29 at January 1, 2018	-	-	-	-	-	-	421,502	421,502	268,824	690,326
Adjusted Balance at January 1, 2018	2,004,743	(150,000)	(23,295)	1,416,571	(2,324,866)	(2,403,664)	6,912,740	5,432,229	1,111,375	6,543,604
Profit for the period							632,532	632,532	33,388	665,920
Other comprehensive income (loss) for the period										
Currency translation adjustment						(225,775)		(225,775)	(106,044)	(331,819)
Remeasurement of post employment benefit obligations				(1,022)				(1,022)	(8)	(1,030)
Cash flow hedges, net of tax				(154)				(154)	212	58
Others				(494)				(494)	(155)	(649)
Total comprehensive income (loss) for the period	-	-	-	(1,670)	-	(225,775)	632,532	405,087	(72,607)	332,480
Dividends paid in cash							(215,938)	(215,938)	-	(215,938)
Dividends paid in cash to non-controlling interest								-	(20,940)	(20,940)
Balance as of June 30, 2018 (unaudited)	2,004,743	(150,000)	(23,295)	1,414,901	(2,324,866)	(2,629,439)	7,329,334	5,621,378	1,017,828	6,639,206

(1) Shareholders' equity is determined in accordance with accounting principles generally accepted in Luxembourg is disclosed in Note 25 (iii) of the audited Consolidated Financial Statements and notes for the year ended December 31, 2018.

(2) The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD 1.00 per share. As of June 30, 2018, there were 2,004,743,442 shares issued. All issued shares are fully paid. Also, as of June 30, 2018, the Company held 41,666,666 shares as treasury shares.

(3) Include legal reserve under Luxembourg law for USD 200.5 million, undistributable reserves under Luxembourg law for USD 1.4 billion, hedge accounting reserve, net of tax effect, for USD 0.7 million and reserves related to the acquisition of non-controlling interest in subsidiaries for USD (88.5) million.

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

Dividends may be paid by Ternium to the extent distributable retained earnings calculated in accordance with Luxembourg law and regulations exist. Therefore, retained earnings included in these consolidated condensed interim financial statements may not be wholly distributable.

The accompanying notes are an integral part of these consolidated condensed interim financial statements. These consolidated condensed interim financial statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the year ended December 31, 2018.

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Consolidated Condensed Interim Financial Statements as of June 30, 2019 and for the six-month periods ended June 30, 2019 and 2018

(All amounts in USD thousands)

Consolidated Condensed Interim Statements of Cash Flows

	Notes	Six-month period ended June 30,	
		2019	2018
		(Unaudited)	
Cash flows from operating activities			
Profit for the period		429,913	665,920
Adjustments for:			
Depreciation and amortization	7 & 8	337,896	311,645
Income tax accruals less payments		(192,369)	(32,673)
Equity in earnings of non-consolidated companies	9	(35,207)	(32,349)
Interest accruals less payments		8,329	(7,060)
Changes in provisions		(2,671)	1,047
Changes in working capital (1)		202,643	(248,116)
Net foreign exchange results and others		1,035	67,390
Net cash provided by operating activities		749,569	725,804
Cash flows from investing activities			
Capital expenditures	7 & 8	(485,122)	(229,609)
Recovery/(Loans) to non-consolidated companies		24,480	-
Decrease in other investments		17,938	6,311
Proceeds from the sale of property, plant and equipment		475	440
Net cash used in investing activities		(442,229)	(222,858)
Cash flows from financing activities			
Dividends paid in cash to company's shareholders	10	(235,569)	(215,938)
Dividends paid in cash to non-controlling interest		(29,594)	(20,940)
Finance lease payments		(23,400)	(3,843)
Proceeds from borrowings		869,359	526,046
Repayments of borrowings		(353,805)	(885,361)
Net cash provided by (used in) financing activities		226,991	(600,036)
Increase (Decrease) in cash and cash equivalents		534,331	(97,090)
Movement in cash and cash equivalents			
At January 1,		250,541	337,779
Effect of exchange rate changes and inflation adjustment		(7,344)	(10,877)
Increase (Decrease) in cash and cash equivalents		534,331	(97,090)
Cash and cash equivalents as of June 30, (2)		777,528	229,812

Non-cash transactions:

Acquisition of PP&E under lease contract agreements	4,266	-
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(1) The working capital is impacted by non-cash movements of USD 51.9 million as of June 30, 2019 (USD (142.3) million as of June 30, 2018) due to the variations in the exchange rates used by subsidiaries with functional currencies different from the US dollar.

(2) It includes restricted cash of USD 88 and nil as of June 30, 2019 and 2018, respectively. In addition, the Company had other investments with a maturity of more than three months for USD 33,534 and USD 128,799 as of June 30, 2019 and 2018, respectively.

The accompanying notes are an integral part of these consolidated condensed interim financial statements. These consolidated condensed interim financial statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the year ended December 31, 2018.

