

# Financial Report 2012



## Table of Contents

### PART I

<b>Item 1. Key Information</b>	7
A. Selected Financial Data	7
B. Risk Factors	10
<b>Item 2. Information on the Company</b>	15
A. History and Development of the Company	15
B. Business Overview	19
C. Organizational Structure	34
D. Property, Plant and Equipment	35
<b>Item 3. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	38
A. Operating Results	47
B. Liquidity and Capital Resources	53
C. Research and Development, Patents and Licenses	57
D. Trend Information	57
E. Off-Balance Sheet Arrangements	58
F. Tabular Disclosure of Contractual Obligations	58
G. Quantitative and Qualitative Disclosures about Market Risk	59
<b>Item 4. Directors, Senior Management and Employees</b>	62
A. Directors and Senior Management	62
B. Compensation	68
C. Board Practises/Corporate Governance	74
D. Employees	82
E. Share Ownership	82
<b>Item 5. Major Shareholders and Related Party Transactions</b>	83
A. Major Shareholders	83
B. Related Party Transactions	84
<b>Item 6. Financial Information</b>	85
A. Consolidated Statements and Other Financial Information	85
<b>Item 7. Listing</b>	89
<b>Item 8. Additional Information</b>	90
A. Share Capital	90
B. Articles of Association	90
C. Material Contracts	98
D. Exchange Controls	98
E. Taxation	98
F. Dividends and Paying Agent	107

### PART II

<b>Item 9. Financial Statements</b>	108
-------------------------------------	-----

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Defined Terms and Conventions

“Company”, “we”, “us” and “our” refer to (i) Aperam following the spin-off (as defined below), (ii) Aperam together with its subsidiaries following the spin-off or (iii) the stainless and specialty steels businesses of ArcelorMittal prior to the spin-off, in each case as the context requires. “ArcelorMittal” refers to ArcelorMittal, formerly known as Mittal Steel Company N.V., and its subsidiaries, except in each case where otherwise indicated or where the context otherwise requires. “ArcelorMittal Group” refers to ArcelorMittal and its subsidiaries.

On January 25, 2011, the shareholders of ArcelorMittal approved the separation of its stainless and specialty steels businesses from its global steel and steel related products businesses. As a result, the shareholders of ArcelorMittal received ordinary shares of the Company, which now owns ArcelorMittal’s stainless and specialty steels businesses. ArcelorMittal and the Company are independent from each other as of January 25, 2011.

References to “\$,” “U.S.\$” and “U.S. dollars” are to the United States dollar, the official currency of the United States, references to “real”, “reais” or “R\$” are to Brazilian reais, the official currency of Brazil and references to “euro”, “euros” or “€” are to the euro, the official currency of the European Union member states participating in the European Monetary Union. Certain information presented in Brazilian reais or euros has been translated into U.S. dollars. By including the U.S. dollar equivalents, we do not represent that the Brazilian reais or euro amounts actually represent the U.S. dollar amounts shown or that these amounts could be converted into U.S. dollars at the rates indicated. Unless otherwise indicated, foreign currency translations are presented on the basis of the noon buying rate on December 31, 2012, the date of the Company’s most recent audited statement of financial position. As of that date, the noon buying rate of the Federal Reserve Bank of New York for the Brazilian real was R\$2.0435 per U.S. dollar and for the euro was €0.7579 per U.S. dollar.

In addition, unless indicated otherwise, or the context otherwise requires, references to:

- “AMIB” are to ArcelorMittal Inox Brasil S.A. and was renamed Aperam South America;
- “annealing” are to the process of heating cold steel to make it more suitable for bending and shaping and to prevent breaking and cracking;
- “Articles of Association” are to our articles of association;
- “bright annealing” are to the final annealing lines (with an oven) with a reducing atmosphere which produces a bright annealed finish;
- “brownfield project” are to the expansion of an existing operation;
- “carbon steel scrap” are to recycled carbon steel that is remelted and recasted into new steel;
- “cold rolling” are to the forming method employed after hot rolling;
- “crude steel” are to the first solid steel product upon solidification of liquid steel, including ingots from conventional mills and semis (e.g., slab, billet and blooms) from continuous casters;
- “downstream” are to finishing operations, for example in the case of flat products, the operations after the production of hot-rolled coil;
- “EU-15” are to the 15 member states of the European Union prior to enlargement;
- “ferritic steel” are to stainless steels which have a low carbon content and contain between 13% and 17% chromium, the main alloying element;
- “finishing facilities” are to downstream facilities (including rolling mills, pickle lines, tandem mills, annealing facilities and temper mills);
- “General Moly” are to General Moly, Inc., in which we held, as of December 31, 2012, a 9.04% interest;

- “greenfield project” are to the development of a new project;
- “integrated mills” are to steel mills encompassing in the same location facilities ranging from meltshops and hot and cold rolling mills to finishing lines;
- “IFRS” are to International Financial Reporting Standards as adopted by the European Union;
- “martensitic” are to a small category of magnetic steels typically containing 12% chromium, a moderate level of carbon and a very low level of nickel;
- “Significant shareholder” are to a trust (HSBC Trust (C.I.) Limited, as trustee), of which Mr. Lakshmi N. Mittal, Ms. Usha Mittal and their children are the beneficiaries, or (where the context requires) prior owners of the Significant shareholder’s stake in Aperam;
- “pickling” are to the process where steel coils are cleaned using chemical baths to remove impurities, such as rust, dirt and oil;
- “production capacity” are to the annual production capacity of plant and equipment based on existing technical parameters as estimated by management;
- “sales” include shipping and handling fees and costs billed to a customer in a sales transaction;
- “borrowing base facility” are the senior credit facility of \$800 million;
- “slabs” are to compact blocks of crude steel (usually a product of the casting process in steel mills), which are used as a pre-product in hot-rolling mills to produce hot-rolled coils or strips;
- “spin-off” are to the transfer of the assets comprising ArcelorMittal’s stainless and specialty steels businesses to us and the pro rata allocation of our ordinary shares to ArcelorMittal’s shareholders;
- “stainless steel scrap” are to recycled stainless steel materials that are remelted and recasted into new steel;
- “steckel mill” are to reversing steel sheet reduction mills with heated coil boxes at each end where steel sheet or plate is sent through the rolls of the reversing mill and then coiled at the end of the mill, reheated in the coil box and sent back through the steckel stands and recoiled;
- “upstream” are to operations that precede downstream steel-making, such as coke, sinter, blast furnaces, electric arc furnaces, casters and hot rolling/steckel mills;
- “tonnes” are to metric tonnes and are used in measurements involving stainless and specialty steel products (a metric tonne is equal to 1,000 kilograms or 2,204.62 pounds);
- “W/kg” are to watts per kilogram and are used in measurements involving electrical steel; and
- “width” are to the lateral dimension of rolled steel, as opposed to the length or the gauge.

The fiscal years presented in this financial report are the years ended December 31, 2012, 2011 and 2010, which we refer to as “2012,” “2011” and “2010”, respectively.

The Company was formed for the purpose of holding ArcelorMittal’s stainless and specialty steels businesses. The Company was initially incorporated under the name of ArcelorMittal Stainless & Specialty Steels and its name was changed to Aperam following a notarial deed dated December 10, 2010.

This financial report contains references to some of our owned or licensed trademarks, trade names and service marks, which we refer to as our brands. All of the product names and logos included in this financial report are either registered trademarks of ours or of our licensors.

Certain information provided in this financial report has been sourced from third parties. We confirm that such third-party information has been accurately reproduced and that, so far as we are aware and are able to ascertain from information published by such third parties, no facts have been omitted which would render the third-party information reproduced herein inaccurate or misleading.

## **Financial Information**

This financial report contains the audited consolidated financial statements of Aperam and its consolidated subsidiaries, including the consolidated statement of financial position as of December 31, 2012 and 2011, respectively, and the consolidated statement of operations, changes in equity and cash flows for the year ended December 31, 2012 and 2011, respectively. Aperam's consolidated financial statements were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

This financial report also contains our audited historical combined financial statements as of and for the year ended December 31, 2010 that have been prepared in accordance with IFRS as adopted by the European Union.

All financial information is presented in U.S. dollars with all amounts rounded to the nearest million, except otherwise stated.

In connection with the preparation of our December 31, 2009 audited historical combined financial statements, we adopted IFRS on January 1, 2007 and, in connection with that initial adoption, have applied the accounting principles effective as of the end of the year ended December 31, 2009 to all periods prior to December 31, 2009. The historical combined financial statements have been prepared on a "carve-out" basis from the ArcelorMittal consolidated financial statements using the historical results of operations, assets and liabilities attributable to ArcelorMittal's stainless steel and nickel alloys business, and certain other entities, except for the effects of the first-time adoption of IFRS under IFRS 1. The historical combined financial statements also include allocations of expenses from ArcelorMittal. The historical combined financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets and derivative financial instruments, which are measured at fair value, and inventories, which are measured at the lower of net realizable value or cost.

Companies controlled by ArcelorMittal entities as of our adoption of IFRS, January 1, 2007, were recognized in the opening combined statement of financial position as of that date at their initial carrying value in the ArcelorMittal consolidated financial statements by increasing combined equity. Substantially all of the subsidiaries within the scope of our combination were acquired in August 2006 as part of the acquisition of Arcelor by Mittal Steel. In connection with this acquisition, associated goodwill, intangible assets, and certain fair value adjustments were recorded. Any goodwill and fair value adjustments recorded by ArcelorMittal have been recognized in full in the historical combined financial statements.

## **Market information**

This financial report includes industry data and projections about our markets obtained from industry surveys, market research, publicly available information and industry publications. Statements regarding our competitive position contained in this financial report are based, in part, on public sources. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on a number of significant assumptions. In addition, in many cases we have made statements in this financial report regarding our industry and our position in the industry based on internal surveys, industry forecasts and market research, as well as our own experience.

## FORWARD-LOOKING STATEMENTS

This financial report contains forward-looking statements. Such forward-looking statements include, but are not limited to, statements regarding management's expectations as to savings from the Company's cost reduction programs; the anticipated benefits of Aperam BioEnergia and General Moly; management's expectations of the long-term growth potential of the stainless steel industry; the Company's ability to achieve or maintain ongoing regulatory and environmental compliance in the various jurisdictions in which it operates; the adequacy of the Company's credit facilities to meet its present and future requirements; and the Company's expectations regarding its business, growth, future financial condition, results of operations and prospects. These statements usually contain the words "believes", "plans", "expects", "anticipates", "intends", "estimates" or other similar expressions. Forward-looking statements involve known and unknown risks and uncertainties. Although management believes that the expectations reflected in these forward-looking statements are reasonable, there is no assurance that the actual results or developments anticipated will be realized or, even if realized, that they will have the expected effects on the business, financial condition, results of operations or prospects of the Company.

These forward-looking statements speak only as of the date on which the statements were made, and no obligation has been undertaken to publicly update or revise any forward-looking statements made in this financial report as a result of new information, future events or otherwise, except as required by applicable laws and regulations. In addition to other factors and matters contained in this financial report, the following major factors could cause actual results to differ materially from those discussed in the forward-looking statements:

- global economic cycle downturn, geopolitical risks, overcapacity in the stainless steel industry and/or China slowdown;
- the risk of nickel price decrease and raw material price uncertainty;
- fluctuations in currency exchange rates;
- the risk that developments in the competitive environment in the steel industry could have an adverse effect on Aperam's competitive position;
- the risk of disruptions to Aperam's manufacturing operations or damage to Aperam's production facilities due to natural disasters or other events;
- litigation risks;
- customer risks with respect to default and credit insurance companies refusing to ensure the risks;
- the risks of lack of competitiveness of the workforce costs and retention;
- the risk that changes in the macroeconomic environment result in the recognition of impairment against the goodwill and/or tangible assets carried on the balance sheet;
- the environmental and health and safety risks;
- funding risks and
- energy risks.

These factors are discussed in more detail in this financial report, including under "Risk Factors".

## PART I

### Item 1. Key Information

#### A. Selected Financial Data

The following tables present selected consolidated financial information of Aperam as of and for the years ended December 31, 2012, 2011 and 2010. This summary financial information should be read in conjunction with the historical combined financial included elsewhere in this financial report. The consolidated financial statements are presented in U.S. dollars with all amounts rounded to the nearest million, except for share and per-share data. We have prepared the historical combined financial statements assuming an IFRS transition date of January 1, 2007.

#### Consolidated Statement of Operations

The following table presents data from our consolidated statement of operations for the years ended December 31, 2012, 2011 and 2010. See "Item 3. Management's Discussion and Analysis of Financial Conditions and Results of Operations" for additional information.

	Year ended December 31,		
	2012	2011	2010 Combined
	(in million of U.S. dollars)		
Sales <sup>(1)</sup> .....	5,261	6,345	5,604
Cost of sales <sup>(2)</sup> .....	5,128	6,039	5,254
Gross margin .....	133	306	350
Selling, general and administrative .....	239	261	257
Operating (loss) income .....	(106)	45	93
Income from other investments .....	2	2	9
Interest income .....	3	3	9
Interest expense and other net financing costs .....	(71)	(157)	(9)
(Loss) income before taxes .....	(172)	(107)	102
Income tax benefit .....	64	48	3
Net (loss) income (including non-controlling interests) .....	(108)	(59)	105
Net (loss) income attributable to:			
Equity holders of the parent .....	(108)	(60)	104
Non-controlling interests .....	—	1	1
Net (loss) income (including non-controlling interests) .....	(108)	(59)	105
Basic earnings per share <sup>(3)</sup> .....	(1.39)	(0.76)	—

#### Notes:

- (1) Includes \$150 million, \$180 million and \$194 million of sales to related parties for the years ended December 31, 2012, 2011 and 2010, respectively.
- (2) Includes depreciation and impairment of \$320 million, \$311 million and \$317 million and purchases from related parties of \$157 million, \$269 million and \$1,165 million for the years ended December 31, 2012, 2011 and 2010, respectively.
- (3) Basic earnings per ordinary share is computed by dividing net income attributable to equity holders of Aperam by the weighted average number of ordinary shares outstanding during the period presented.

## Consolidated Statement of Financial Position

The following table presents data from our consolidated statement of financial position as of December 31, 2012, 2011 and 2010:

	December 31,		
	2012	2011	2010 Combined
	(in million of U.S. dollars)		
Cash and cash equivalents .....	226	247	120
Trade accounts receivable .....	330	391	405
Inventories .....	1,227	1,262	1,496
Property, plant and equipment .....	2,474	2,659	2,917
Total assets .....	5,909	6,201	7,335
Short-term debt and current portion of long-term debt .....	435	538	900
Long-term debt, net of current portion .....	607	587	932
Total liabilities .....	2,719	2,758	3,681
Total equity .....	3,190	3,443	3,654
Total liabilities and total equity .....	5,909	6,201	7,335

## Consolidated Statement of Cash Flows

The following table presents data from our consolidated statement of cash flows for the years ended December 31, 2012, 2011 and 2010:

	Year Ended December 31,		
	2012	2011	2010 Combined
	(in million of U.S. dollars)		
Net cash provided by operating activities .....	278	189	362
Net cash provided by (used in) investing activities .....	(158)	498	(404)
Net cash (used in) provided by financing activities .....	(146)	(552)	42

## Operating Data

The following table presents certain operating data which we use to analyze our business:

	As of and for the year ended December 31,		
	2012	2011	2010 Combined
Shipments (in thousands of tonnes) .....	1,683	1,749	1,741
Average steel selling price (in U.S. dollars):			
Stainless & Electrical Steel .....	2,489	2,903	2,591
Services & Solutions .....	3,148	3,764	3,397
Alloys & Specialties .....	17,405	18,805	15,368
Adjusted EBITDA/tonne (in U.S. dollars) .....	127	224	235



## Other Financial Data

The following table presents other financial data which we use to analyze our business on a consolidated basis:

	As of and for the Year Ended December 31,		
	2012	2011	2010 Combined
	(in million of U.S. dollars)		
Capital expenditures.....	161	158	101
Adjusted EBITDA <sup>(1)</sup> .....	214	392	410
Total debt <sup>(2)</sup> .....	1,042	1,125	1,832
Net debt <sup>(3)</sup> .....	816	878	1,066

### Notes:

- (1) Adjusted EBITDA is defined as operating income plus depreciation, impairment expenses and other items. Other items are those charges and gains that we describe below. We use adjusted EBITDA as a supplemental measure of operating performance. We also believe that adjusted EBITDA is a useful indicator of our ability to service our indebtedness. Adjusted EBITDA is not a measure of performance under IFRS and not all companies calculate adjusted EBITDA or similarly titled financial measures in the same manner. As such, adjusted EBITDA as disclosed by other companies may not be comparable with our use of adjusted EBITDA.

Other items consist of: (i) inventory write-downs of at least 10% of total related net inventories value before writedown at the relevant quarter end or of at least \$75 million; (ii) restructuring charges/(gains) of at least \$10 million for the relevant quarters; (iii) capital loss/(gain) of at least \$10 million for the relevant quarter; or (iv) one-off capital loss/(gains) of at least \$10 million for the relevant quarter.

The following table presents a reconciliation of adjusted EBITDA to operating income:

	As of and for the Year Ended December 31,		
	2012	2011	2010 Combined
	(in million of U.S. dollars)		
Operating (loss) income .....	(106)	45	93
Depreciation & impairment .....	320	311	317
Other items .....	—	36	—
Adjusted EBITDA .....	214	392	410

- (2) Total debt refers to short-term debt plus long-term debt.
- (3) Net debt refers to total debt, less cash and cash equivalents, and less amounts receivable under cash pooling arrangements with ArcelorMittal of nil, nil and 646 in 2012, 2011 and 2010, respectively. Net debt is not a recognized measure under IFRS and does not purport to be an alternative to debt calculated in accordance with IFRS. Management believes that net debt is useful to investors in assessing our financial condition and results of operations, as well as our capital structure. Though other companies in the steel industry present net debt, they may not calculate it identically, and our presentation of net debt may not be comparable to such similarly titled measures

## **B. Risk Factors**

*The Company's business, financial condition, results of operations or prospects could be materially adversely affected by any of the major risks and uncertainties described below.*

### **Global economic cycle downturn, geopolitical risks, overcapacity in the stainless steel industry and/or China slowdown**

#### *Global economic cycle downturn*

The Company's business and results of operations are substantially affected by international, national and regional economic conditions, including geopolitical risks that might disrupt the economic activity in affected countries.

Globally, compared to the stainless steel flat products demand growth of approximately 7% per annum over the years 2000 to 2007, demand has only grown by 3% per annum over the years 2010 to 2012, due to the crisis environment. The reduced growth rate of global stainless steel flat products demand has triggered a significant increase of overcapacity as planned capacity additions were still coming on stream. Although the industry has not overproduced compared to demand, structural overcapacity is expected to continue to affect the industry. Since the end of the year 2012, we have started to see signs of a rebound in the business but we continue to remain cautious considering the global economic uncertainty. Should the recovery falter, the outlook for stainless and specialty steel producers will again worsen.

In particular, the re-emergence of recessionary conditions or a period of weak growth in Europe, or slow growth in emerging economies that are, or are expected to become, substantial consumers of stainless and specialty steels (such as Brazil, Russia and India, as well as emerging Asian markets, the Middle East and the Commonwealth of Independent States ("CIS")) would have a material adverse effect on the stainless and specialty steel industry.

#### *Overcapacity*

In addition to economic conditions, the stainless steel industry is affected by global production capacity and fluctuations in stainless steel imports and exports. The stainless steel industry has historically suffered from structural overcapacity, particularly in the EU-15. Production capacity in the developing world, particularly China, has recently increased substantially and China is now the largest global stainless steel producer by a large margin. The balance between China's domestic production and consumption is accordingly an important factor in global stainless steel prices. Chinese stainless steel exports, or conditions favorable to them (such as excess capacity in China and/or higher market prices for stainless steel in markets outside of China), can have a significant impact on stainless steel prices in other markets, including Europe and South America. Over the short to medium term, the Company is exposed to the risk of stainless steel production increases in China and other markets outstripping increases in real demand, which may weigh on price recovery in the industry as a whole.

#### *China slowdown*

A significant factor in the worldwide strengthening of stainless and specialty steel pricing in recent years has been the significant growth in consumption in China, which at times has outpaced its manufacturing capacity. At times, this has resulted in China being a net importer of stainless and specialty steel products, as well as a net importer of raw materials and supplies required for the manufacturing of these products. A reduction in China's economic growth rate with a resulting reduction in stainless and specialty steel consumption, coupled with China's expansion of steel-making capacity, could have the effect of a substantial weakening of both domestic and global stainless and specialty steel demand and pricing.

### **The risk of Nickel price decrease and raw material price uncertainty**

The Company's profitability correlates amongst others with nickel prices. A significant price decrease of nickel would have a negative impact on apparent demand and base prices due to a "wait and see" behavior from customers. Furthermore, nickel is listed on the LME and subject to speculation by the financial markets.

Stainless and specialty steel production requires substantial amounts of raw materials (primarily nickel, chromium, molybdenum, stainless and carbon steel scrap, charcoal (biomass) and iron ore). Except for charcoal, which is produced internally, the Company is exposed to price uncertainty with respect to each of these raw materials, which it purchases mainly under short and long-term contracts, but also on the spot market.

#### **The Company's results of operations could be affected by fluctuations in foreign exchange rates**

The Company operates and sells its products globally, and a substantial portion of its assets, liabilities, costs, sales and income are denominated in currencies other than the U.S. dollar (the Company's reporting currency). Accordingly, currency fluctuations, especially the fluctuation of the value of the U.S. dollar relative to the euro and the Brazilian real, as well as fluctuations in the currencies of the other countries in which the Company has significant operations and/or sales, could have a material impact on its results of operations.

#### **The stainless and specialty steel market is characterized by strong competition**

The Company faces strong competition from other producers of stainless and specialty steels. Competitors may develop production technologies and products that are more cost effective than those of the Company, which could have a negative impact on its ability to increase its market share while maintaining profitability. Large, diversified producers of stainless and specialty steels may also use their resources, which could be greater than the Company's, in a variety of ways, including by making additional acquisitions, investing more aggressively in product development and capacity and displacing demand for the Company's products. In addition, competition from global stainless and specialty steel manufacturers with significant production capacity and from new market entrants could result in significant price competition, declining margins and reductions in the Company's sales.

#### **The risk of disruptions to our manufacturing operations or damage to our production facilities due to natural disasters or other events**

Stainless and specialty steel manufacturing processes are dependent on critical steel-making equipment, such as furnaces, continuous casters, rolling mills and electrical equipment (such as transformers). The Company has in the past experienced, and may continue to experience, unanticipated plant outages or equipment failures. In addition, it could experience transportation disruptions or disruptions in the supply of raw materials and energy. To the extent that the Company is unable to compensate for lost production as a result of such disruptions with production from unaffected facilities and/or existing inventory, its business, financial condition, results of operations or cash flows could be adversely affected. The Company is particularly exposed to the risk of production disruptions in Brazil, where it operates its production facilities at or near full capacity production levels. Additionally, natural disasters could significantly damage the Company's production facilities and general infrastructure. The Company could also experience labor disputes that may disrupt its operations and its relationships with its customers.

#### **The Company may be subject to litigation which could be costly, result in the diversion of management's time and efforts and require it to pay damages and/or prevent it from marketing its existing or future products**

A number of lawsuits, claims and proceedings have been and may be asserted against the Company in relation to the conduct of its currently and formerly owned businesses, including those pertaining to product liability, patent infringement, commercial practices, employment, employee benefits, taxes, environmental issues, health and safety and occupational disease. Due to the uncertainties of litigation, no assurance can be given that it will prevail on all claims made against it in the lawsuits that it currently faces or that additional claims will not be made against it in the future. While the outcome of litigation cannot be predicted with certainty, and some of these lawsuits, claims or proceedings may be determined adversely to the Company, Management does not believe that the disposition of any such pending matters is likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on its results of operations for that

period. Management can also give no assurance that any litigation brought in the future will not have a material effect on its financial condition or results of operations. For a discussion of certain ongoing investigations and litigation matters involving the Company, see Note 22 to the Consolidated Financial Statements.

#### **Customer risks with respect to default and credit insurance companies refusing to ensure the risks**

Due to the challenging economic situation, the Company is facing increased risk of customers to default or credit insurance companies refusing to ensure the risks of its receivables.

#### **Risks of lack of competitiveness of the workforce costs and retention**

The Company's total cost per employee is the main factor of cost disadvantage in comparison to competitors in certain countries. A lack of competitiveness in the workforce costs might have a material adverse effect on the Company's cost position. The Company's key personnel have an extensive knowledge of its business and, more generally, of the stainless and specialty steel sector as a whole. Its inability to retain key personnel could have a material adverse effect on its business, financial condition, results of operations or cash flows.

#### **Risks that changes in the macroeconomic environment result in the recognition of impairment against the goodwill and/or tangible assets carried on the balance sheet**

At each reporting date, Aperam reviews the carrying amounts of its tangible and intangible assets (excluding goodwill, which is reviewed annually or whenever changes in circumstances indicate that the carrying amount may not be recoverable) to determine whether there is any indication that the carrying amount of those assets may not be recoverable through continuing use. If any such indication exists, the recoverable amount of the asset (or cash generating unit) is reviewed in order to determine the amount of the impairment, if any. The recoverable amount is the higher of its net selling price (fair value reduced by selling costs) and its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash generating unit). If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, an impairment loss is recognized. An impairment loss is recognized as an expense immediately as part of operating income in the consolidated statement of operations.

The goodwill recorded by the Company includes an allocation of the goodwill arising from the acquisition of Arcelor by Mittal Steel on August 1, 2006. Goodwill arising on acquisitions subsequent to January 1, 2007 is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. Goodwill has been allocated at the level of the Company's three operating segments; the lowest level at which goodwill is monitored for internal management purposes. Goodwill is tested for impairment annually at the levels of the groups of cash generating units which correspond to the operating segments during the fourth quarter, or when changes in the circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of the groups of cash generating units are determined on the basis of value in use calculations, which depend on certain key assumptions. These include assumptions regarding the shipments, discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market rates for investments of similar risk. The growth rates are based on the Company's growth forecasts, which are in line with industry trends. Changes in selling prices and direct costs are based on historical experience and expectations of future changes in the market. See Notes 2 and 6 to Aperam's consolidated financial statements.

If management's estimates change, the estimate of the recoverable amount of goodwill or the asset could fall significantly and result in impairment. While impairment does not affect reported cash flows, the decrease of the estimated recoverable amount and the related non-cash charge in the consolidated statement of operations could have a material adverse effect on Aperam's results of operations or financial condition.

At December 31, 2012, substantial amounts of goodwill (\$744 million) and other intangible assets (\$115 million) remain recorded in its consolidated statement of financial position. No assurance can be given as to the absence of significant impairment losses in future periods, particularly if market conditions continue to deteriorate. In particular, Management believes that reasonably possible changes in key assumptions would cause an impairment loss to be recognized in respect of the Stainless & Electrical Steel and Services & Solutions segments, which account for \$717 million of goodwill at December 31, 2012. See Note 6 to Aperam's consolidated financial statements.

## **Environmental and health and safety risks**

The Company's activities are subject to extensive and increasingly stringent environmental laws and regulations regarding for example, control of major accidents, elimination of waste water, elimination of hazardous solid industrial waste, prevention of atmospheric and water pollution, protection of sites, health and safety and remediation of environmental contamination. The Company may be required to pay potentially significant fines or damages as a result of past, present or future violations of applicable environmental laws and regulations, even if these violations occurred prior to the acquisition of the companies or operations responsible for the relevant violations.

Furthermore, compliance with new and more stringent environmental obligations, particularly those arising from policies limiting greenhouse gas emissions, may require additional capital expenditures or modifications in operating practices, as well as additional reporting obligations. For additional information, see Note 22 to the Consolidated Financial Statements.

The Company's operations and products are subject to a broad range of health and safety laws and regulations in each of the jurisdictions in which it operates. The costs of complying with, and the imposition of liabilities pursuant to, health and safety laws and regulations could be significant, and failure to comply could result in the assessment of civil and criminal penalties, the suspension of permits or operations, and lawsuits by third parties. Additionally, despite the Company's significant efforts to monitor and reduce accidents at its facilities, there remains a risk that health and safety incidents may occur, which may result in costs and liabilities and negatively impact its reputation or the operations of the affected facility.

## **Funding risk**

If the stainless steel markets deteriorate further, consequently reducing operating cash flows, Aperam may have difficulty accessing financial markets to refinance maturing debt on acceptable terms or, in extreme scenarios, come under liquidity pressure. Aperam's access to financial markets for refinancing also depends on conditions in the global capital and credit markets which are volatile and are sensitive in particular to developments in the Euro-zone sovereign debt situation. Financial markets could conceivably deteriorate sharply, including in response to significant political or financial news, such as large credit losses at a systemically important financial institution or the bankruptcy of a large company, a default or heightened risk of default by a sovereign country in Europe or elsewhere, or worse, the voluntary exit or expulsion of certain countries from the Euro currency block and/or a collapse of the Euro-zone financial system, which would be a deeply disruptive global economic event. Under such circumstances, the Company could experience difficulties in accessing the financial markets on acceptable terms or at all.

In addition, credit rating agencies could downgrade Aperam's ratings either due to factors specific to Aperam, a prolonged cyclical downturn in the stainless steel industry or macroeconomic trends (such as global or regional recessions) and trends in credit and capital markets more generally. In this respect, on November 8, 2012, Moody's downgraded the corporate family rating for Aperam S.A. to B1 from Ba3. Moody's maintained the company's negative outlook. On November 30, 2012, S&P lowered the long term corporate credit rating on Aperam to 'B+' from 'BB-'. S&P maintained its negative outlook on Aperam. Any further downgrades in Aperam's credit ratings would result in an increase in its cost of borrowing, could reduce the size of the sale of receivables program as well as hinder its ability to refinance its existing indebtedness on acceptable terms.

As described in the Liquidity section of this financial report, the borrowing base facility contains financial covenants, including: a minimum ratio of consolidated current assets to consolidated current liabilities of 1.1:1; a minimum consolidated tangible net worth of \$2.2 billion; and a maximum consolidated total debt of

70% of consolidated tangible net worth. On December 31, 2012, these financial covenants were fully met. Failure to comply with these covenants would enable the lenders to accelerate Aperam's repayment obligations. In addition, even market perception of a potential breach of any financial covenant could have a negative impact on Aperam's ability to refinance its indebtedness on acceptable conditions.

### **Energy risks**

The prices for, and the availability of, electricity, natural gas and other energy resources used by the Company in the manufacture of its products are subject to volatile market conditions. These market conditions often are affected by political and economic factors beyond the Company's control. Disruptions in the supply of energy resources could temporarily impair the Company's ability to manufacture products for its customers. Furthermore, increases in energy costs or changes in costs relative to energy costs paid by competitors have had and may continue to have an adverse effect on the Company's profitability. To the extent that these uncertainties cause suppliers and customers to be more cost sensitive, increased energy prices may have a material adverse effect on the Company's business, financial condition, result of operations or cash flows.

## **Item 2: Information on the Company**

### **A. History and Development of the Company**

#### **Aperam Overview**

We are a leading global stainless and specialty steel producer based on our annual production capacity of 2.5 million tonnes in 2012. We are the largest stainless and specialty steel producer in South America and we are the second largest producer in Europe. We are also a leading producer of high value-added specialty products, including grain oriented (“GO”) and non-grain oriented (“NGO”) electrical steels and nickel alloys. Our production capacity is concentrated in six production facilities located in Brazil, Belgium and France, and we have approximately 9,800 employees. Our distribution network is comprised of 18 Steel Service Centers (“SSCs”), 9 transformation facilities and 22 sales offices. We sell our products to customers on three continents in over 40 countries, including customers in the aerospace, automotive, catering, construction, household appliances and electrical engineering, industrial processes, medical, and oil & gas industries.

We had sales of \$5.3 billion, \$6.3 billion and \$5.6 billion and shipments of approximately 1.68 million tonnes, 1.75 million tonnes and 1.74 million tonnes for the years ended December 31, 2012, 2011 and 2010, respectively.

We manage our business according to three operating segments:

- *Stainless & Electrical Steel.* We are one of the largest global producers of stainless steel by production capacity. We produce a wide range of stainless and electrical steels (both GO and NGO steel) and focus on developing new grades of stainless steel and higher grades of electrical steel. We have a broad portfolio of stainless and electrical steel products and we continuously expand our product offerings.
- *Services & Solutions.* Our Services & Solutions segment performs three core activities: (i) the management of exclusive, direct sales of stainless steel products from our production facilities, primarily those located in Europe; (ii) distribution of our and, to a much lesser extent, external suppliers’ products; and (iii) transformation services, which include the provision of value-added and customized steel solutions through further processing to meet specific customer requirements.
- *Alloys & Specialties.* We believe that our Alloys & Specialties segment is the fourth largest producer of nickel alloys in the world. We are specialized in the design, production and transformation of various nickel alloys and certain specific stainless steels. Our products take the form of bars, semis, cold-rolled strips, wire and wire rods, and plates, and are offered in a wide range of grades.

On June 7, 2011, Aperam announced that its biomass operations in Brazil have been separated from ArcelorMittal’s biomass operations and will be renamed Aperam BioEnergia. The legal steps of the demerger were completed in the third quarter and since then the results of Aperam BioEnergia are fully consolidated into those of the Company. Aperam’s biomass operations constitute a leading company in the sector of biomass production for the steel industry with state-of-the-art forest management, harvesting machinery and carbonization kilns. In 2012 and 2011, we respectively produced 429,000 tons and 318,000 tons of charcoal through Aperam BioEnergia. We use the charcoal (biomass) produced by Aperam BioEnergia as a substitute for coke at our Timóteo production facility in Brazil, enabling us to produce stainless and specialty steel products in a more efficient and sustainable manner. We also hold a minority interest in General Moly (9.04% as of December 31, 2012), the owner of one of the world’s largest development projects for the production of molybdenum, with which we have entered into a long-term supply agreement.