Notes to the Consolidated Condensed Interim Financial Statements

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

a) General information and basis of presentation

Ternium S.A. (the “Company” or “Ternium”), was incorporated on December 22, 2003 to hold investments in flat and long steel manufacturing and distributing companies. The Company has an authorized share capital of a single class of 3.5 billion shares having a nominal value of USD 1.00 per share. As of June 30, 2019, there were 2,004,743,442 shares issued. All issued shares are fully paid.

Ternium’s American Depositary Shares (“ADS”) trade on the New York Stock Exchange under the symbol “TX”.

The name and percentage of ownership of subsidiaries that have been included in consolidation in these Consolidated Condensed Interim Financial Statements are disclosed in Note 2 to the audited Consolidated Financial Statements for the year ended December 31, 2018.

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

The preparation of Consolidated Condensed Interim Financial Statements requires management to make estimates and assumptions that might affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the statement of financial position, and also the reported amounts of revenues and expenses for the reported periods. Actual results may differ from these estimates. The main assumptions and estimates were disclosed in the Consolidated Financial Statements for the year ended December 31, 2018, without significant changes since its publication.

Material intercompany transactions and balances have been eliminated in consolidation. However, the fact that the functional currency of the Company’s subsidiaries differs, results in the generation of foreign exchange gains and losses that are included in the Consolidated Condensed Interim Income Statement under “Other financial income (expenses), net”.

2. ACCOUNTING POLICIES

These Consolidated Condensed Interim Financial Statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” and are unaudited. These Consolidated Condensed Interim Financial Statements should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and in conformity with International Financial Reporting Standards as adopted by the European Union (“EU”). Recently issued accounting pronouncements were applied by the Company as from their respective dates.

These Consolidated Condensed Interim Financial Statements have been prepared following the same accounting policies used in the preparation of the audited Consolidated Financial Statements for the year ended December 31, 2018, except for the changes in connection with the implementation of IFRS 16 – Leases, explained in Note 14 of these Consolidated Condensed Interim Financial Statements.

2. ACCOUNTING POLICIES (continued)

IAS 29 “Financial Reporting in Hyperinflationary Economies”, which requires that the financial statements of entities whose functional currency is that of a hyperinflationary economy to be adjusted for the effects of changes in a suitable general price index and to be expressed in terms of the current unit of measurement at the closing date of the reporting period, is still applicable for the Company’s Argentine subsidiaries and associates. The inflation adjustment was calculated by means of conversion factor derived from the Argentine price indexes published by the National Institute of Statistics (“INDEC”). The price index for the six-month period ended June 30, 2019, was 1.22. The comparative figures as of June 30, 2018, have been restated for the changes in the general price index applicable to the financial reporting of the Company’s subsidiaries and associates with the Argentine peso as functional currency and, as result, have been stated in terms of such currency as of the end of the comparative reporting period. The Currency translation adjustment line in the statement of comprehensive income includes the effects of the currency translation and the inflation adjustments.

None of the accounting pronouncements issued after December 31, 2018, and as of the date of these Consolidated Condensed Interim Financial Statements have a material effect on the Company’s financial condition or result or operations.

3. SEGMENT INFORMATION

REPORTABLE OPERATING SEGMENTS

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

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

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

The Mining segment includes the sales of mining products, mainly iron ore and pellets, and comprises the mining activities of Las Encinas, an iron ore mining company in which Ternium holds a 100% equity interest and the 50% of the operations and results performed by Peña Colorada, another iron ore mining company in which Ternium maintains that same percentage over its equity interest. Both mining operations are located in Mexico. For Peña Colorada, the Company recognizes its assets, liabilities, revenue and expenses in relation to its interest in the joint operation.

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

- The use of direct cost methodology to calculate the inventories, while under IFRS is at full cost, including absorption of production overheads and depreciation.
- The use of costs based on previously internally defined cost estimates, while, under IFRS, costs are calculated at historical cost (with the FIFO method).
- Other timing and non-significant differences.

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

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Consolidated Condensed Interim Financial Statements as of June 30, 2019 and for the six-month periods ended June 30, 2019 and 2018

3. SEGMENT INFORMATION (continued)

	Six-month period ended June 30, 2019 (Unaudited)			
	Steel	Mining	Inter-segment eliminations	Total
IFRS				
Net sales	5,598,687	152,583	(152,571)	5,598,699
Cost of sales	(4,612,421)	(124,624)	153,780	(4,583,265)
Gross profit	986,266	27,959	1,209	1,015,434
Selling, general and administrative expenses	(467,915)	(7,692)	-	(475,607)
Other operating income, net	6,587	(700)	-	5,887
Operating income - IFRS	524,938	19,567	1,209	545,714
Management view				
Net sales	5,545,448	232,538	(232,526)	5,545,460
Operating income	466,161	100,642	2,369	569,172
Reconciliation items:				
Differences in Cost of sales				83,938
Effect of inflation adjustment				(107,396)
Operating income - IFRS				545,714
Financial income (expense), net				(31,195)
Equity in earnings of non-consolidated companies				35,207
Income before income tax expense - IFRS				549,726
Depreciation and amortization - IFRS ⁽¹⁾	(314,460)	(23,436)	-	(337,896)

The effect of the application of IAS 29 – Hyperinflationary economies in Argentina for the six-month period ended June 30, 2019, is only allocated in the Steel segment, having an impact of USD 53 million on Net sales, USD (200) million in Cost of sales, USD (8) million in Selling, general and administrative expenses and USD (1) million in Other operating expenses, net.

(1) It includes the depreciation and amortization of right-of-use assets of USD 22.0 million in the Steel segment.

	Six-month period ended June 30, 2018 (Unaudited)			
	Steel	Mining	Inter-segment eliminations	Total
IFRS				
Net sales	5,818,700	143,469	(142,723)	5,819,446
Cost of sales	(4,386,411)	(107,745)	148,993	(4,345,163)
Gross profit	1,432,289	35,724	6,270	1,474,283
Selling, general and administrative expenses	(449,146)	(8,675)	-	(457,821)
Other operating income, net	(335)	614	-	279
Operating income - IFRS	982,808	27,663	6,270	1,016,741
Management view				
Net sales	6,094,524	173,030	(172,284)	6,095,270
Operating income	830,873	61,558	(5,386)	887,045
Reconciliation items:				
Differences in Cost of sales				286,375
Effect of inflation adjustment				(156,679)
Operating income - IFRS				1,016,741
Financial income (expense), net				(150,418)
Equity in earnings of non-consolidated companies				32,349
Income before income tax expense - IFRS				898,672
Depreciation and amortization - IFRS	(284,331)	(27,316)	-	(311,646)

The effect of the application of IAS 29 – Hyperinflationary economies in Argentina for the six-month period ended June 30, 2018, is only allocated in the Steel segment, having an impact of USD (276) million on Net sales, USD 91 million in Cost of sales, USD 28 million in Selling, general and administrative expenses and USD nil in Other operating expenses, net.

3. SEGMENT INFORMATION (continued)

GEOGRAPHICAL INFORMATION

For purposes of reporting geographical information, net sales are allocated based on the customer's location. Allocation of non-current assets is based on the geographical location of the underlying assets.

	Six-month period ended June 30, 2019 (Unaudited)			
	Mexico	Southern region	Other markets	Total
Net sales	2,884,477	922,812	1,791,410	5,598,699
Non-current assets (1)	4,275,745	1,155,848	1,912,117	7,343,710
	Six-month period ended June 30, 2018 (Unaudited)			
	Mexico	Southern region	Other markets	Total
Net sales	3,285,070	955,355	1,579,021	5,819,446
Non-current assets (1)	4,032,648	1,193,796	1,697,287	6,923,731

(1) Includes Property, plant and equipment and Intangible assets.

4. COST OF SALES

	Six-month period ended June 30,	
	2019	2018
	(Unaudited)	
Inventories at the beginning of the year	2,689,829	2,550,930
Effect of initial inflation adjustment	-	191,708
Translation differences	59,323	(276,369)
Plus: Charges for the period		
Raw materials and consumables used and other movements	3,320,263	3,701,964
Services and fees	79,796	81,332
Labor cost	330,760	353,642
Depreciation of property, plant and equipment	256,474	227,218
Amortization of intangible assets	9,021	14,363
Maintenance expenses	274,170	260,802
Office expenses	4,310	3,994
Insurance	5,126	3,876
Change of obsolescence allowance	5,908	4,421
Recovery from sales of scrap and by-products	(13,174)	(10,704)
Others	9,036	7,808
Less: Inventories at the end of the period	(2,447,577)	(2,769,822)
Cost of Sales	4,583,265	4,345,163

5. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six-month period ended June 30,	
	2019	2018
	(Unaudited)	
Services and fees	40,654	37,196
Labor cost	112,257	123,739
Depreciation of property, plant and equipment	8,382	6,776
Amortization of intangible assets	64,019	63,289
Maintenance and expenses	2,932	2,612
Taxes	55,559	43,080
Office expenses	18,030	18,671
Freight and transportation	166,803	153,010
Increase (decrease) of allowance for doubtful accounts	(345)	1,683
Others	7,316	7,765
Selling, general and administrative expenses	475,607	457,821

6. FINANCE EXPENSE, FINANCE INCOME AND OTHER FINANCIAL INCOME (EXPENSES), NET

	Six-month period ended June 30,	
	2019	2018
	(Unaudited)	
Interest expense	(41,654)	(61,445)
Finance expense	(41,654)	(61,445)
Interest income	12,601	10,287
Finance income	12,601	10,287
Net foreign exchange gain (loss)	(45,968)	(90,625)
Inflation adjustment results	63,774	52,961
Derivative contract results	(6,592)	(73,636)
Others	(13,356)	12,040
Other financial income (expenses), net	(2,142)	(99,260)

7. PROPERTY, PLANT AND EQUIPMENT, NET

	Six-month period ended June 30,	
	2019	2018
	(Unaudited)	
At the beginning of the year	5,817,609	5,349,753
Effect of initial inflation adjustment	-	788,030
Effect of initial recognition of right-of-use assets	280,493	-
Currency translation differences	91,019	(212,741)
Additions	461,148	213,175
Disposals	(18,620)	(12,180)
Depreciation charge	(264,856)	(233,994)
Capitalized borrowing costs	7,906	-
Transfers and reclassifications	421	(227)
At the end of the period	6,375,120	5,891,816

TERNIUM S.A.