## History and Development of the Company

### ***The creation of Aperam***

On December 7, 2010, the Board of Directors of Aperam and the Board of Directors of ArcelorMittal approved a proposal to spin off ArcelorMittal's stainless and specialty steels businesses to its shareholders in order to enable it to benefit from better visibility in the markets, and to pursue its growth strategy as an independent company in the emerging markets and in specialty products, including electrical steel. On January 25, 2011, at an extraordinary general meeting, the shareholders of ArcelorMittal voted to approve the spin-off proposal. Since the creation of Aperam, the main shareholder ("Significant Shareholder") holds 40.8% of the issued share capital and the Luxembourg State 2.5% of the issued share capital. Please refer to "Item 5. Major Shareholders and Related Party Transactions" for more information about the share capital structure and the definition of the term "Significant shareholder".

The ordinary shares were admitted to listing and trading on the regulated market of the Luxembourg Stock Exchange, Euronext Amsterdam and Euronext Paris on January 31, 2011. The Aperam shares are also traded as New York registry shares on the OTC.

### ***The company***

The Company is a Luxembourg public limited liability company (*société anonyme*) incorporated on September 9, 2010 to hold the assets which comprise the stainless and specialty steels businesses of ArcelorMittal.

The Company has its registered office at 12C, rue Guillaume Kroll, L-1882 Luxembourg, Grand Duchy of Luxembourg and is registered with the Luxembourg Register of Commerce and Companies under the number B-155.908.

### ***History***

The stainless and specialty steels businesses of Aperam are primarily composed of four entities, Ugine S.A., ALZ, Acesita and Imphy S.A., and were formed from several business combinations. The history of these four entities is described below.

#### ***Ugine S.A.***

Ugine ACG was formed from three French ironworks plants: Gueugnon, which was founded in 1724 and introduced the first bright annealing line in 1962; Isbergues, which was founded in 1881 by the "Société des Aciéries de France"; and Ardoise, which was founded in the early twentieth century. Ugine Aciers, the predecessor entity of Ugine ACG, was acquired by Sacilor S.A. in 1982. Following the merger of Sacilor S.A. and Usinor S.A. in 1986, Ugine ACG was reorganized as Ugine S.A. in 1991 and restructured as the stainless steel division of Usinor. At the time of this reorganization, Ugine S.A. comprised Ugine-Savoie, which produced long stainless steel products, Industeel, J&L Steel and Thainox, which was subsequently separated from Ugine S.A.

In 1998, Usinor acquired 27.83% of Acesita, a Brazilian stainless steel producer that was renamed Aperam South America (formerly known as "ArcelorMittal Inox Brasil").

#### ***ALZ***

In 1961, Allegheny Ludlum, an American stainless steel producer, and Espérance-Longdoz, a Belgian steel producer, formed Allegheny-Longdoz, which was originally a reroller of flat stainless steel. In 1970, Allegheny-Longdoz completed the construction of a steel plant in Genk, Belgium, and, in 1974, after the departure of Allegheny Ludlum, Allegheny-Longdoz was renamed ALZ. In 1985, Arbed S.A. acquired the majority of ALZ through its subsidiary Sidmar N.V. and in 1987, ALZ became a subsidiary of Arbed S.A. In 2000, ALZ completed an overhaul of the Genk production facility.

#### ***Acesita (Aperam South America formerly known as "ArcelorMittal Inox Brasil")***

Acesita was founded in 1944 and commenced operations as a cold roller of flat stainless steel in 1977 and as a cold roller of electrical steels in 1979. In 1980, its steckel mill became fully operational. In 1992,



Acesita was privatized and in 1998, Usinor acquired 27.83% of its shares. Usinor subsequently increased its stake to 40.12% in 2005 and 57.30% in 2006. Following the merger of Arcelor with Mittal Steel in 2006, ArcelorMittal completed the acquisition of 100% of the share capital of Acesita (which was renamed ArcelorMittal Inox Brasil afterward Aperam South America) in 2008 and Aperam South America was subsequently delisted from the São Paulo Stock Exchange ("Bovespa").

### ***Imphy S.A. (Aperam Alloys Imphy formerly known as ArcelorMittal Stainless and Nickel Alloys)***

Imphy S.A.'s core operations are located in Imphy, France, where the Forge d'Imphy commenced operations in the early seventeenth century. Imphy S.A. has been a pioneer in the development of iron-nickel grades, particularly through the discovery of the 36% iron-nickel alloy, known as Invar<sup>®</sup>, which has been a registered trademark of Imphy S.A. since 1904. Since then, Imphy S.A.'s focus has been on specialty steels. In 1961, Imphy S.A. diversified into electrical components manufacturing through the creation of Mécanique de Montargis Co., which has been renamed as ArcelorMittal Stainless and Nickel Alloys Components. Imphy S.A. was part of the Creusot-Loire group until it became part of Sacilor S.A. in 1983. Following the merger of Sacilor S.A. and Usinor S.A. in 1986, Usinor-Sacilor was subsequently privatized in 1995 and then reorganized as Usinor in 1997.

Imphy S.A. completed the construction of an electrical arc furnace meltshop in 1982 and the revamping of its wire rolling mill in 1995. In 2008, ArcelorMittal Stainless and Nickel Alloys acquired Rescal S.A., which owns a wire drawing mill located outside Paris.

### ***Formation of Ugine & ALZ (U&A)***

Ugine & ALZ ("U&A") was formed in 2002 as part of the three-way merger of Usinor, the Arbed Group and Aceralia, a Spanish steel company which had a strategic alliance with the Arbed Group. Following the merger of Arcelor S.A. and Mittal Steel, Ugine & ALZ was renamed ArcelorMittal Stainless Europe.

In 2005, U&A completed the construction of Carinox, a state-of-the-art meltshop, which replaced the L'Ardoise and Isbergues meltshops.

### ***Expansion of the Company's Distribution Network***

In the late 1990s, the stainless steel division of ArcelorMittal began to build its distribution network when it acquired independent distributors in Italy, Germany and Spain. From 2000 onwards, its distribution network was upgraded in order to improve the competitiveness of these distributors and increase the volumes handled by them. The Company also acquired Amorim, its first distributor in Brazil, in 2000. In 2005, it established Steel Service Centers in Poland, China and Vietnam, as well as a new tube making unit in Usti, Czech Republic. Recently, the Company has focused on expanding its distribution network in South America, and during 2007 and 2008, it acquired ArcelorMittal Montevideo (formerly Cínter), a tube manufacturer in Uruguay, M.T. Majdalani y Cia., the leading stainless steel distributor in Argentina, and Inox Tubos, a Brazilian tube mill.

### ***Capital Expenditure***

Capital expenditures for the years ended December 31, 2012, 2011 and 2010 were \$161 million, \$158 million and \$101 million, respectively. Similar as in 2011, capital expenditures for 2012 related primarily to the key projects of our Leadership Journey<sup>®</sup> with investments in Gueugnon, Imphy and Campinas as well as maintenance investments in our facilities in Brazil, France and Belgium. Capital expenditure for 2010 related primarily to the Timóteo facility with the conversion of our second blast furnace from coke to charcoal (biomass) and to switch from LPG to natural gas as well as to the maintenance of our facilities in Brazil, Belgium and France.

We have budgeted less than the 2012 capital expenditures for capital expenditure projects in 2013, relating primarily to our Leadership Journey<sup>®</sup> and the maintenance of our facilities in Brazil, Belgium and France. Capital expenditures will be concentrated on security, environment and cost reduction. We will remain cautious on capital expenditures whilst enabling adjustments based upon market conditions.

## ***Divestitures***

On July 1, 2009, ArcelorMittal Energética Jequitinhonha, a wholly owned subsidiary of Aperam South America (formerly known as ArcelorMittal Inox Brasil), acquired ArcelorMittal Florestas, a wholly owned subsidiary of ArcelorMittal Brasil, and contributed this entity to BioEnergia, a joint venture with ArcelorMittal, in return for a 34% interest in the joint venture. During 2010, this interest was increased to 36.5% through a capital increase. Other than its contribution of assets to the BioEnergia joint venture, the Company has not made any significant divestitures over the past three years. On November 1, 2010, ArcelorMittal Inox Brasil entered into a letter of intent with ArcelorMittal to segregate BioEnergia's charcoal activities supporting ArcelorMittal's long steel business from its charcoal activities supporting the Company's stainless steel business through a demerger of the assets and liabilities related to BioEnergia's charcoal activities supporting ArcelorMittal's long steel business. This was proposed to be accomplished by the creation of a wholly owned subsidiary of BioEnergia, to which the assets and liabilities associated with ArcelorMittal's long steel business would be contributed. ArcelorMittal would then redeem its shares in BioEnergia and receive all of the shares of the newly created subsidiary. As a result, Aperam South America would become the sole shareholder of BioEnergia. On June 7, 2011, Aperam announced that its biomass operations in Brazil had been separated from ArcelorMittal's biomass operations and would be renamed Aperam BioEnergia. The legal steps of the demerger were completed in the third quarter of 2011 and since then the results of Aperam BioEnergia are fully consolidated into those of the Company. Aperam's biomass operations constitute a leading company in the sector of biomass production for the steel industry with state-of-the-art forest management, harvesting machinery and carbonization kilns.

## **B. Business Overview**

### ***Our key competitive strengths at a glance***

*Strong values and a commitment to sustainability and health and safety*

We understand the Company's responsibility to future generations and local communities. In addition to Aperam BioEnergia enabling the use of sustainable biomass technology, we have created environmentally sustainable production solutions while still meeting the stainless and specialty steel demands of our customers. With a strong focus on health and safety, Aperam has in the year 2012 a Lost Time Injury Frequency rate<sup>(1)</sup>, our main indicator in this field, of 1.3 per million of hours worked against 0.7 in 2011. Health and Safety remains Aperam's top priority.

*A leading position in the stainless steel industry and geographically well positioned*

Aperam is the largest stainless and specialty steel producer in South America, the second in Europe and the sixth in the world. Aperam is well-positioned in both developed and emerging markets with two thirds of its sales realized in developed world and one third in emerging countries. Aperam has a unique position in Brazil and South America which based upon historically apparent consumption per capita continue to have an important growth potential.

*A solid industrial base*

In Brazil, Aperam is operating one fully integrated plant using charcoal produced by Aperam BioEnergia. In Europe, Aperam has an industrial network based on 4 plants of high quality and cost effectiveness since the European steelmaking restructuring were realised in the mid-2000's. In particular, Aperam benefits from the last Greenfield built in Europe and from restructurations and investments launched with its "Leadership Journey®" programme. The Leadership Journey® is described in greater detail below.

*A global distribution network*

Aperam has a global sales, distribution and steel service centers network, including precision & tubes businesses representing a key competitive advantage to maintaining market share and capturing growth opportunities.

*A leading position in nickel alloys*

Aperam offers a wide range of products, including high value-added niche products, to a diversified customer base in both emerging and developed markets. Aperam is the fourth largest global nickel alloys producer which is a highly value creative business.

*A solid financial structure*

Aperam has one of the strongest balance sheet and highest margins of the European industry. Aperam had a gearing of 26% at December 31, 2012 and generated in 2012 an EBITDA of USD 214 million in a difficult environment.

### ***Aperam's strategy at a glance***

Aperam's strategy is based on a top line and value strategy as well as on its "Leadership Journey®" programme targeting cost reductions and increasing productivity.

The top line and value strategy includes expanding the Alloys & Specialties segment, adding more value through the Services & Solutions segment, leveraging Aperam's unique product portfolio, enhancing the marketing strategy and finally catching new opportunities.

Cost competitiveness and achieving the Leadership Journey® remains the prime objective.

---

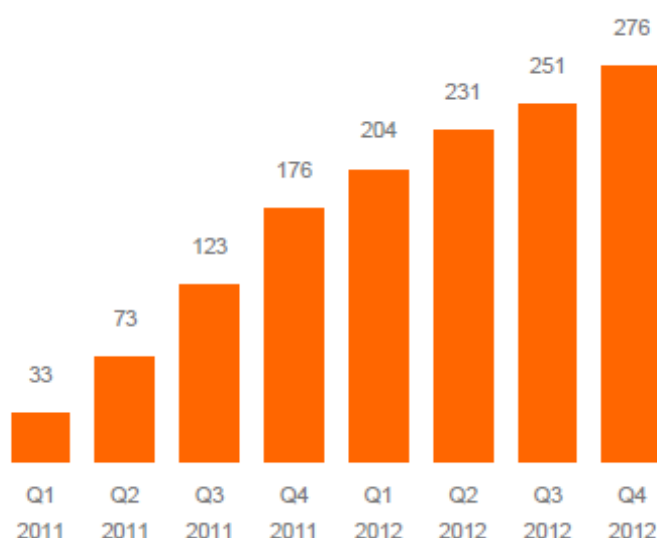
<sup>(1)</sup> Lost time injury frequency rate equals lost time injuries per 1,000,000 worked hours, based on own personnel and contractors

At the end of 2010, the Company launched an initiative to target \$250 million of management gains and fixed cost reductions by the end of 2012. The program, referred to as the “Leadership Journey®”, focuses on fixed and variable cost reductions and increasing productivity.

In November 2011, we announced that in response to the current economic uncertainty and in a continuing effort to improve Aperam’s cost competitiveness and profitability, we targeted an additional \$100 million of management gains and profit enhancement under the Leadership Journey®. This initiative is in addition to the \$250 million program with a new combined target of \$350 million of management gains and profit enhancement by 2013. As part of this increase, we focus on further industrial optimization and rationalization in Europe, systematic benchmarking in Brazil and new sourcing initiatives.

As of December 31, 2012, the Company achieved \$276 million of management gains and profit enhancement under the Leadership Journey®.

**Graph: Cumulated gains (in \$ million)**



Key projects completed in 2012 include the completion of a new induction furnace and electro slag remelting furnace at Imphy (France – Alloys & Specialities) and the completion of a service center expansion in Campinas (Brazil – Services & Solutions). The new hot annealing and pickling line RD79 at Gueugnon (France – Stainless & Electrical Steel) which was part of the Leadership Journey® was damaged on December 23, 2012 during an accidental fire. Aperam is mitigating the resulting production fallout by stepping up production at its other active pickling and annealing lines and has in addition decided to temporarily relaunch two idled production lines that were kept as capacity reserves. With these measures, Aperam will be able to supply its customers while the RD79 line is being rebuilt. The restart of the RD79 line is expected before the second half of 2013.

Key projects progressing include the industrial optimization and rationalization in Europe, new actions on meltshop and downstream activities following benchmarking in Brazil, new sourcing initiatives, yield and quality improvements, organization simplifications, biomass developments and new product growths.

On February 4, 2013, Aperam announced that the Company targets an expansion of the Leadership Journey® by 2014 with \$150 million of cost savings targeted over the next 2 years starting end of 2012. This expansion of the Leadership Journey® leads to a new combined target of \$425 million by 2014.

## ***Sustainability***

On January 23, 2012, Aperam joined the United Nations Global Compact, the world's largest corporate responsibility initiative with over 8,000 business and non-business participants in 135 countries. The International Stainless Steel Forum (“ISSF”) has granted its 2012 Sustainability Award to Aperam for SolarStyl®, its pioneering solar panel technology. The prize was announced at the ISSF’s annual meeting in Beijing on May 17, 2012. On July 10, 2012 Aperam published its first Sustainability Report outlining the

Company's approach to sustainability, its record and policies in areas such as safety, people, communities, environment, and the contribution of the Company's products to society.

#### *Provision of Environmentally Sustainable Processes and Solutions*

We have invested and will continue to invest in sustainable development opportunities in order to reduce our environmental impact. In our European production facilities, for instance, our stainless steel is produced using recycled scrap material in electric arc furnaces, which use less energy and generate a lower level of CO<sub>2</sub> emissions than traditional blast furnaces. We also constructed a new water treatment unit at our Imphy plant. In addition, in Brazil, we use charcoal (biomass) produced by Aperam BioEnergia as a substitute for coke at our blast furnaces, enabling us to produce stainless steel and specialty products in a more environmentally sustainable manner.

We are also involved in developing stainless steel and specialty products that are used in energy efficient applications, including:

- stainless steel for automotive (e.g., exhaust systems) and energy infrastructure building applications;
- electrical steel products used in high energy efficient transformers and rotating machines; and
- nickel alloys for energy efficient electrical equipment, energy production equipment and waste treatment equipment, as well as for the development of renewable energies, such as solar power.

#### *Personnel Development*

We invest in the development of our employees, which management believes enhances their motivation and contributes to the overall success of our business. In order to continue to improve performance at all levels of our business, we are actively increasing the deployment of our "Performance Management" process, which is aimed at improving productivity through increased communication with the workforce at all levels, and reinforcing our commitment to a wide range of other personnel development initiatives.

#### *Social dialogue and employee relations*

We have a long track record of promoting social dialogue with employee representatives in each of the jurisdictions in which we operate. Our employees in various parts of the world are represented by trade unions, and we are a party to collective labor agreements with employee organizations in certain locations. In 2012, we negotiated new social agreements in different countries and following the creation of Aperam, the company and the trade unions started the negotiations for the implementation of the European Work Council of Aperam. During 2012, we also continued to reduce our costs to improve the productivity and competitiveness with a particular focus on white collars workforce. All these actions have been conducted in a good social climate, as proved by our good level of absenteeism and low attrition rate, and with a regular dialogue with our trade unions. In the same time, we launched some renewal competencies plans, mainly for critical jobs (quality, maintenance, production, metallurgy, research and commercial).