Consolidated Condensed Interim Financial Statements as of June 30, 2019
and for the six-month periods ended June 30, 2019 and 2018

8. INTANGIBLE ASSETS, NET

	Six-month period ended June 30,	
	2019	2018
	(Unaudited)	
At the beginning of the year	1,012,524	1,092,579
Effect of initial inflation adjustment	-	4,966
Currency translation differences	1,247	(4,639)
Additions	28,239	16,433
Amortization charge	(73,040)	(77,652)
Transfers/Disposals	(380)	227
At the end of the period	968,590	1,031,914

9. INVESTMENTS IN NON-CONSOLIDATED COMPANIES

Company	Country of incorporation	Main activity	Voting rights as of		Value as of	
			June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Usinas Siderurgicas de Minas Gerais S.A. - USIMINAS	Brazil	Manufacturing and selling of steel products	34.39%	34.39%	513,053	480,084
Other non-consolidated companies (1)					20,910	15,157
					533,963	495,241

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

(a) Usinas Siderurgicas de Minas Gerais S.A. - USIMINAS

Ternium, through its subsidiaries Ternium Investments S.à r.l. (“Ternium Investments”), Ternium Argentina S.A. (“Ternium Argentina”) and Prosid Investments S.A. (“Prosid”), owns a total of 242.6 million ordinary shares and 8.5 million preferred shares, representing 20.5% of the issued and outstanding share capital of Usinas Siderurgicas de Minas Gerais S.A. – USIMINAS (“Usiminas”), the largest flat steel producer in Brazil.

Ternium Investments, Ternium Argentina and Prosid, together with Tenaris S.A.’s Brazilian subsidiary Confab Industrial S.A. (“TenarisConfab”), are part of Usiminas’ control group, comprising the so-called T/T Group. The other members of Usiminas’ control group are Previdência Usiminas (Usiminas’ employee pension fund) and the so-called NSSMC Group, comprising Nippon Steel & Sumitomo Metal Corporation Group (“NSSMC”), Nippon Usiminas Co., Ltd., Metal One Corporation and Mitsubishi Corporation do Brasil, S.A.

As of June 30, 2019, the closing price of the Usiminas ordinary and preferred shares, as quoted on the BM&F Bovespa Stock Exchange, was BRL 10.5 (approximately USD 2.74; December 31, 2018: BRL 11.44 – USD 2.95) per ordinary share and BRL 8.94 (approximately USD 2.33; December 31, 2018: BRL 9.22 – USD 2.38) per preferred share, respectively. Accordingly, as of June 30, 2019, Ternium’s ownership stake had a market value of approximately USD 684.5 million and a carrying value of USD 513.1 million.

The Company reviews periodically the recoverability of its investment in Usiminas. To determine the recoverable value, the Company estimates the value in use of the investment by calculating the present value of the expected cash flows or its fair value less costs of disposal.

9. INVESTMENTS IN NON-CONSOLIDATED COMPANIES (continued)

Usiminas financial restructuring process (that started in April 2016 with the capital increase) was completed by the end of August 2017. The completion of this process together with the higher share price since June 2016, and the improvement in business conditions may lead to an increase in the value of the investment in Usiminas in future periods.

As of June 30, 2019, the value of the investment in Usiminas is comprised as follows:

Value of investment	USIMINAS
As of January 1, 2019	480,084
Share of results (1)	29,482
Other comprehensive income	4,065
Dividends received	(578)
As of June 30, 2019	513,053

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

The investment in Usiminas is based on the following calculation:

Usiminas' shareholders' equity	3,761,987
Percentage of interest of the Company over shareholders' equity	20.43%
Interest of the Company over shareholders' equity	768,323
Purchase price allocation	77,991
Goodwill	271,237
Impairment	(604,498)
Total Investment in Usiminas	513,053

On July 25, 2019, Usiminas issued its consolidated interim accounts as of and for the six-month period ended June 30, 2019.

Summarized balance sheet (in million USD)	USIMINAS As of June 30, 2019
Assets	
Non-current	4,700
Current	1,803
Other current investments	195
Cash and cash equivalents	130
Total Assets	6,828
Liabilities	
Non-current	538
Non-current borrowings	1,358
Current	711
Current borrowings	67
Total Liabilities	2,674
Minority interest	392
Shareholders' equity	3,762

9. INVESTMENTS IN NON-CONSOLIDATED COMPANIES (continued)

Summarized income statement (in million USD)	USIMINAS
	Six-month period ended June 30, 2019
Net sales	1,879
Cost of sales	(1,593)
Gross Profit	286
Selling, general and administrative expenses	(91)
Other operating income, net	(69)
Operating income	126
Financial expenses, net	(57)
Equity in earnings of associated companies	19
Profit before income tax	88
Income tax expense	(24)
Net profit before minority interest	64
Minority interest in other subsidiaries	(18)
Net profit for the period	46

10. DISTRIBUTION OF DIVIDENDS

During the annual shareholders' meeting held on May 6, 2019, the shareholders approved a distribution of dividends of USD 0.12 per share (USD 1.20 per ADS), or approximately USD 235.6 million in the aggregate. The dividend was paid on May 14, 2019.

11. CONTINGENCIES, COMMITMENTS AND RESTRICTIONS ON THE DISTRIBUTION OF PROFITS

Contingencies, commitments and restrictions on the distributions of profits should be read in Note 25 to the Company's audited Consolidated Financial Statements for the year ended December 31, 2018.

Companhia Siderúrgica Nacional (CSN) – Tender offer litigation

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

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

On September 23, 2013, the first instance court dismissed the CSN lawsuit, and on February 8, 2017, the court of appeals of São Paulo maintained the understanding of the first instance court. On March 6, 2017, CSN filed a motion for clarification against the decision of the court of appeals, which was rejected on July 19, 2017. On August 18, 2017, CSN filed with the court of appeals an appeal seeking the review and reversal of the decision issued by the court of appeals by the Superior Court of Justice. On March 5, 2018, the court of appeals ruled that CSN's appeal did not meet the requirements for review by the Superior Court of Justice and rejected such appeal. On May 8, 2018, CSN appealed against such ruling and on January 22, 2019, the court of appeals rejected such appeal and ordered that the case be submitted to the Superior Court of Justice. The Superior Court of Justice will review the admissibility of CSN's appeal, and, if the appeal is declared admissible, will then render a decision on the merits. The Superior Court of Justice is restricted to the analysis of alleged violations to federal laws and cannot assess matters of fact.

Ternium continues to believe that all of CSN's claims and allegations are groundless and without merit, as confirmed by several opinions of Brazilian legal counsel, two decisions issued by the Brazilian securities regulator (CVM) in February 2012 and December 2016, and the first and second instance court decisions referred to above. Accordingly, no provision has been recorded in these Consolidated Condensed Interim Financial Statements.

Shareholder claims relating to the October 2014 acquisition of Usiminas shares

On April 14, 2015, the staff of CVM, determined that an acquisition of additional ordinary shares of Usiminas by Ternium Investments made in October 2014, triggered a requirement under applicable Brazilian laws and regulations for Usiminas' controlling shareholders to launch a tender offer to all non-controlling holders of Usiminas ordinary shares. The CVM staff's determination was made further to a request by NSSMC and its affiliates, who alleged that Ternium's 2014 acquisition had exceeded a threshold that triggers the tender offer requirement. In the CVM staff's view, the 2014 acquisition exceeded the applicable threshold by 5.2 million shares. On April 29, 2015, Ternium filed an appeal to be submitted to the CVM's Board of Commissioners. On May 5, 2015, the CVM staff confirmed that the appeal would be submitted to the Board of Commissioners and that the effects of the staff's decision would be stayed until such Board rules on the matter.

On June 15, 2015, upon an appeal filed by NSSMC, the CVM staff changed its earlier decision and stated that the obligation to launch a tender offer would fall exclusively on Ternium. Ternium's appeal has been submitted to the CVM's Board of Commissioners and it is currently expected that such Board will rule on the appeal in 2019. In addition, on April 18, 2018, Ternium filed a petition with the CVM's reporting Commissioner requesting that the applicable threshold for the tender offer requirement be recalculated taking into account the new ordinary shares issued by Usiminas in connection with its 2016 BRL 1 billion capital increase and that, in light of the replenishment of the threshold that would result from such recalculation, the CVM staff's 2015 determination be set aside. In the event the appeal is not successful, under applicable CVM rules Ternium may elect to sell to third parties the 5.2 million shares allegedly acquired in excess of the threshold, in which case no tender offer would be required.

11. CONTINGENCIES, COMMITMENTS AND RESTRICTIONS ON THE DISTRIBUTION OF PROFITS (continued)*ICMS deferral tax benefit - Unconstitutionality*

Through State Law No. 4,529, of March 31, 2005, the State of Rio de Janeiro granted Ternium Brasil a tax incentive consisting of a deferment of ICMS payable by Ternium Brasil in connection with the construction and operation of the company's Rio de Janeiro steelmaking complex. The incentive applies in respect of the acquisition of fixed assets and certain raw materials (i.e. iron ore, pellets, alloys, coke, coal and scrap) and significantly reduces input ICMS credit accumulation by Ternium Brasil. The tax incentive was granted for a period of 20 years from the commencement of the construction works for Ternium Brasil's Rio de Janeiro steel complex.