#### *Community Engagement*

We play an important role in the communities in which we operate. For example, we act through our Aperam Acesita foundation, which develops corporate responsibility programs in Brazil, and have established a number of partnerships with local communities and municipal organizations, including the fire brigade, police force, local government and schools, all of which are aimed at supporting the community. We also provide grants to non-governmental organizations and programs which focus on education, culture and the environment. In Europe, we have established a number of environmental initiatives at our various production facilities aimed at mitigating the environmental impact of our operations and strengthening our relationship with local communities. Management intends to continue to develop new initiatives aimed at supporting local communities, and believes that such initiatives create value by promoting environmental solutions, fostering goodwill within the communities in which we operate and generally promoting stainless and specialty steel development.

## Business overview

During the period prior to April 2010, the entities which carried out the activities of Aperam were operated as a single segment of ArcelorMittal. In April 2010, we began managing our business according to three operating segments: Stainless & Electrical Steel, Services & Solutions and Alloys & Specialties. The following table sets forth selected financial data by operating segment:

	Stainless & Electrical Steel	Services & Solutions	Alloys & Specialties	Others/ Eliminations <sup>(1)</sup>	Total
<b>Year Ended December 31, 2012</b>					
Sales to external customers.....	2,496	2,103	655	7	5,261
Intersegment sales <sup>(2)</sup> .....	1,684	70	4	(1,758)	—
Operating income (loss).....	(150)	(8)	50	2	(106)
Depreciation .....	241	29	6	17	293
Impairment .....	27	—	—	—	27
Capital expenditures .....	91	31	23	16	161
<b>Year Ended December 31, 2011</b>					
Sales to external customers.....	3,126	2,505	712	2	6,345
Intersegment sales <sup>(2)</sup> .....	1,942	98	9	(2,049)	—
Operating income (loss).....	(39)	(18)	64	38	45
Depreciation .....	259	30	6	12	307
Impairment .....	1	3	—	—	4
Capital expenditures .....	110	20	12	16	158
<b>Year Ended December 31, 2010 (Combined)</b>					
Sales to external customers.....	2,862	2,220	522	—	5,604
Intersegment sales <sup>(2)</sup> .....	1,569	107	7	(1,683)	—
Operating income (loss).....	8	53	36	(4)	93
Depreciation .....	258	30	5	—	293
Impairment .....	23	—	1	—	24
Capital expenditures .....	81	15	5	—	101

Notes:

<sup>(1)</sup> Others/Eliminations includes all operations other than those that are part of the Stainless & Electrical Steel, Services & Solutions and Alloys & Specialties operating segments, together with intersegment eliminations and/or non-operational items which are not segmented.

<sup>(2)</sup> Transactions between segments are conducted on the same basis of accounting as transactions with third parties.

For a breakdown of sales by geography, see Note 23 to the consolidated financial statements.

## Key Products

### Stainless Steel

Stainless steel is a family of steels (which are alloys made of iron and carbon but containing less than 2% carbon) that is characterized by its superior resistance to corrosion. By contrast to plain or carbon steels, stainless steels have a chromium content of at least 10.5%, which increases corrosion resistance, and a carbon content of less than or equal to 1.2%. As a result of their chromium content, stainless steels are protected by a passive layer of chromium oxide, resulting from the natural reaction of chromium atoms with air moisture. This layer automatically heals itself in the event of damage, giving stainless steels their corrosion resistance. Therefore, stainless steels do not require any coating or other corrosion protection to retain their physical properties in the long term.

Various alloys are added to stainless steels to improve their mechanical, physical and anti-corrosive properties. Nickel, molybdenum, titanium and manganese are the most commonly used alloys in addition to chromium. The addition of these elements provides further advantages, such as resistance to corrosion in highly aggressive media, resistance to oxidation at high temperatures, toughness and ductility at very low temperatures, high mechanical strength and formability (including drawing, bending, hydro forming, welding and brazing). Initially used for cutlery, the application of stainless steels in industrial and other applications

has expanded significantly, as it has proved significantly more cost effective than alternative materials across a wide range of applications. Stainless steel's attractive properties, which include a high strength-to-weight ratio, heat tolerance, aesthetic qualities and the ability to be recycled, have contributed to the continued development of new products and applications. The Company sells stainless steel products primarily to end users in the catering and appliance, energy and chemicals, building and construction and automotive and transportation industries.

The Company offers one of the most complete ranges of stainless steel flat products available on the market, including:

- austenitic chromium-nickel alloys (300 series), with 8 to 13% nickel content;
- austenitic chromium-nickel-manganese alloys (200 series) with low nickel content (2 to 4%);
- ferritic steels (400 series), which do not contain nickel;
- duplex steels; and
- martensitic steels.

The Company's standard stainless steel products are produced in various shapes (HRAP/HRC or CR, ranging from 0.3 to 13mm thickness (up to 50mm for plates) and up to 2m width), with a variety of surface conditions, including annealed, bright annealed, polished, matte or brushed.

### ***Electrical Steel***

Electrical steels are silicon-iron alloys, which enable steel to have specific magnetic properties. Electrical steels are classified as GO steels, which are mainly used to build transformer cores, and NGO steels, which are mainly used to build rotating machines but also to build small transformers. NGO steels are categorized based on their core energy losses, which is a measure of energy efficiency. The Company sells its electrical steel products primarily to end users in the transformers, electric motors and generators industries.

The Company offers one of the most complete ranges of electrical steels available on the market, including:

- GO steels, from regular to M3+ grades (which are among the higher grades); and
- NGO fully processed steels, including:
  - regular grades (M600 and above, having core energy losses of 6W/kg or greater);
  - medium grades (M400 up to M600, having core energy losses from 4W/kg up to 6W/kg);
  - high grades (M300 up to M400, having core energy losses from 3W/kg up to 4W/kg); and
  - ultra-high grades (below M300, having core energy losses of less than 3W/kg).

### ***Alloys & Specialties***

The Company specializes in the design, production and transformation of various nickel alloys and certain specific stainless steels. Produced in the form of bars, cold rolled strip, wire rod and plates, and offered in a wide range of grades, these products are intended for high-end applications or applications addressing very specific customer requirements. The Company's nickel alloys and specialties products are utilized by customers across a broad range of industries, including the aerospace, automotive, electronics, petrochemical, oil and gas and other industries.

Nickel alloys generally have nickel content greater than 30% and contain other alloying elements, such as iron, chromium, molybdenum, copper and cobalt, among others. They are produced in a diverse range of grades which exhibit unique physical properties, including controlled thermal expansion, magnetism, resistance to highly corrosive environments and mechanical resistance.

### **Distribution Network**

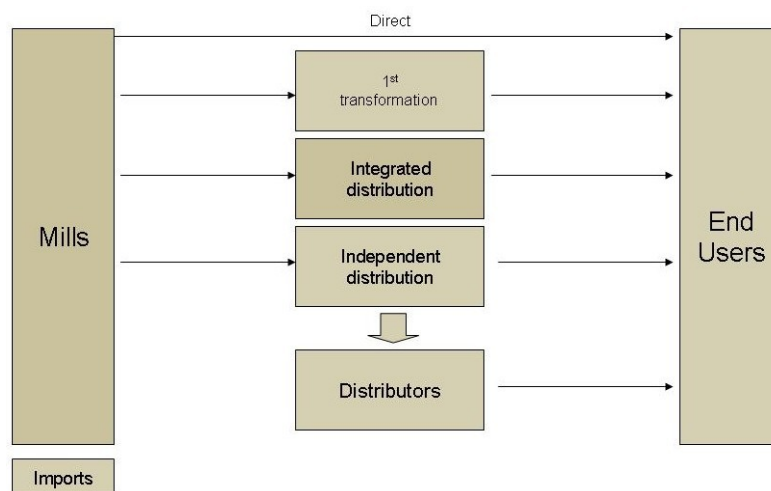
We sell and distribute our products through our Services & Solutions segment. The Services & Solutions segment also provides value-added and customized steel solutions through further processing to

meet specific customer requirements. Through our distribution network, we serve a variety of industries, including the automotive, construction, household appliances, public works, civil engineering and general industries. As of the date of this financial report, our distribution network is comprised of 18 Steel Service Centers, 9 transformation facilities and 22. Our largest Steel Service Centers in terms of sales are located in Germany, France and Italy. Our transformation facilities include two precision units located in France as well as tube making units located across Europe and South America. We also distribute our products through independent agents and through affiliated agents, none of which we own.

Our Services & Solutions segment performs three core activities: (i) the management of exclusive, direct sales of stainless steel products from our production facilities, primarily those located in Europe; (ii) distribution of our and, to a much lesser extent, external suppliers' products; and (iii) transformation services, which include the provision of value-added and customized steel solutions through further processing to meet specific customer requirements. We have the only integrated distribution network of stainless steel and specialty steel products in South America and, management believes, one of the most integrated distribution networks in Europe.

Through our integrated distribution network, management believes that we sell and distribute the widest range of stainless steel products in the industry, including flat products, tubes, transformed strips and precision strips. Our Steel Service Centers acquire hot or cold coils from our production facilities or from external suppliers, which they cut, polish or brush and then package for direct delivery to customers. In 2012, our Steel Service Centers accounted for approximately 76% of the Services & Solutions segment's total shipments, while our tube making units and precision units accounted for the remaining 21% and 3%, respectively. Our transformation facilities transform hot or cold coils through forming, welding, pickling, annealing, expanding, cutting and bending and then package and ship them to customers.

The distribution chain for our products is depicted in the chart below:



Our distribution channels are strategically located close to many end users, which enhances our ability to provide customers with immediate availability of the entire range of our products, including flat, long, technical and specialty steel. Management believes that our distribution network also enables us to cover all the major customers in the European market and a significant proportion of customers in the South American market, and provides us with a presence in several key growth regions.

### Charcoal (Biomass)

BioEnergia was formed in 2009 as a result of the merger between ArcelorMittal Energética Jequitinhonha Ltda. and ArcelorMittal Florestas Ltda., which created the third largest charcoal producer in the world based on annual production capacity, which is approximately 215 thousand tonnes. Until June 30, 2011, the Company held a 36.5% interest in BioEnergia and ArcelorMittal held the remaining 63.5%. Prior to the formation of BioEnergia, the results of ArcelorMittal Energética Jequitinhonha Ltda. were combined with our operations. Subsequent to the formation of BioEnergia, our 36.5% interest had been accounted for under the equity method.

On November 1, 2010, AMIB entered into a letter of intent with ArcelorMittal to segregate BioEnergia's charcoal activities supporting ArcelorMittal's long steel business from its charcoal activities supporting our stainless steel business through a demerger of the assets and liabilities related to BioEnergia's



charcoal activities supporting ArcelorMittal's long steel business. This was proposed to be accomplished by the creation of a wholly owned subsidiary of BioEnergia, to which the assets and liabilities associated with ArcelorMittal's long steel business would be contributed. ArcelorMittal would then redeem its shares in BioEnergia and receive all of the shares of the newly created subsidiary. As a result, AMIB would become the sole shareholder of BioEnergia. On June 7, 2011, Aperam announced that its biomass operations in Brazil had been separated from ArcelorMittal's biomass operations and would be renamed Aperam BioEnergia. The legal steps of the demerger were completed in the third quarter 2011 and since then the results of Aperam BioEnergia are fully consolidated into those of the Company

Aperam BioEnergia produces wood and charcoal (biomass) for use in the steel industry from cultivated eucalyptus forests and is used at our Timóteo production facility in Brazil. The substitution of charcoal (biomass) for coke at the Timóteo production facility enables us to produce stainless and specialty steels in an environmentally and socially responsible manner in addition to improving our cost efficiency. In 2012 and 2011, we respectively produced 429,000 tons and 318,000 tons of charcoal through Aperam BioEnergia.

Aperam BioEnergia owns forests in the Brazilian states of Minas Gerais and Bahia. These forests have a six- to seven-year growing cycle.

BioEnergia's facilities include the following:

- three seedling nurseries, which have a capacity of approximately 12 million seedlings per year. The nursery has a temperature and humidity controlled vegetation house where more than 30 years of research with hybridation programs has been carried out with the aim of improving the productivity and quality of the forest;
- harvesting machinery with the capacity to process 3.5 million cubic meters of wood annually;
- charcoal (biomass) production units using the most advanced carbonization kilns. Each kiln has the capacity to process 700 cubic meters of wood. Aperam BioEnergia's kilns are equipped with automation systems, burning units for the carbonization of gases and a cooling system. Aperam BioEnergia intends to streamline the carbonization cycle from 12 days to 8 days by 2012 through ongoing optimizations.

Certain of Aperam BioEnergia's facilities are located approximately 350 kilometers from our integrated production facility in Timóteo, Brazil. Our second Timóteo facility's blast furnace, which still used coke, has been converted fully from coke to charcoal (biomass) in June 2011. As a consequence Timóteo's two blast furnaces are fully converted to charcoal.

## **Strategic Participation**

We hold a minority interest in General Moly (9.04% as of December 31, 2012), whose primary asset is an 80% interest in the Mt. Hope Project, a U.S. molybdenum property located in Nevada, United States. The Mt. Hope Project has proven and probable molybdenum reserves of 1.3 billion pounds. General Moly also holds a 100% stake in a second significant molybdenum project, the Liberty Property, also located in Nevada. In addition, General Moly owns certain other non-core properties and mineral rights. Production is expected to commence at the Mt. Hope Project in the medium term.

We are party to a molybdenum supply agreement with General Moly (the "General Moly Offtake Agreement") that provides for us to purchase 6.5 million pounds of molybdenum per year, plus or minus 10%, once the Mt. Hope Project commences commercial operations at minimum specified levels. The supply agreement provides for a floor price along with a discount formula based on a published reference price above the floor price and expires five years after the commencement of commercial production at the Mt. Hope Project. Both the floor and threshold levels at which the percentage discounts change are indexed to a producer price index. The General Moly Offtake Agreement is expected to provide us with 32.5 million pounds of molybdenum for the five years following the commencement of production.

The Company and General Moly have also entered into an extension molybdenum supply agreement (the "General Moly Extension Agreement"). The General Moly Extension Agreement provides us with a five-year option to purchase from General Moly 3 million pounds of molybdenum per year for 10 years following the expiration of the General Moly Offtake Agreement. In order for us to exercise this option and make the General Moly Extension Agreement effective, we must beneficially own more than 11,100,000 shares of

General Moly common stock on or prior to April 15, 2015. We are currently General Moly's third largest shareholder and own 8,256,699 shares of common stock following our investment in November 2007.

General Moly entered into an agreement with China Han Long Mining Development Limited ("Han Long Mining"), pursuant to which Han Long Mining has agreed to invest in General Moly. Once this investment has been completed, our percentage interest in General Moly will decrease to approximately 8%.

## **Raw Materials and Energy**

The Company's production facilities use both the traditional blast furnace process as well as the electric arc furnace steelmaking process. In Brazil, the Company predominantly uses the traditional blast furnace production process, which requires, among other materials, iron ore and charcoal (biomass). In Europe, the electric arc furnaces at its Châtelet and Genk production facilities use stainless and carbon steel scrap as key raw material inputs. In addition, the Company uses nickel, ferrochrome and molybdenum, among other materials, in its products.

The Company's raw materials purchasing strategy is focused on two principles: security of supply and flexibility. The needs of its production facilities are determined on the basis of five-year plans and annual budgets, and are largely met through the use of supply contracts which vary in duration from one to five years. In addition to long-term contracts, the Company's purchasing strategy incorporates both short-term contracts and spot market purchases.

Aperam is responsible for the sourcing of its key raw materials, including nickel, chromium, molybdenum and stainless steel scrap. However, under the terms of the purchasing services agreement and the sourcing services agreement, Aperam relies on ArcelorMittal for advisory services in relation to the negotiation of certain contracts with global or large regional suppliers, including those relating to the following key categories: energy (electricity, natural gas, industrial gas), raw materials (ferro-alloys, certain base materials), operating materials (rolls, electrodes, refractories) and industrial products and services. The purchasing services agreement also permits Aperam to avail itself of the services and expertise of ArcelorMittal for certain capital expenditure items not specific to stainless and specialty steel production. The purchasing services agreement and the sourcing services agreement were entered into for a term of two years, which expired on January 24, 2013. It is expected that the purchasing services agreement will be extended for an additional year on modified terms. It is expected that the sourcing servicing agreement will also be extended for an additional year, but that its scope will be limited to IT maintenance and support until Aperam switches to its own system.

### ***Raw Materials***

#### ***Nickel***

The Company buys nickel from a variety of global producers, with contracts varying in duration from one to five years. Nickel is bought as pure nickel (cathodes, briquettes) or as ferronickel (materials typically containing 20 to 40% nickel) and prices are based on the official cash or three-month settlement price quoted on the London Metal Exchange (the "LME"). For pure nickel, a premium is paid based on the quality of the material.

#### ***Ferrochrome***

Chromium is mostly supplied in the form of ferrochrome (FeCr) and occasionally as chromium ore. Approximately 40% of worldwide ferrochrome production takes place in South Africa, which holds an estimated 75% of the world's chrome ore reserves. For its European production units, the Company sources most of its ferrochrome from ferrochrome producers in South Africa pursuant to long-term contracts that vary in duration. For its Brazilian operation, most ferrochrome is purchased from a local producer. The Company also sources ferrochrome under short-term contracts with producers in other chrome-producing countries. Although volumes are stipulated in the contracts, the price of ferrochrome is negotiated quarterly between the major South African producers and the major consumers in Europe and Asia. As of January 2012, the Company stopped producing ferrochrome at its Timóteo production facility.

### *Molybdenum*

The Company currently sources molybdenum using a combination of spot market purchases and one-year contracts with three different types of counterparties: miners/producers, independent converters and traders. Molybdenum is mainly purchased as molybdenum oxide and ferromolybdenum and occasionally as molybdenum metal. Management expects that the Company's molybdenum needs will largely be met by the General Moly Offtake Agreement, which provides for it to purchase 6.5 million pounds of molybdenum per year, plus or minus 10%, once General Moly's Mt. Hope Project commences commercial operations at minimum specified levels. The General Moly Offtake Agreement provides for a floor price along with a discount formula based on the published reference price above the floor price. Both the floor and threshold levels at which percentage discounts change are indexed to a producer price index. See "— Upstream and Strategic Participation - General Moly".

### *Stainless Steel Scrap*

On top of primary metals, the Company uses stainless steel scrap as an important source of nickel, chrome and molybdenum for its stainless steel products. The stainless steel scrap market is regional in nature, with specialized suppliers collecting and blending new stainless steel scrap (cuttings and turnings) and demolishing old scrap to produce a mix with consistent quality and composition. In contrast to the Company's other raw materials, stainless steel scrap is purchased on a monthly basis, allowing for adjustments in volume to account for variations in production. Stainless steel scrap pricing is based on its constituting elements (iron, nickel, chromium and, for some grades, molybdenum) and is negotiated monthly.

### *Charcoal (Biomass)*

Aperam BioEnergia (fully consolidated) uses a unique and advanced biomass technology to produce charcoal (biomass), which is used as a substitute for coke at its Timóteo production facility. The Timóteo production facility has successfully totally switched to charcoal in June 2011 with the conversion of our second blast furnace from coke, to charcoal (biomass). Management believes that Aperam BioEnergia will provide an adequately stable supply of charcoal (biomass) to support the Company's operations for the foreseeable future.

### *Iron Ore*

The Company currently has an agreement with Vale pursuant to which Vale supplies most of its iron ore requirements for the blast furnaces at its Timóteo production facility.

### *Carbon Steel Scrap*

The Company procures the majority of its carbon steel scrap, which it uses in its electric arc furnaces at its European production facilities, locally and regionally in order to optimize transportation costs. The Company typically enters into monthly contracts for its carbon steel scrap requirements.

## **Energy**

### *Natural Gas*

In Brazil, the Company has a long-term natural gas supply contract with a local supplier.

In Europe, the Company purchases most of its natural gas requirements using prevailing pricing systems, where prices are usually linked with oil prices, normalizing for each fuel's energy content.

### *Electricity*

With regard to electricity prices, we benefit from preferred terms in France through the Exeltium consortium which began in May 2010. In Belgium, with five other electro intensive users within the Blue Sky consortium, Aperam participates to a co-investment with Electrabel to get access to electricity on preferred terms.

### *Industrial Gases*

The Company procures its industrial gas requirements using long-term contracts with various suppliers in different geographical regions.

## Research and Development

The Company's research and development activities are closely aligned with the Company's strategy and are focused on product development and process development. The Company's research and development team comprises 127 employees. These employees are based in two centers in Europe, located in Isbergues and Imphy, France, and one center in Timóteo, Brazil. The Isbergues center is dedicated to stainless cold flat products and the Imphy center is dedicated to nickel alloys, including electrical/magnetic nickel alloys, and flat and long products. The Timóteo center is dedicated to plates and cold rolled stainless, GO and NGO electrical steels. Each of these research and development centers is located within the relevant production facility, enabling the Company to coordinate its research and development activities based on demand for its products.

The Company has also entered into an arrangement with ArcelorMittal and top class universities, setting out a framework for future cooperation between the groups and high schools in relation to certain ongoing and future research and development programs.

### *Product Development*

The Company's product development activities include new alloy designs, the reduction of costly and sometimes unnecessary alloying elements in its products and improvements in the sustainability of products. Product development activities including steel solutions are coordinated with the Company's sales and marketing activities in order to optimize material selection and tailor its products to customer demand and specific applications.

Within its product development research, the Company currently focuses on the following products:

#### *Stainless Steel*

- alloy design and application, with a special focus on ferritic and duplex stainless steels;
- stainless steel solutions and new applications for the automotive, building, construction and household appliances industries, which includes technical assistance to end users;
- stainless steel for capital goods (industry, transportation, Energy) including advanced corrosion-resistant steels;

#### *Electrical Steels*

- development of higher grades of GO steels in order to meet increasing demand for higher efficiency transformers;
- creation of new products designed to meet the challenges presented by the new generation of hybrid and electric cars by proactively anticipating market demand;
- further strengthening the Company's technological leadership in NGO steels, especially for traction; and

#### *Alloys & Specialties*

- bespoke products based on nickel, iron, chromium, cobalt and other alloying elements, all of which target the energy, oil and gas, electronics, electrical engineering, household appliances, safety and automotive and transportation industries.

### *Process Development*

The Company's process optimization activities are aimed at achieving more cost effective production processes both through energy savings as well as through breakthrough processes.

Within its process development research, the Company currently focuses on the following areas:

- development and modelling of melting and casting processes (a new furnace has been ordered for Aperam Alloys Imphy);
- hot rolling, cold rolling knowledge and process modelling;
- bright annealing technology; and
- pickling process improvement in accordance with applicable environmental regulations.

## **Intellectual Property**

The Company's patent portfolio consists of approximately 69 patent families, with a total of approximately 650 patent applications or granted patents. From these families of patents, approximately 40% protect grades, 5% protect coatings and 55% protect processes or solutions. Some of these patents are co-owned with other entities, and a small number are used under licenses from third parties. Some proprietary techniques, such as LC2I or the Company's TOP AOD software were developed in partnership. The Company's trademark portfolio consists of about 70 trademark families, predominantly using the prefix "UGI" or the suffix "IMPHY", depending on the subsidiary owning the trademark. The Company is not dependent to a material extent on the patents and trademarks described above.

## **Sales and Marketing**

The Company's Stainless & Electrical Steel and Services & Solutions segments each have their own sales and marketing organization, which are similarly structured and which work closely with each other. The Company's Alloys & Specialties segment also has a separate sales and marketing organization. Though organizationally separate, the sales organization of all of the Company's operating segments work together where required in order to deliver high quality service to customers at the lowest cost to the Company.

## **Sales Contracts**

Our sales contracts generally have terms of one year or less. Sales to customers in the automotive and household appliance industries are typically concluded using one-year contracts. Sales to customers in other industries have a shorter duration, generally one month.

Sales to customers in Europe are typically denominated in euro, while sales to customers in Brazil are typically denominated in Brazilian real. No single customer accounted for more than 5% of our sales in 2012.

## **Marketing Organization**

The Company's marketing activities follow its sales activities closely and are executed at the local level. In practice, this results in a focus on regional marketing competencies.

At the global level, marketing intelligence is shared with each operating segment's marketing and strategy teams in order to refine and update the Company's overall knowledge of the markets in which it operates. This continuous, focused and dynamic exchange of information helps the Company better identify new opportunities, such as new products or applications, new product requirements or new geographical areas of demand. Where a new product opportunity is identified, the Company's research and development unit is involved in developing the appropriate processes and products to enable it to respond to such opportunity.

An important part of the marketing function is the development of short-term outlooks that provide a perspective on the state of market supply and demand. These outlooks are shared with the sales team as part of the process of finalizing the sales strategy for the near term and with senior management when market conditions require adjustments to production volumes.

On May 30, 2012 the Company announced new appointments to its Management Committee and a transformation of the organization with increased customer focus. In a volatile environment, Management believes that a market driven organization with more agility and simplification in its processes is key for reaching financial and operational excellence while serving our customers better

## **Competition**

In 2012, there were six stainless steel flat producers with slab production capacity in excess of 2.0 million tonnes per year, accounting for approximately half of global capacity, based on management estimates. These producers are Outokumpu (including Inoxum, the stainless steel unit of ThyssenKrupp), Acerinox, Taiyuan Iron & Steel ("TISCO"), Yieh United Steel ("YUSCO"), Pohang Iron and Steel Company ("POSCO") and Aperam.

On January 31, 2012, ThyssenKrupp and Outokumpu confirmed that an agreement in principle had been reached about the combination of Outokumpu and Inoxum to create the world's largest stainless steel

company. On November 7, 2012, the European Commission approved the acquisition of Inoxum by Outokumpu, subject to the divestiture of Inoxum's stainless steel mill in Terni, Italy and certain European service centres.

In Europe, we compete primarily with Outokumpu, Acerinox and to a growing extent with importers. In South America, we face competition primarily from imports from Asia and, to a lesser extent, North America. Nickel alloys are a niche market in which our main competitors are ThyssenKrupp VDM, Carpenter Technologies, Special Metals, Hitachi and Haynes.

### **Stainless Steel Distribution**

The Company's main competitors in the stainless steel distribution market are independent Steel Service Centers, integrated Steel Service Centers, distributors and traders. Most of the Company's main competitors, like the Company, have integrated distribution networks, including Outokumpu, Acerinox and TKS. The Company also competes with large independent distributors in Europe, who compete primarily by diversifying their product and service offerings. It also faces competition from strong distribution networks in the NAFTA region, although it possesses the only integrated distribution network in South America.

### **Insurance**

Historically, the Company has maintained insurance on its property and equipment in amounts which management believes to be consistent with industry practices. Its insurance policies cover physical loss or damage to its property and equipment on a reinstatement basis arising from a number of specified risks and certain consequential losses, including business interruption arising from the occurrence of an insured event under these policies.

The Company has also maintained various other types of insurance, such as comprehensive construction and contractor insurance for its major capital expenditure projects, public and products liability insurance, directors and officers liability insurance, credit, commercial crime, transport and charterers' liability insurance, as well as other customary policies such as car insurance, travel assistance and medical insurance.

In addition, each of the Company's operating segments has maintained various local insurance policies that are mandatory at the local level, such as employer liability, workers compensation and auto liability insurance, as well as specific insurance policies covering compliance with local regulations.

### **Major anti-dumping developments in Brazil**

On March 9, 2012, Brazil's Trade Defense Department ("Decom") opened an anti-dumping investigation against imported welded austenitic stainless pipes from China and Taiwan. On April 12, 2012, the Decom officially launched an anti-dumping investigation on flat stainless steel products (austenitic stainless steel grade 304 and ferritic stainless steel grade 430). The imports from China, South Africa, Germany, South Korea, the United States, Finland, Taiwan and Vietnam will be investigated. On April 19, 2012, the Decom officially launched an anti-dumping investigation on flat non-grain oriented products. Imports from South Korea, China and Taiwan will be investigated. The outcome from these anti-dumping initiatives is expected beginning of 2013.

### **Environmental Regulation**

The Company's operations are subject to a broad range of laws and regulations relating to air emissions, wastewater storage, treatment and discharges, the use and handling of hazardous or toxic materials, waste disposal practices, the remediation of environmental contamination and other aspects of the protection of the environment at its multiple locations and operating subsidiaries. As these laws and regulations continue to become more stringent, management expects that the Company will continue to expend sufficient amounts to achieve or maintain ongoing compliance, as described in further detail in "Financial Information – Legal Proceedings".

In Brazil, the environmental licensing process of a project deemed to have a significant environmental impact requires a minimum investment in preservation areas in order to offset damage to the environment. The Company's Brazilian subsidiaries are required to hold licenses for the operation of their activities, which are usually valid for a period of five years, after which they may be renewed for another five-year period. The renewal of these operation licenses requires the Company's Brazilian subsidiaries to inform the environmental authorities periodically of their compliance with certain environmental standards.

Failure to comply with these regulations and obtain the necessary licenses can have serious adverse consequences for the Company's Brazilian subsidiaries, including criminal as well as administrative penalties, negative publicity and the obligation to remediate damages caused to the environment. The Company has incurred and will continue to incur capital and operating expenditures to continue to comply with these laws and regulations. Additional environmental requirements that may be imposed in the future and the Company's inability to obtain environmental licenses could require it to incur significant additional costs and could have a material adverse effect on its business, financial condition, results of operations and cash flows.

With regard to climate change, some Company's activities in the European Union ("EU") are subject to the EU Emissions Trading Scheme ("ETS"), the EU's central instrument for achieving the EU Member States' commitments under the Kyoto Protocol by providing a European emissions trading system ("ETS") for carbon dioxide emissions. It is likely that requirements relating to greenhouse gas emissions will become more stringent. The new ETS includes centralized allocation rather than national allocation plans, a cap designed to achieve an overall reduction of greenhouse gases for the industrial sector of 21% in 2020 compared to 2005 emissions and auctioning as the basic principle for allocating emissions allowances, with transitional free allocation in particular for manufacturing industries under risk of "carbon leakage". Many issues that ultimately will determine the impact of the revised ETS scheme need to be further elaborated in implementing legislation. The free allocation granted after 2012 will largely depend on the elaboration of the benchmarks for the sector. Through Commission Decision 2010/2/EU of December 24, 2009, the manufacture of ferro-alloys (including stainless steel) has been recognized to pose a significant risk of carbon leakage.

In 2012, Australia decided to link its ETS with the EU ETS on a step-by-step basis, with a full linkage to be completed by July 2018. In Brazil new regulatory initiatives are being discussed by the government authorities.

On December 11, 2011, the 17th Conference of Parties ("COP 17") under the United Nations Framework Convention on Climate Change ("UNFCCC") adopted a new agreement relating to greenhouse gases, the Durban Platform for Enhanced Action. The Durban Platform for Enhanced Action essentially extends the emissions reduction obligations for the EU, aligning with the obligations of the existing EU ETS without requiring additional reductions. A limited number of developing countries also secured a compromise to extend the Kyoto Protocol's greenhouse gas emissions reductions.

The Durban Platform for Enhanced Action also included an agreement to embark upon negotiations to forge a new international framework by 2015 that would take effect by 2020 and would include emissions obligations for all emitting countries—both developed and developing. In December 2012, the United Nations Climate Change Conference in Doha ("COP 18") made further progress toward the 2015 goal and, in the interim, reached agreement to further extend the Kyoto Protocol's greenhouse gas emissions reductions through 2020. A binding reduction target of 20% compared to 1990 was confirmed for the EU, aligning with the obligations of the existing EU ETS without requiring additional reductions. Canada, Japan, New Zealand and the Russian Federation did not sign up to a second commitment period. As a non-Kyoto participant, the United States will not be subject to mandatory cuts under the extension.

The post-2012 carbon market is very uncertain, and the Company is closely monitoring international negotiations, regulatory and legislative developments and is endeavoring to reduce its own emissions.

### **Brazil**

The following laws and decrees are applicable to the Company's operations in Brazil:

- Federal Law No. 6.938/1981, which implements the National Environmental Policy, considered one of the main legal statutes on environment;
- Federal Law 9.605/1998, which implements the Environmental Crimes Act;
- Decree 6.514/2008, which regulate the Environmental Crimes Act with respect to administrative penalties;

- Federal Law 9985/2000, concerning environmental compensation, establishes the percentage of total planned investments that must be devoted to greenfield projects in areas of conservation and places certain restrictions on the location of mining projects. The Instituto Brasileiro do Meio Ambiente (“IBAMA”) controls licensing over certain types of land, including indigenous lands within 50 kilometers of the border of a neighboring country, environmentally protected areas (referred to locally as conservation units), or lands within or affecting more than one state, such as a railway. All other projects are licensed by the agencies of the state in which the project is located;

- Federal Law 12.651/2012, addressing the protection of native forests. The new code sets limits on use of property so as to protect existing vegetation. It largely reenacts old legislation first adopted in 1965.

- Brazilian National Environmental Council (Conselho Nacional do Meio Ambiente, or “CONAMA”)

- Resolution 237/1997, which regulates the environmental licensing procedures in Brazil;

- CONAMA Resolution 357/ 2005 - Provides for environmental guidelines of water bodies and establishes the conditions of effluent discharge standards.

- CONAMA Resolution 382/2006, which was published by the Brazilian National Environmental Council (CONAMA), imposes more stringent limitations on dust, sulphur dioxide and nitrogen oxide for new sources in the steel industry. Administrative Order No 259/2009 published by the Ministry of the Environment (MMA) and IBAMA requires that each EIS (Environmental Impact Statement) submitted contain a specific chapter on alternative clean technologies that can reduce the impact on the health of workers and the environment. The principal labor union is involved in the information and consultation process relating to the health, safety and environmental license; and

- CONAMA Resolution 396/2008, which defines the guidelines and quality standards for classification of groundwater.