In 2012, a Brazilian political party filed a direct action of unconstitutionality against the above-mentioned State Law before the Brazilian Federal Supreme Court, predicated on the argument that, since the tax incentive granted pursuant to such State Law had not been approved by Brazil's National Council of Fiscal Policy (Conselho Nacional de Política Fazendária, or CONFAZ), such State Law should be declared unconstitutional.

In August 2017, the Brazilian Congress enacted Supplementary Law No. 160/2017, instituting a mechanism through which the States may confirm any ICMS incentives they had granted in prior years without CONFAZ approval and, in furtherance of such Supplementary Law, in December 2017 the States adopted ICMS Convention 190/2017, establishing the applicable rules and deadlines for so confirming such ICMS incentives. As per the terms of ICMS Convention 190/2017, all States are required to publish in their official gazettes, on or before March 29, 2018, a list of the ICMS incentives that are to be confirmed pursuant to Supplementary Law No. 160. On March 6, 2018, the State of Rio de Janeiro published its list of ICMS incentives, including, among others, the ICMS benefit granted to Ternium Brasil. ICMS Convention 190/2017 also required that all relevant documents concerning such incentives be filed with CONFAZ, and the State of Rio de Janeiro satisfied such requirements as well. On July 27, 2018, the Governor of Rio de Janeiro issued Executive Order (Decreto) No. 46,78, pursuant to which the State of Rio de Janeiro reconfirmed, in accordance with ICMS Convention 190/2017, the ICMS tax benefits listed in its official gazette publication made pursuant to the Convention, including, among others, Ternium Brasil's ICMS tax benefits.

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

In October 2018, the State of Rio de Janeiro and the Federation of Industries of the State of Rio de Janeiro (Federação das Indústrias do Estado do Rio de Janeiro, or FIRJAN) filed petitions arguing that the action of unconstitutionality against the March 31, 2005 Rio de Janeiro State Law No. 4,529 could not be judged by the Federal Supreme Court since, following the revalidation of such law under Supplementary Law No.160/17 and the ICMS Convention 190/2017, such action of unconstitutionality had lost its purpose. Following the filing of such petitions, the Reporting Justice Minister in charge of the case summoned the plaintiff in such action of unconstitutionality, the Federal Attorney General's Office (Advocacia-Geral da União, or AGU) and the Chief of the Public Minister (Procuradoria-Geral da República, or PGR) to submit statements expressing their respective views on the arguments presented by the State of Rio de Janeiro and the FIRJAN with respect to the effect of Supplementary Law No.160/17 and the ICMS Convention 190/2017 on the pending action of unconstitutionality. In their respective statements, the plaintiff argued that Supplementary Law No.160/17 and the ICMS Convention 190/2017 do not affect the unconstitutionality of ICMS benefits granted through State Law No. 4,529, while the AGU stated that, in light of the additional legal support provided by Supplementary Law No.160/17 and the ICMS Convention 190/2017, a finding of unconstitutionality of State Law No. 4,529 would not be warranted. In turn, the PGR stated that a decision on the case should be postponed until the Federal Supreme Court completes its analysis of Supplementary Law No.160/17 and ICMS Convention 190/2017. As of the date of these consolidated condensed interim financial statements, the Brazilian Federal Supreme Court has not yet ruled on the action of unconstitutionality against Rio de Janeiro's State Law No. 4,529.

The tax benefits accumulated under Ternium Brasil's ICMS incentive as of the acquisition date amounted to approximately USD 1,089 million. In accordance with the guidance in IFRS 3, the Company recorded as of the acquisition date a provision of USD 651.8 million (including estimated penalties and interest) in connection with this matter, together with an asset of USD 325.9 million arising from its right to recover part of the contingency amount from Thyssenkrup Veerhaven B.V. (USD 535.3 million and USD 267.6 million, respectively, as of June 30, 2019). The calculation of this contingency has been determined taking into consideration the probability of negative outcome for the Company, if any, on an estimated total risk of USD 1,630 million (including estimated penalties and interests).

Putative class action

Following the Company's November 27, 2018 announcement that its chairman Paolo Rocca was included in an Argentine court investigation known as the Notebooks Case, a putative class action complaint was filed in the U.S. District Court for the Eastern District of New York. On January 31, 2019, the court appointed lead plaintiff and lead counsel. On June 17, 2019, the lead plaintiff filed an amended complaint purportedly on behalf of purchasers of Ternium securities from May 1, 2014 through November 27, 2018. The individual defendants named in the amended complaint are our chairman, our former CEO, our current CEO and our CFO. That complaint alleges that during the class period, the Company and the individual defendants inflated the price of Ternium's ADSs by failing to disclose that sale proceeds received by Ternium when Sidor was expropriated by Venezuela were received or expedited as a result of alleged improper payments made to Argentine officials. The complaint does not specify the damages that plaintiff is seeking. Management believes the Company has meritorious defenses to these claims; however, at this stage the Company cannot predict the outcome of the claim or the amount or range of loss in case of an unfavorable outcome.