### ***European Union (“EU”)***

Significant EU Directives and Regulations are applicable to the Company’s production facilities in the European Union, including the following:

#### ***Climate Change Regulation***

- Directive 2003/87/EC of October 13, 2003, as amended by Directive 2004/101/EC (the “Emissions Trading Directive”), which establishes a program under which EU member states are allowed to trade greenhouse gas emission allowances within the EU subject to certain conditions.

#### ***Regulation on the operating of classified facilities***

- Directive 2008/1/EC of January 15, 2008 concerning integrated pollution prevention and control (the “IPPC Directive”), which applies common rules for permitting and controlling industrial installations. This directive, currently under review by the EU Council and Parliament, is complemented by European Pollutant Release and Transfer Register (E-PRTR) regulation (EC) N° 166/2006 of January 18, 2006 implementing the yearly report on release of pollutants and off-site transfer of waste. In 2012, the Company was attentive to the regulatory developments. Indeed, the Directive 2008/01/EC is repealed with effect from 7 January 2014. Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with the new Directive 2010/75/EU on industrial emissions. As example, France has already passed a transposing act in 2012;

- Directive 96/82/EC of December 9, 1996 and Directive 2003/105/EC of December 16, 2003, which relates to the control of major accidents hazards involving dangerous substances (also known as the “SEVESO Directives”). In 2012, the Company was attentive to the new Directive 2012/18/UE repealing the 1996 Directive with effect from 1 June 2015. French authorities are working on the transposition.

#### ***Emissions Regulation (water, waste, air)***

- Directive 2008/105/EC of December 16, 2008, which establishes new water quality standards for priority pollutants in support of Directive 2000/60/EC of October 23, 2000, which established a framework for action in the field of water policy;



- Directive 2008/98/EC of November 19, 2008 which establishes the legislative framework for the handling and management of waste in the EU and Regulation (EC) N° 1013/2006 of June 14, 2006, which regulates the shipment of waste from and to the European Union;
- Directive 2008/50/EC of May 21, 2008, which deals with ambient air quality and cleaner air for Europe;
- Directive 2004/107/EC of December 15, 2004, which sets forth limit values and target values for pollutants in ambient air, including thresholds on very fine particulates;
- Directive 2001/81/EC of October 23, 2001, which introduced national emission ceilings for certain pollutants.

#### *Regulation on products*

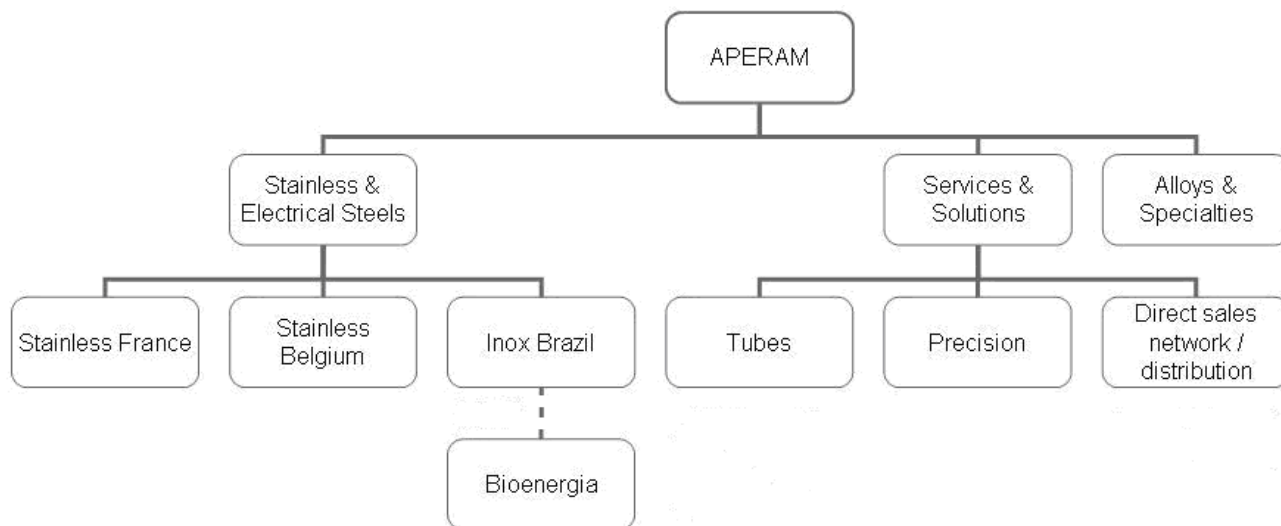
- EU Directives applicable to the Company's products include those relating to waste electrical and electronic equipments (Directive 2002/96/EC of January 27, 2003. This Directive will be repealed with effect from 15 February 2014. Member States will have to comply with a new Directive 2012/19/UE of July 4, 2012), end-of-life vehicles (Directive 2000/53/EC of September 18, 2000) and packaging and packaging waste (Directive 2004/12/EC of February 11, 2004).

- The Company is also subject to the "REACH" Regulation (EC) N° 1907/2006 for Registration, Evaluation, Authorization and Restriction of Chemicals, adopted on December 18, 2006, which controls the chemical substances manufactured in or imported into the EU in volumes of over one tonne per year and to the "CLP" regulation (EC) N° 1272/2008 of December 16, 2008 on classification, labeling and packaging of substances and mixtures, which implements the United Nations Globally Harmonized System (GHS) of classification and labeling. In June 2007, the entities comprising the Company integrated the task force as well as the platform created by ArcelorMittal at the corporate level in order to coordinate the strategic aspects and technical issues of implementing these regulations. In compliance with the REACH Regulation, the Company's legal entities have pre-registered their imported and manufactured substances in the European Community with the European Chemical Agency (ECHA). As of November 2008, the Company had submitted 37 pre-registration files to ECHA. By November 2010, the Company plans to have submitted four registration files (complete toxicological and ecotoxicological profile as well as the administrative fee) to ECHA. The Company's legal entities will not obtain the required license for continued production of a subject chemical if it fails to (i) submit a registration file for the subject chemical in due time, (ii) submit a complete registration file or (iii) make any required payment in connection with the registration file. In addition, the designation of additional chemicals of "high concern" under the REACH Regulation could increase the costs of compliance with other EU Directives, including those relating to waste and water and the SEVESO Directives.

- Management anticipates that its capital expenditure with respect to environmental matters in the European Union over the next several years will relate primarily to installations of additional air emission controls and to requirements imposed in the course of renewal of permits and authorizations, including those pursuant to the IPPC Directive.

### C. Organizational Structure

Aperam is a holding company with no business operations of its own. All of its significant operating subsidiaries are owned directly or indirectly through intermediate holding companies. The following chart represents its current operational structure, including significant operating subsidiaries, and not its legal or ownership structure.



See Note 25 to the Consolidated Financial Statements for a list of the Company's significant subsidiaries.

## D. Property, Plant and Equipment

The following tables provide an overview of our principal production and downstream facilities, each of which we wholly-own, by operating segment, location, size (in the case of production facilities only), facility type and products:

### *Production Facilities by Geography*

Country	Locations	Size (square kilometers)	Type of Plant	Products
<b>Stainless &amp; Electrical Steel</b>				
Brazil .....	Timóteo	2.1	Integrated mill/Blast furnace	Stainless/Electrical
Belgium .....	Châtelet	0.5	Electric arc furnace meltshop/Hot rolling	Stainless flat
Belgium .....	Genk	0.8	Electric arc furnace/Cold rolling	Stainless flat
France .....	Gueugnon	0.4	Cold rolling	Stainless flat
France .....	Isbergues	0.9	Cold rolling (Recyco electric arc furnace)	Stainless flat
<b>Nickel Alloys &amp; Specialties</b>				
France .....	Amilly	—	Downstream Electric arc furnace meltshop/Hot	Electrical components Nickel
France .....	Imphy	0.4	rolling/Cold rolling/Specialized foundry	Alloys/Stainless
France .....	Epone	—	Downstream	Wire drawing
China .....	Foshan	—	Downstream	Magnetic Cores

### *Facility Types*

Facility <sup>(1)</sup>	Number of Facilities	Capacity (in millions of tonnes per year) <sup>(2)</sup>	Production in 2012 (in millions of tonnes) <sup>(2)</sup>
Blast furnace .....	2	0.7	0.5
Electric arc furnace .....	6	3.0	1.4
Continuous caster—slabs .....	4	3.0	1.9
Hot rolling mill .....	4	4.5	1.9
Cold rolling mill (Z mill) .....	17	2.1	1.2
Annealing & Pickling lines <sup>(3)</sup> .....	21	4.4	3.0
Skin pass mill .....	6	1.2	0.4
Continuous bloom/billet caster .....	1	0.1	0.0

Notes:

<sup>(1)</sup> Production facility details include the production numbers for each step in the steel-making process. Output from one step in the process is used as an input in the next step in the process. Therefore, the sum of the production numbers does not equal the quantity of saleable finished steel products.

<sup>(2)</sup> Reflects design capacity, and does not take into account other constraints in the production process.

<sup>(3)</sup> Including hot and final annealing & pickling capacities (including batch annealing and LC2i integrated line annealing & pickling capacity)

All of our production facilities are owned directly or indirectly by us and none of them is subject to any material encumbrances.

### *Stainless & Electrical Steel*

#### *Europe*

Our European facilities produce the full range of our stainless steel products. Our stainless steel production facilities in Europe produced approximately 1.1 million tonnes of crude steel in 2012. The Genk,

Châtelet, Gueugnon and Isbergues production facilities cover an area of approximately 0.8 square kilometers, 0.5 square kilometers, 0.4 square kilometers and 0.9 square kilometers, respectively.

We have two electric arc furnace meltshops in Belgium, located in Genk and Châtelet. The Genk facility includes two electric arc furnaces, vacuum and argon-oxygen decarburizing facilities, ladle refining metallurgy and a slab continuous caster and slab grinders. It also includes a cold rolling mill facility. The Châtelet facility is an integrated facility with a meltshop and a hot rolling mill. The Châtelet meltshop includes an electric arc furnace, argon-oxygen decarburizing equipment, ladle furnaces refining metallurgy, a slab continuous caster and slab grinders.

Our cold rolling facilities in Europe consist of three cold rolling mill plants, located in Belgium (Genk) and France (Gueugnon and Isbergues). All three plants include annealing and pickling lines (with shot blasting and pickling equipment), cold rolling mills, bright annealing lines (in Gueugnon and Genk), skin-pass and finishing operations equipment. The Isbergues plant also includes a DRAP (Direct Roll Anneal and Pickle) line. The Genk plant is focused on austenitic steel products, the Gueugnon plant on ferritic products and the Isbergues plant on products dedicated to the automotive market (mainly ferritic steels) and industrial market (mainly austenitic steels). We recently set up Recyco, an electric arc furnace recycling unit that recycles dust and slugs to retrieve nickel and chromium, at our Isbergues facility.

### *South America*

We are the only integrated producer of flat stainless and electrical steel in South America. Our integrated production facility in Timóteo, Brazil produces the full range of our electrical steel products, which account for approximately 10% of the Stainless & Electrical Steel operating segment's total shipments, and a wide range of stainless steel products. We also produce relatively small volumes of special carbon steel at our Timóteo production facility. In 2012, we produced 0.7 million tonnes of crude steel at this facility, from which we exported products to more than 40 countries. The Timóteo production facility covers an area of approximately 2.1 square kilometers and has an annual production capacity of 0.9 million tonnes.

The Timóteo integrated production facility includes two blast furnaces, one melting shop area (including two electrical furnaces, one FeCr smelter, two converters and two continuous casting machines), one hot rolling mill (including one walking beam and one pusher furnace with one rougher mill and one Steckel mill), a stainless cold rolling shop (including one hot annealing pickling line, two cold annealing pickling lines, one cold preparation line, three cold rolling mills and 20 batch annealing furnaces) and an electrical steel cold rolling shop (including one hot annealing pickling line, two tandem annealing lines, one decarburizing line, one thermo flattening and carlite coating line and one cold rolling mill).

### *Alloys & Specialties*

The Alloys & Specialties integrated production facility is located in Imphy, France and includes a meltshop, a wire rod facility and a cold rolling facility. The meltshop is designed to produce specialty grades and includes one electric arc furnace with a vacuum oxygen decarburization ladle and a ladle furnace, one vacuum induction melting furnace and one vacuum arc remelting furnace. The meltshop is also equipped with ingot casting facilities and a continuous billet caster. Our wire rod mill specializes in the production of nickel alloys and has the ability to process a wide range of grades, including stainless steel. It comprises a blooming mill, billet grinding, a hot rolling mill, which has a capacity of 30 thousand tonnes, and finishing lines. The Imphy production facility covers an area of approximately 0.4 square kilometers.

We also own downstream nickel alloy and specialty assets, including Rescal S.A., a wire drawing facility located in Epone, France, Aperam Alloys Amilly, an electrical components manufacturer located in Amilly, France, Imhua Special Metals, a transformation subsidiary in Foshan, China, and Innovative Clad Solutions, a production facility for industrial clads in Central India.

### *Raw Materials and Energy*

Our production facilities use both the traditional blast furnace process as well as the electric arc furnace steelmaking process. In Brazil, we predominantly use the traditional blast furnace production process, which requires, among other materials, iron ore and charcoal (biomass). In Europe, the electric arc furnaces at our Châtelet and Genk production facilities use stainless and carbon steel scrap as key raw material inputs. In addition, we use nickel, ferrochrome and molybdenum, among other materials, in our products.

Our raw materials purchasing strategy is focused on two principles: security of supply and flexibility. The needs of our production facilities are determined on the basis of five-year plans and annual budgets, and

are largely met through the use of supply contracts which vary in duration from one to five years. In addition to long-term contracts, our purchasing strategy incorporates both short-term contracts and spot market purchases.

Our purchasing organization negotiates key raw material purchasing contracts globally with a variety of suppliers to secure our long-term needs. For certain contracts with global or large regional suppliers, however, we continue to rely on ArcelorMittal's purchasing and sourcing organization to assist in the negotiation of contracts with suppliers, as contemplated by the Purchasing Services Agreement, the Sourcing Services Agreement and the Brazilian Cost Sharing Agreement. These agreements cover the following key purchasing categories: energy (electricity, natural gas, industrial gas), raw materials (ferro-alloys), operating materials (rolls, electrodes, refractories) and industrial products and services. The Purchasing Services Agreement also permits us to avail ourselves of the services and expertise of ArcelorMittal for certain capital expenditure items not specific to stainless steel production. Under the Sourcing Services Agreement, ArcelorMittal assists us in the negotiation of contracts with suppliers relating to ferroniobium and ferrovanadium; and, in turn, we will assist ArcelorMittal's sourcing organization in the negotiation of contracts with suppliers relating to stainless steel materials, including nickel, chromium and molybdenum.

### **Item 3. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*You should read the following discussion in conjunction with the consolidated financial statements and the unaudited pro forma combined financial information included elsewhere in this financial report.*

*This discussion includes forward-looking statements which, although based on assumptions we consider reasonable, are subject to risks and uncertainties which could cause actual events or conditions to differ materially from those expressed or implied herein. See "Forward-looking Statements" and "Risk Factors" for a discussion of the risks, uncertainties and assumptions associated with these statements.*

#### **Overview**

We are a leading global stainless and specialty steel producer based on our annual production capacity of 2.5 million tonnes in 2012. We are the largest stainless and specialty steel producer in South America and according to the International Stainless Steel Forum (ISSF), we are the third largest producer in Europe. We are also a leading producer of high value-added specialty products, including GO and NGO electrical steels and nickel alloys. Our production capacity is concentrated in six production facilities located in Brazil, Belgium and France, and we have approximately 9,800 employees. Our distribution network is comprised of 18 Steel Service Centers, 9 transformation facilities and 22 sales offices. We sell our products to customers on three continents in over 40 countries, including customers in the aerospace, automotive, catering, construction, household appliances and electrical engineering, industrial processes, medical, and oil & gas industries.

We had sales of \$5.3 billion, \$6.3 billion and \$5.6 billion and shipments of approximately 1.68 million tonnes, 1.75 million tonnes and 1.74 million tonnes for the years ended December 31, 2012, 2011 and 2010, respectively.

#### **Key Factors Affecting Results of Operations**

Our results of operations are primarily affected by factors which impact the stainless and specialty steel industry generally, particularly global economic conditions, demand for stainless and specialty steels, production capacity, trends in raw material prices and fluctuations in exchange rates. In addition, our results of operations are affected by certain factors specific to us, including several initiatives we introduced in response to the challenging economic environment. These factors are described in greater detail below.

##### ***Demand for Stainless and Electrical Steel and Nickel Alloys Products***

Demand for stainless and electrical steel, which represents approximately 2.5% of the global steel market by volume, is affected to a significant degree by trends in the global economy and industrial production. Demand is also affected in the short term by fluctuations in nickel prices as discussed in greater detail under "—Stainless Steel Pricing" below.

Globally, compared to the stainless steel flat products demand growth of approximately 7% per annum over the years 2000 to 2007, demand has only grown by 3% per annum over the years 2010 to 2012, due to the crisis environment. The reduced growth rate of global stainless steel flat products demand has triggered a significant increase of overcapacity as planned capacity additions were still coming on stream. Although the industry has not overproduced compared to demand, structural overcapacity is expected to continue to affect the industry.

Stainless steel flat producers, ourselves included, reduced their production significantly from the fourth quarter of 2008. As a result, management estimates that production decreased by approximately 13% from 2006 to 2009. In 2010, however, production began to recover and increased by approximately 24%, followed by a strong growth reduction down to approximately 4% in 2011. In 2012, due to this lasting global economical uncertainty and despite slight improvements by year end (including Nickel price slight recovery), management estimates that production growth further slowed down to 2.5% from 2011.

The effect of the global economic crisis had a similar impact on demand for electrical steel. Management estimates that global GO steel demand decreased by approximately 14% from 2007 to 2009 mainly driven by a demand collapse by one third, in the developed world, partially offset by a demand surge in China of approximately 40%. Global demand for NGO steel decreased by only about 1% from 2007 to 2009 based on management estimates. Demand for GO and NGO steel recovered in 2010, and increased from 2009 levels by approximately 7% and 20%, respectively, driven by the demand recovery discussed above

based on management estimates. In 2011 and 2012, management estimates that GO and NGO demand further grew by about 7% per year respectively

Global demand for nickel alloys also decreased as a result of the global economic crisis. In 2008, demand for nickel alloy products was strong, in part as a result of robust demand stemming from the construction of LNG tankers. Management estimates that demand for nickel alloy products decreased by approximately 22% in 2009, in part due to a slowdown in the production of tankers. In 2010 and 2011, demand recovered and increased year-on-year by approximately 13%, based on management estimates. In 2012, demand continued its recovery, increasing by about 6% from 2011, according to management estimates.

### ***Production Capacity***

Structural overcapacity has in the past affected, and in the future is expected to continue to affect, the stainless steel industry. Global utilization rates have declined significantly in recent years, from approximately 88% in 2006 to 62% in 2009. Over the period 2010 to 2012, global utilization rates recovered and reached approximately 72%, based on management estimates. However, management expects that global utilization rates will continue to remain low for the foreseeable future compared to 2006 rates.

### ***Stainless Steel Pricing***

In contrast to carbon steel, the market for stainless steel is considered to be a global market. Stainless steel is suitable for transport over longer distances as logistics costs represent a smaller proportion of overall costs. As a result, prices for commoditized stainless steel products evolve similarly across regions. However, in general, stainless steel products are not completely fungible due to wide variations in shape, chemical composition, quality, specifications and application, all of which impact sales prices. Accordingly, there is a limited market for uniform pricing or exchange trading of certain stainless steel products.

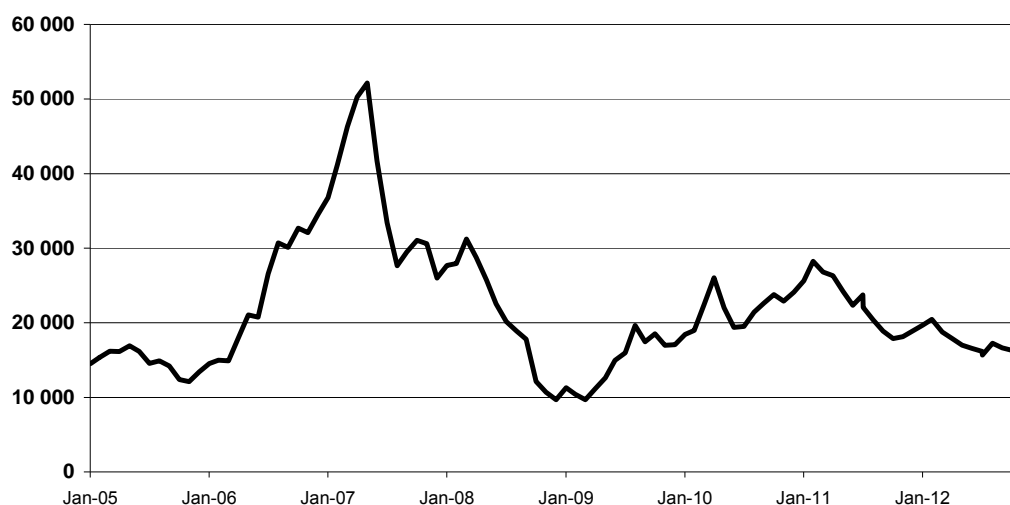
Stainless steel is a steel alloy with a minimum of 10.5% chromium content by mass and a combination of alloys which are added to confer certain specific properties depending upon the application. The cost of alloys used in stainless steel products varies across products and can fluctuate significantly. Prices for stainless steel in Europe and the United States generally include two components:

- the “base price”, which is negotiated with customers and depends mainly on market supply and demand; and
- the “alloy surcharge”, which is a supplementary charge added by producers to the selling price of steel and offsets price increases in raw materials, such as nickel, chromium or molybdenum, by directly passing these increases on to customers. The concept of the “alloy surcharge”, which is calculated using raw material prices quoted on certain accepted exchanges, such as the London Metals Exchange (“LME”), was introduced in Europe and the United States in response to significant volatility in the price of these materials, which has historically been driven by fluctuations in demand, increasing or decreasing inventory levels, changes in production capacity and speculation by metal traders.

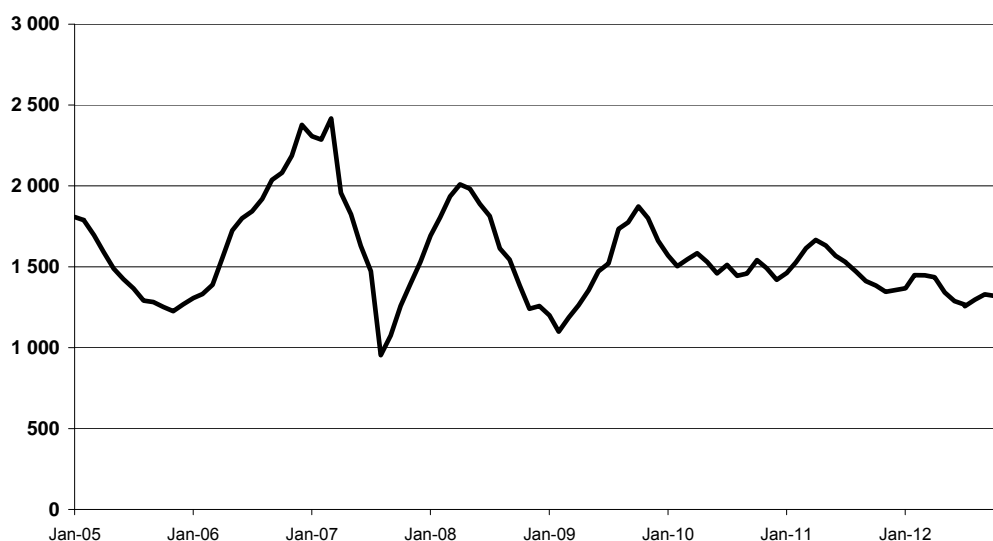
Notwithstanding the application of the “alloy surcharge”, the Company is still affected by changes in raw material prices, in particular nickel. In general, when the price of nickel is falling, purchasers of stainless steel products delay their orders to benefit from an expected decline in prices, which has the effect of reducing demand in the short term. Nickel prices increased throughout 2010, peaking at approximately \$26,000 per tonne in April, before settling at approximately \$24,000 per tonne by the end of the year. In 2011, those prices further grew, reaching a peak at approximately \$28,000 per tonne in February, before falling to approximately \$18,000 per tonne by year end. In 2012, the volatility of nickel prices reduced considerably from previous years. In the first half of 2012, Nickel prices increased up to approximately \$22,000 per tonne in early February, before decreasing to approximately \$17,000 per tonne at the end of June 2012. During the second half of 2012, Nickel prices reached approximately \$18,800 per tonne at the end of September before decreasing to approximately \$17,000 per tonne at the end of the year 2012.

The graphs below show the price of nickel on the LME and the European base price for CR304 stainless steel for the period from January 1, 2005 to December 31, 2012:

**Graph: Nickel price on the LME (in \$/tonne)**



**Graph: Stainless Steel Price/CR304 2B 2mm Coil Base/Northern Europe Domestic Delivered (in \$/tonne)**



Source:

Nickel prices have been derived from the LME. Stainless steel/CR304 2B 2mm coil base/Northern European domestic delivered prices have been derived from Steel Business Briefing (SBB).

Stainless steel base prices decreased slightly in 2010 as a result of the low-range volatility of nickel pricing, as well as stainless steel destocking. In contrast, over 2011 base prices decreased by approximately 20% from 2011 April peak down to approximately \$1,350 per tonne at year end, driven by lower nickel prices and pressure on demand as discussed previously. In the first half of 2012, base prices increased to approximately \$1,460 per tonne at the end of March 2012 before decreasing to approximately \$1,300 per tonne at the end of June 2012. During the second half of 2012 base prices continued to decrease until September 2012 to approximately \$1,250 per tonne, before progressively increasing to approximately \$1,350 per tonne at the end of the year 2012. The stainless market rebound in early 2012 was short lived due the falling nickel prices and the general economic uncertainty over the remaining of the year 2012.



### ***Electrical Steel Pricing***

Electrical steel prices, like stainless steel base prices, are affected by global demand and supply dynamics. Because China is the most important source of demand for electrical steel, prices are dependent in particular, upon Chinese demand.

GO steel prices (based on RGO M-0.27 mm) in China decreased from approximately \$5,600 per tonne at the end of 2008 to approximately \$3,200 per tonne at the end of 2009, which represented a decrease of approximately 43%. This decline was primarily due to excess supply in the export market as a result of the financial crisis, which negatively affected the price of GO steel. Throughout 2010, the price of GO steel in China decreased further to approximately \$2,300 per tonne despite signs of recovery in the broader market, as GO pricing tends to lag behind macroeconomic trends. This expected recovery materialized in 2011 with GO prices reaching approximately \$2,800 per tonne. However, Chinese GO prices then progressively lost ground over 2012, down to \$2,500 per tonne.

Prices for NGO steel (based on NGO M470-50A) in China, which accounts for approximately 80% of the global electrical steel market, decreased by approximately 32%, from \$1,400 per tonne at the end of September 2008 to \$950 per tonne at the end of 2009. This decline was also due to excess supply in the export market as a result of the financial crisis. NGO steel prices in China increased to an average of approximately \$1,350 over the fourth quarter of 2010, in line with the price recovery experienced in the carbon steel market. This recovery further continued over 2011 with prices reaching approximately \$1,400 per tonne. However, Chinese GO prices then progressively lost ground over 2012, down to \$1,150 per tonne.

### ***Current and anticipated trends in stainless steel production and prices***

Global stainless steel flat products demand is expected to increase by about 4% per annum until 2017 with 1% in Europe and 3% in South America. Stainless steel base prices are expected to remain under pressure as a consequence of the lasting structural overcapacity.

### ***Raw Materials and Energy***

#### ***Raw Materials***

Stainless and specialty steel production requires substantial amounts of raw materials (primarily nickel, chromium, molybdenum, stainless and carbon steel scrap, charcoal (biomass), and iron ore). Except for charcoal, which is produced internally, the Company is exposed to price uncertainty with respect to each of these raw materials, which it purchases mainly under short- and long-term supply contracts, but also on the spot market.

Prices for these raw materials are strongly correlated with demand for stainless steel and carbon steel and accordingly tend to fluctuate in response to changes in supply and demand dynamics in the industry. In addition, since most of the raw materials the Company uses are finite resources, their prices may also fluctuate in response to any perceived scarcity of reserves and the evolution of the pipeline of new exploration projects to replace depleted reserves.

As a result of the global economic crisis and the consequent decrease in demand for steel, the prices for most raw materials we use decreased in 2009. Since then, prices have generally recovered to more stable levels, aided in part by continued robust demand from China. In 2011, most raw materials showed a rather balanced supply/demand compared to the previous years. Metals (nickel, molybdenum) were therefore more influenced by the general economic sentiment and as a result prices dropped for most of the year after having peaked in February, reaching a floor in October/November. Ferrochrome and iron ore were fairly stable, with the latter showing a more significant weakness in the fourth quarter. In 2012, like many raw materials, nickel continued the downward trend observed in 2011. Although some recoveries were observed in nickel prices early 2012 and in the third quarter 2012, the market remained essentially oversupplied as economies were impacted worldwide by difficult market conditions. Molybdenum (oxide) showed a similar pattern than nickel, dropping from 30,000\$/t in January to 25,000\$/t in December. Ferrochrome showed the traditional upturn in the second quarter. A temporary under-supply had been created due to the fact that South African suppliers were encouraged selling power back to the grid (as they had been asked by the national power producer ESKOM to prevent shortages) rather than produce ferrochrome. In the second semester, prices dropped again. Iron ore prices were weak in the first half of 2012 but showed a sudden

upturn in August when market sentiment for Chinese imports became more positive. In Europe, ferrous scrap prices showed a similar, but delayed and less pronounced pattern.

### *Energy*

In Brazil, as part of the Leadership Journey®, the Timóteo production facility switched from LPG to natural gas in 2011 and entered into a long-term natural gas supply contract with a Brazilian supplier. In Europe, the Company purchases most of its natural gas requirements using prevailing pricing systems, where prices are usually linked with oil prices, normalizing for each fuel's energy content. In most of the countries where we operate, electricity prices have moved in line with other energy commodities. With regard to electricity prices, we benefit from preferred terms in France through the Exeltium consortium which began in May 2010. In Belgium, with five other electro intensive users within the Blue Sky consortium, Aperam participates to a co-investment with Electrabel to get access to electricity on preferred terms.

### ***Impact of Exchange Rate Movements***

Our results of operations can be affected by fluctuations in exchange rates as follows:

- Transactions in currencies other than the U.S. dollar are initially recorded at the exchange rate prevailing on the date of the transaction. Any movements in exchange rates will result in a gain or loss being reflected on our consolidated statement of operations.
- Because the functional currency of the majority of our subsidiaries is a currency other than the U.S. dollar, the income statement and balance sheet of each of those subsidiaries must be translated for purposes of preparing our consolidated financial statements. At the end of each reporting period, any assets or liabilities recorded on the balance sheet of a subsidiary whose functional currency is other than the U.S. dollar are translated at the closing rate on the last day of the relevant period. Items recorded on any such subsidiary's income statement are translated at the average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income through the foreign currency translation reserve.

After recovering in 2010 against most currencies in the jurisdictions where Aperam operates (mainly euro and Brazilian real) the U.S. dollar depreciated again significantly to reach a record low in the second quarter of 2011. The U.S. dollar strengthened significantly during the second half of 2011. In 2012, the U.S. dollar depreciated until the beginning of the second quarter and appreciated thereafter to reach a peak in the beginning of the third quarter. Thereafter the U.S. dollar depreciated again significantly until the end of the year 2012. Because a substantial portion of Aperam's assets, liabilities, sales and earnings are denominated in currencies other than the U.S. dollar (its presentation currency), Aperam has exposure to fluctuations in the values of these currencies relative to the U.S. dollar. In order to minimize its currency exposure, the Company enters into hedging transactions to lock in a set exchange rate, in accordance with its management policies., which are described in further detail in section G "Quantitative and Qualitative Disclosures about Market Risk".

### ***Related Party Transactions***

We are engaged in certain commercial and financial transactions with related parties. Please refer to Note 12 to the Consolidated Financial Statements for further details.

### ***Agreements with ArcelorMittal in connection with the spin-off from ArcelorMittal***

In connection with the spin-off from ArcelorMittal of the stainless steel division into a separately focused company, Aperam, which was completed on January 25, 2011, Aperam entered into several agreements with ArcelorMittal. These agreements include a Master Transitional Services Agreement dated January 25, 2011 (the "Transitional Services Agreement"), a purchasing services agreement and a sourcing services agreement, certain commitments regarding cost-sharing in Brazil and certain other ancillary arrangements governing the relationship between Aperam and ArcelorMittal following the spin-off, as well as certain agreements relating to financing.

The Transitional Services Agreement between Aperam and ArcelorMittal expired at year-end 2012. The parties agreed to renew a limited number of services that ArcelorMittal will continue to provide during 2013 relating to certain areas, including environmental and technical support, IT services relating to the Global

Wide Area Network contract, press clipping communication, ArcelorMittal University training in human resources, maintenance and customization of back office finance software and registered shareholder management.

In the area of research and development, Aperam entered into an arrangement with ArcelorMittal to establish a framework for future cooperation between the two groups in relation to certain ongoing or new research and development programs. Moreover, Aperam and ArcelorMittal are keeping open the possibility to enter into ad hoc cooperation agreements for future research and development purposes.