12. RELATED PARTY TRANSACTIONS

As of June 30, 2019, Techint Holdings S.à r.l. (“Techint”) owned 62.02% of the Company’s share capital and Tenaris Investments S.à r.l. (“Tenaris”) held 11.46% of the Company’s share capital. Each of Techint and Tenaris were controlled by San Faustin S.A., a Luxembourg company (“San Faustin”). Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin (“RP STAK”), a Dutch private foundation (Stichting), held voting shares in San Faustin sufficient in number to control San Faustin. No person or group of persons controls RP STAK.

The following transactions were carried out with related parties:

	Six-month period ended	
	June 30,	
	2019	2018
	(Unaudited)	
(i) Transactions		
(a) Sales of goods and services		
Sales of goods to non-consolidated parties	255,506	408,471
Sales of goods to other related parties	31,400	75,062
Sales of services and others to non-consolidated parties	88	88
Sales of services and others to other related parties	479	589
	287,473	484,210
(b) Purchases of goods and services		
Purchases of goods from non-consolidated parties	200,879	231,789
Purchases of goods from other related parties	26,297	21,127
Purchases of services and others from non-consolidated parties	7,196	4,704
Purchases of services and others from other related parties	77,533	40,751
Purchases of goods and services in connection with lease contracts from other related parties	10,251	-
	322,156	298,371
(c) Financial results		
Income with non-consolidated parties	4,998	4,177
Expenses in connection with lease contracts from other related parties	(117)	-
	4,881	4,177
(d) Dividends received		
Dividends received from non-consolidated parties	642	61
	642	61
(e) Other income and expenses		
Income (expenses), net with non-consolidated parties	453	81
Income (expenses), net with other related parties	267	396
	720	477
	June 30, 2019	December 31, 2018
	(Unaudited)	
(ii) Period-end balances		
(a) Arising from sales/purchases of goods/services		
Receivables from non-consolidated parties	162,532	201,693
Receivables from other related parties	15,562	5,975
Advances from non-consolidated parties	12,252	2,812
Advances to suppliers with other related parties	8,680	7,534
Payables to non-consolidated parties	(14,878)	(37,384)
Payables to other related parties	(22,571)	(23,495)
Lease Liabilities with other related parties	(9,396)	-
	152,181	157,135

13. FINANCIAL INSTRUMENTS BY CATEGORY AND FAIR VALUE MEASUREMENT

1) Financial instruments by category

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

As of June 30, 2019 (in USD thousands)	Amortized cost	Assets at fair value through profit or loss	Assets at fair value through OCI	Total
(i) Assets as per statement of financial position				
Receivables	424,278	-	-	424,278
Derivative financial instruments	-	254	-	254
Trade receivables	1,292,366	-	-	1,292,366
Other investments	16,654	-	16,880	33,534
Cash and cash equivalents	319,084	458,444	-	777,528
Total	2,052,382	458,698	16,880	2,527,960
As of June 30, 2019 (in USD thousands)	Amortized cost	Liabilities at fair value through profit or loss		Total
(ii) Liabilities as per statement of financial position				
Other liabilities	113,557	-	-	113,557
Trade payables	981,416	-	-	981,416
Derivative financial instruments	-	3,792	-	3,792
Lease liabilities	342,252	-	-	342,252
Borrowings	2,555,354	-	-	2,555,354
Total	3,992,579	3,792		3,996,371

2) Fair Value by Hierarchy

IFRS 13 requires for financial instruments that are measured at fair value, a disclosure of fair value measurements by level. See note 29 of the Consolidated Financial Statements as of December 31, 2018 for definitions of levels of fair values and figures at that date.

The following table presents the assets and liabilities that are measured at fair value:

Description	Fair value measurement as of June 30, 2019 (in USD thousands):		
	Total	Level 1	Level 2
Financial assets at fair value through profit or loss / OCI			
Cash and cash equivalents	458,444	458,444	-
Other investments	16,880	16,880	-
Derivative financial instruments	255	-	255
Total assets	475,578	475,324	255
Financial liabilities at fair value through profit or loss / OCI			
Derivative financial instruments	3,792	-	3,792
Total liabilities	3,792	-	3,792

**13. FINANCIAL INSTRUMENTS BY CATEGORY AND FAIR VALUE MEASUREMENT
(continued)**

Description	Fair value measurement as of December 31, 2018 (in USD thousands):		
	Total	Level 1	Level 2
Financial assets at fair value through profit or loss / OCI			
Cash and cash equivalents	140,455	140,455	-
Other investments	36,630	36,630	-
Derivative financial instruments	1,588	-	1,588
Total assets	178,673	177,085	1,588
Financial liabilities at fair value through profit or loss / OCI			
Derivative financial instruments	12,981	-	12,981
Total liabilities	12,981	-	12,981

14. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16 Leases on the Company's financial statements and also discloses the new accounting policies that have been applied from January 1, 2019, where they are different to those applied in prior periods.

(a) Impact on the financial statements

IFRS 16 was adopted following the simplified approach, without restating comparative. The reclassifications and the adjustments arising from the new lease accounting rules are directly recognized in the opening balance sheet on January 1, 2019.

	Property, plant and equipment	Lease liabilities Current (*)	Lease liabilities Non Current (*)
Closing balance as of December 31, 2018 - IFRS 16	5,817,609	8,030	65,798
Initial recognition of right-of-use assets	280,493	-	-
Initial recognition of lease liabilities	-	34,848	245,645
Opening balance as of January 1, 2019 - IFRS 16	6,098,102	42,878	311,443

(*) Lease liabilities in the Consolidated Financial Statements as of December 31, 2018.

(b) IFRS 16 Leases – Impact of adoption

The Company has adopted IFRS 16 Leases from January 1, 2019, but has not restated comparatives for previous reporting period as permitted under the specific transition provisions in the Standard.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. For the initial recognition, these liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019, was of 4.05%. The maturity of the lease liabilities will be of USD 52.3 million until June 2020, USD 51.2 million until June 2021 and USD 238.8 million in the subsequent years.

The cost related to variable-lease payments that do not depend on an index or rate amounted to USD 8.6 million for the six-months period ended June 30, 2019. The expenses related to leases for which the Company applied the practical expedient described in paragraph 5 (a) of IFRS 16 (leases with contract term of less than 12 months) amounted to USD 2.4 million for the six-months period ended June 30, 2019.

14. CHANGES IN ACCOUNTING POLICIES (continued)

The difference between the amount of the lease liability recognized in the statement of financial position at the date of initial application and the operating lease commitments under IAS 17 is due to leases with a duration lower than 12 months and leases with a value lower than thirty thousand dollars and/or with clauses related to variable payments.

The adoption of IFRS 16 Leases from January 1, 2019, resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements.

Right-of-use assets

The total of the right-of-use assets are included under such type of assets in Property, plant and equipment. These right-of-use assets include the following classification:

	Buildings and improvements	Production equipment	Vehicles, furniture and fixtures	Total
Values at the beginning of the year				
Cost		55,288		55,288
Accumulated depreciation		(5,918)		(5,918)
Net book value at January 1, 2019	-	49,370	-	49,370
Opening net book value	-	49,370	-	49,370
Effect of initial recognition under IFRS 16	226,936	52,469	1,088	280,493
Translation differences	314	4,432	-	4,746
Net additions	2,287	445	1,534	4,266
Depreciation charge	(14,656)	(7,171)	(211)	(22,038)
Closing net book value	214,881	99,545	2,411	316,837
Values at the end of the year				
Cost	229,543	113,055	2,622	345,220
Accumulated depreciation	(14,662)	(13,510)	(211)	(28,383)
Net book value at June 30, 2019	214,881	99,545	2,411	316,837

Lease liabilities

	Lease liabilities		
	Current	Non Current	Total
Values at the beginning of the year	8,030	65,798	73,828
Effect of initial recognition under IFRS 16	34,848	245,645	280,493
Translation differences	2,635	(3,399)	(764)
Net proceeds	1,184	5,923	7,107
Repayments	(23,740)	-	(23,740)
Interest accrued	8,500	-	8,500
Interest paid	(3,172)	-	(3,172)
Reclassifications	23,978	(23,978)	-
At June 30, 2019	52,263	289,989	342,252

(c) IFRS 16 Leases – Accounting policies applied from January 1, 2019

Right-of-use assets and Lease liabilities

The Company is a party to lease contracts for:

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

14. CHANGES IN ACCOUNTING POLICIES (continued)

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

Accounting by the lessee

The Company recognizes a right-of-use asset and a lease liability at the commencement date of each lease contract that grants the right to control the use of an identified asset during a period of time. The commencement date is the date in which the lessor makes an underlying asset available for use by the lessee.

The Company applied exemptions for leases with a duration lower than 12 months, with a value lower than thirty thousand dollars and/or with clauses related to variable payments. These leases have been considered as short-term leases and, accordingly, no right-of-use asset or lease liability have been recognized.

At initial recognition, the right-of-use asset is measured considering:

- The value of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date, less any lease incentives; and
- Any initial direct costs incurred by the lessee; and

After initial recognition, the right-of-use assets are measured at cost, less any accumulated depreciation and/or impairment losses, and adjusted for any re-measurement of the lease liability.

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	2-10 years
Machinery	2-6 years
Vehicles and furniture	2-6 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.

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.

14. CHANGES IN ACCOUNTING POLICIES (continued)

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.

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.

Critical accounting estimates

Valuation of lease liabilities and right-of-use assets

The application of IFRS 16 requires the Company to make judgments that affect the recognition and valuation of the lease liabilities and the right-of-use assets, including the determination of the contracts within the scope of the Standard, the contract term and the interest rate used for the discount of future cash flows.

The lease term determined by the Company generally comprises non-cancellable period of leases contracts, periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option. The same term is applied as economic useful life of right-of-use assets.

The present value of the lease payments is determined using the discount rate representing a risk-free interest rate, adjusted by a spread related to the credit quality of the Company in each location and currency rate in connection with each lease contract.



Pablo Brizzio
Chief Financial Officer