The purchasing and sourcing of raw materials generally were not covered by the Transitional Services Agreement. Aperam is responsible for the sourcing of its key raw materials, including nickel, chromium, molybdenum and stainless steel scrap. However, under the terms of the purchasing services agreement and the sourcing services agreement, Aperam relies on ArcelorMittal for advisory services in relation to the negotiation of certain contracts with global or large regional suppliers, including those relating to the following key categories: energy (electricity, natural gas, industrial gas), raw materials (ferro-alloys, certain base materials), operating materials (rolls, electrodes, refractories) and industrial products and services. The purchasing services agreement also permits Aperam to avail itself of the services and expertise of ArcelorMittal for certain capital expenditure items not specific to stainless and specialty steel production. The purchasing services agreement and the sourcing services agreement were entered into for a term of two years, which expired on January 24, 2013. It is expected that the purchasing services agreement will be extended for an additional year on modified terms. It is expected that the sourcing servicing agreement will also be extended for an additional year, but that its scope will be limited to IT maintenance and support until Aperam switches to its own system.

In connection with the spin-off, an existing Brazilian cost-sharing agreement was renegotiated between, inter alia, ArcelorMittal Brasil and Aperam Inox América do Sul S.A. (formerly known as ArcelorMittal Inox Brasil), pursuant to which starting as of April 1, 2011, ArcelorMittal Brasil continued to perform only purchasing, insurance and real estate activities for the benefit of certain of Aperam's Brazilian subsidiaries, with costs being shared on the basis of cost allocation parameters agreed between the parties. Since the demerger of ArcelorMittal BioEnergia Ltda in July 2011, its payroll functions have also been handled by ArcelorMittal Brasil. The real estate activities of Aperam's Brazilian subsidiaries have not been handled by ArcelorMittal Brasil since January 1, 2013.

Certain services will continue to be provided to Aperam pursuant to existing contracts with ArcelorMittal entities that it has specifically elected to assume.

#### *Financing Arrangements with ArcelorMittal*

The Company's principal sources of financing until the end of March 2011 included loans from ArcelorMittal entities at the level of Aperam South America (formerly known as "ArcelorMittal Inox Brasil"), which holds the Company's assets in Brazil, and Aperam Stainless Belgium (formerly known as "ArcelorMittal Stainless Belgium"), which holds its assets in Belgium. In March 2011, Management entered into facilities and other forms of financing, including the issuance of bonds in the capital markets, in the aggregate amount of \$1.3 billion, with available borrowing capacity at any one time of approximately \$400 million. Facilities entered into with ArcelorMittal entities have been fully reimbursed in March 2011.

### **Critical Accounting Policies and Use of Judgments and Estimates**

Management's discussion and analysis of our results of operations and financial condition is based on the consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of financial statements in conformity with IFRS recognition and measurement principles and, in particular, making the critical accounting judgments summarized below, require the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on an ongoing basis using currently available information. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates.

For a summary of all of our significant accounting policies, see Note 2 to the consolidated financial statements.

### ***Deferred Tax Assets***

We record deferred tax assets and liabilities based on the differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases. Deferred tax assets are also recognized for the estimated future effects of tax losses carried forward. We review the deferred tax assets in the different jurisdictions in which we operate periodically to assess the possibility of realizing such assets based on projected taxable profit, the expected timing of the reversals of existing temporary differences, the carry forward period of temporary differences and tax losses carried forward and the implementation of tax-planning strategies.

Note 17 to the consolidated financial statements describes the total deferred tax assets recognized in the consolidated statement of financial position.

### ***Deferred Employee Benefits***

Our operating subsidiaries have different types of pension plans for their employees. Also, some of the operating subsidiaries offer other post-employment benefits. The expense associated with these pension plans and post-employment benefits, as well as the carrying amount of the related liability/asset on the statement of financial position is based on a number of assumptions and factors such as discount rates, expected rate of compensation increase, expected return on plan assets, mortality rates, and retirement rates.

- **Discount Rates.** The discount rate is based on several high quality corporate bond indexes in the appropriate jurisdictions (rated AA or higher by a recognized rating agency). Nominal interest rates vary worldwide due to exchange rates and local inflation rates.
- **Rate of Compensation Increase.** The rate of compensation increase reflects actual experience and our long-term outlook, including contractually agreed upon wage rate increases for represented hourly employees.
- **Expected Return on Plan Assets.** The expected return on plan assets is derived from detailed periodic studies, which include a review of asset allocation strategies, anticipated long-term performance of individual asset classes, risks (standard deviations), and correlations of returns among the asset classes that comprise the plans' asset mix.
- **Mortality and Retirement Rates.** Mortality and retirement rates are based on actual and projected plan experience.

In accordance with IFRS, actuarial gains or losses resulting from experience and changes in assumptions are recognized in our statement of operations only if the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of the defined benefit obligation at that date and 10% of the fair value of any plan asset at that date. The fraction exceeding 10% is then recognized over the expected average remaining working lives of the employees participating in the plans.

Note 21 to the consolidated financial statements details the net liabilities of pension plans and other post-employment benefits including a sensitivity analysis illustrating the effects of changes in assumptions.

### ***Legal, Environmental and Other Contingencies***

We may be involved in litigation, arbitration or other legal proceedings. Most of these claims involve highly complex issues, actual damages and other matters. Often these issues are subject to substantial uncertainties and, therefore, the probability of loss and an estimation of damages are difficult to ascertain. These assessments can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions. Our assessments are based on estimates and assumptions that have been deemed reasonable by management. We recognize a liability for contingencies when it is more likely than not that we will sustain a loss and the amount can be estimated.

We are subject to changing and increasingly stringent environmental laws and regulations concerning air emissions, water discharges and waste disposal, as well as certain remediation activities that involve the clean-up of soil and groundwater. We recognize a liability for environmental remediation when it is more likely than not that such remediation will be required and the amount can be estimated.

The estimates of loss contingencies for environmental matters and other contingencies are based on various judgments and assumptions including the likelihood, nature, magnitude and timing of assessment, remediation and/or monitoring activities and the probable cost of these activities. In some cases, judgments and assumptions are made relating to the obligation or willingness and ability of third parties to bear a proportionate or allocated share of cost of these activities, including third parties who sold assets to us or purchased assets from us subject to environmental liabilities. We also consider, among other things, the activity to date at particular sites, information obtained through consultation with applicable regulatory authorities and third-party consultants and contractors and our historical experience with other circumstances judged to be comparable. Due to the numerous variables associated with these judgments and assumptions, and the effects of changes in governmental regulation and environmental technologies, both the precision and reliability of the resulting estimates of the related contingencies are subject to substantial uncertainties. As estimated costs to remediate change, we will reduce or increase the recorded liabilities through credits or charges in the statement of operations. We do not expect these environmental issues to affect the utilization of our plants, now or in the future.

### ***Impairment of Tangible and Intangible Assets***

#### ***Tangible and Intangible Assets***

At each reporting date, we review whether there is any indication that the carrying amounts of our tangible and intangible assets (excluding goodwill) may not be recoverable through continuing use. If any such indication exists, the recoverable amount of the asset is reviewed in order to determine the amount of the impairment, if any. The recoverable amount is the higher of its net selling price (fair value reduced by selling costs) and its value in use.

In assessing its value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets corresponding to operating units that generate cash inflows. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, an impairment loss is recognized. An impairment loss is recognized as an expense immediately as part of operating income in the statement of operations.

In the case of permanently idled assets, the impairment is measured at the individual asset level on the basis of salvage value. Otherwise, it is not possible to estimate the recoverable amount of the individual asset because the cash flows are not independent from that of the cash generating unit to which it belongs. Accordingly, our assets are measured for impairment at the cash generating unit level. In certain instances, the cash generating unit is an integrated manufacturing facility which may also be an operating subsidiary. Further, a manufacturing facility may be operated in concert with another facility, with neither facility generating cash flows that are largely independent from the cash flows of the other. In this instance, the two facilities are combined for purposes of testing for impairment. As of December 31, 2012, we had determined we have six cash generating units.

An impairment loss recognized in prior years is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. However, the increased carrying amount of an asset due to a reversal of an impairment loss will not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately as part of operating income in the statement of operations.

#### ***Goodwill***

With respect to goodwill, the recoverable amounts of the groups of cash generating units are determined from the higher of its net selling price (fair value reduced by selling costs) or its value in use calculations, as described above. See Note 2 to the consolidated financial statements for further information on our definition of our groups of cash generating units. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market rates for investments of similar risk. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on historical experience and expectations of future changes in the market.

Cash flow forecasts are derived from the most recent financial budgets for the next five years. Beyond the specifically forecasted period, we extrapolate cash flows for the remaining years based on an estimated growth rate. This rate does not exceed the average long-term growth rate for the relevant markets. Once recognized, impairment losses recognized for goodwill are not reversed.

### ***Derivative Financial Instruments***

We have historically entered into derivative transactions with ArcelorMittal Treasury, which, in turn, enter into offsetting positions with counterparties external to ArcelorMittal. We enter into derivative financial instruments principally to manage the Company's exposure to fluctuation in exchange rates and prices of raw materials and energy. Derivative financial instruments are classified as current assets or liabilities based on their maturity dates and are accounted for at trade date. Embedded derivatives are separated from the host contract and accounted for separately if required by IAS 39, "Financial Instruments: Recognition and Measurement". We measure all derivative financial instruments based on fair values derived from market prices of the instruments or from option pricing models, as appropriate. See Note 14 to the consolidated financial statements for analysis of the Company's sensitivity to changes in certain of these inputs. Gains or losses arising from changes in the fair value of derivatives are recognized in the statement of operations, except for derivatives that are highly effective and qualify for treatment as a cash flow hedge. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge are recorded in equity. Amounts deferred in equity are recorded in the statement of operations in the periods when the hedged item is recognized in the statement of operations and within the same line item.

We formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When a hedging instrument is sold, terminated, expires or is exercised, the cumulated unrealized gain or loss on the hedging instrument is maintained in equity until the forecasted transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealized gain or loss, which had been recognized in equity, is reported immediately in the statement of operations.

For instruments not accounted for as cash flow hedges, gains or losses arising from changes in fair value of derivatives and gains or losses realized upon settlement of derivatives are recognized in the statement of operations.

## A. Operating Results

We have three operating segments: Stainless & Electrical Steel, Services & Solutions and Alloys & Specialties.

### Key Indicators

The key performance indicators that we use to analyze operations are sales, steel shipments, average steel selling prices and operating income. Our analysis of liquidity and capital resources is based on operating cash flows.

### Year Ended December 31, 2012 compared to Year Ended December 31, 2011

The following table provides our sales, steel shipments and average selling prices by operating segment for the year ended December 31, 2012, as compared to the year ended December 31, 2011:

Operating Segment	Sales for the Year Ended December 31, <sup>(1)</sup>		Steel Shipments for the Year Ended December 31, <sup>(2)</sup>		Average Selling Price for the Year Ended December 31,		Changes in		
	2012	2011	2012	2011	2012	2011	Sales	Steel Shipments	Average Steel Selling Price
	(in million of U.S. dollars)		(thousands of tonnes)		(in U.S. dollars/tonne)			(%)	
Stainless & Electrical Steel <sup>(3)</sup> .....	4,180	5,068	1,611	1,675	2,489	2,903	(17.5)	(3.8)	(14.3)
Services & Solutions .....	2,173	2,603	661	662	3,148	3,764	(16.5)	(0.2)	(16.4)
Alloys & Specialties .....	659	721	36	37	17,405	18,805	(8.6)	(2.7)	(7.4)
Total (before intragroup eliminations) .....	7,012	8,392	2,308	2,374			(16.4)	(2.8)	
Total (after intragroup eliminations) .....	5,261	6,345	1,683	1,749			(17.1)	(3.8)	

Notes:

<sup>(1)</sup> Amounts are shown prior to intragroup eliminations. For additional information, see Note 23 to the consolidated financial statements.

<sup>(2)</sup> Steel shipments amounts are shown prior to intersegment shipments of 625 thousand tonnes and 625 thousand tonnes in 2012 and 2011, respectively.

<sup>(3)</sup> Includes shipments of special carbon steel from our Timóteo production facility.

The Company had sales of \$5,261 million for the year ended December 31, 2012 representing a decrease of 17.1% compared to sales of \$6,345 million for the year ended December 31, 2011. The decrease in sales was primarily due to the lower average selling price, which decreased from \$3,475 per tonne in 2011 to \$2,991 per tonne in 2012. Steel shipments amounted to approximately 1,683 thousand tonnes for the year ended December 31, 2012, decreasing from 1,749 thousand tonnes for the year ended December 31, 2011.

### Stainless & Electrical Steel

Sales in the Stainless & Electrical Steel segment (including intersegment sales) were \$4,180 million for the year ended December 31, 2012. Sales to external customers in the Stainless & Electrical Steel segment were \$2,496 million, representing 47.4% of total sales in 2012, a decrease of 20.2% as compared to sales to external customers of \$3,126 million for the year ended December 31, 2011, or 49.3% of total sales in 2011. Steel shipments for this segment (including intersegment shipments) decreased to 1,611 thousand tonnes for the year ended December 31, 2012 (of which 617 thousand tonnes were attributable to our operations in South America and 994 thousand tonnes were attributable to our operations in Europe, including intersegment shipments) from 1,675 thousand tonnes for the year ended December 31, 2011 (of which 647 thousand tonnes were attributable to our operations in South America and 1,028 thousand tonnes were attributable to our operations in Europe, including intersegment shipments), which represented a decrease of 3.8%.

Sales in the Stainless & Electrical Steel segment decreased by 17.5%, from \$5,068 million in 2011 to \$4,180 million in 2012, mainly as a result of lower volumes and decreasing average selling price. The average selling price for the Stainless & Electrical Steel segment decreased by 14.3% in 2012.

#### Services & Solutions

Sales in the Services & Solutions segment (including intersegment sales) were \$2,173 million for the year ended December 31, 2012. Sales to external customers in the Services & Solutions segment were \$2,103 million, representing 40.0% of total sales in 2012, a decrease of 16.0% as compared to sales of \$2,505 million for the year ended December 31, 2011, or 39.5% of total sales in 2011. Steel shipments for this segment slightly decreased to 661 thousand tonnes for the year ended December 31, 2012 from 662 thousand tonnes for the year ended December 31, 2011, which represented a decrease of 0.2%. Sales in the Services & Solutions segment decreased from \$2,603 million in 2011 to \$2,173 million in 2012, a 16.5% decrease year-over-year. The main reason for this decrease in sales is the lower average selling price for the segment in 2012 compared to 2011. The average selling price for the Services & Solutions' segment decreased by 16.4%, from \$3,764 per tonne in 2011 to \$3,148 per tonne in 2012.

#### Alloys & Specialties

Sales in the Alloys & Specialties segment (including intersegment sales) were \$659 million for the year ended December 31, 2012. Sales to external customers in the Alloys & Specialties segment were \$655 million, representing 12.5% of total sales in 2012. There was a decrease in sales of 8.6% from \$721 million in 2011 to \$659 million in 2012. This decrease in sales in 2012 was the result of a combination of lower shipments and average selling prices. Steel shipments for this segment decreased to 36 thousand tonnes for the year ended December 31, 2012 from 37 thousand tonnes for the year ended December 31, 2011, which represented a decrease of 2.7%. The average selling price for the Alloys & Specialties segment decreased by 7.4%, from \$18,805 per tonne in 2011 to \$17,405 per tonne in 2012.

#### Operating Income/(Loss)

The following table provides our operating income/(loss) and operating margin for the year ended December 31, 2012, as compared to the year ended December 31, 2011:

Operating Segment	Operating Income/(Loss) Year Ended December 31,		Operating Margin Year Ended December 31,	
	2012	2011	2012	2011
	(in million of U.S. dollars)		(%)	
Stainless & Electrical Steel .....	(150)	(39)	(3.6)	(0.8)
Services & Solutions .....	(8)	(18)	(0.4)	(0.7)
Alloys & Specialties .....	50	64	7.6	8.9
Total <sup>(1)</sup> .....	(106)	45	(2.0)	0.7

Note:

<sup>(1)</sup> Amounts shown include eliminations of 2 and 38 for the year ended December 31, 2012 and 2011, respectively, which includes all operations other than those that are part of the Stainless & Electrical Steel, Services & Solutions and Alloys & Specialties operating segments, together with intersegment eliminations and/or non-operational items which are not segmented.

The Company's operating loss for the year ended December 31, 2012 was \$106 million, compared to an operating income of \$45 million for the year ended December 31, 2011. The decrease in 2012 operating result was mainly due to the net pricing squeeze that occurred in 2012. The Company was, however, able to significantly offset the difficult market conditions with the progress made in 2012 with the management gains and profit enhancement initiative known as the Leadership Journey®.



## Stainless & Electrical Steel

The operating loss for the Stainless & Electrical Steel segment was \$150 million for the year ended December 31, 2012 (of which an operating loss of \$16 million and \$134 million was attributable to our operations in South America and Europe, respectively), compared to operating loss of \$39 million for the year ended December 31, 2011 (of which operating income of \$10 million was attributable to our operations in South America and an operating loss of \$29 million was attributable to our operations in Europe). The operating result in 2012 decreased compared to 2011 in the Stainless & Electrical Steel segment mainly as a result of a net pricing squeeze and lower shipments. Once again, this negative impact was significantly offset by the progress made on the Leadership Journey® in 2012.

## Services & Solutions

The operating loss for the Services & Solutions segment was \$8 million for the year ended December 31, 2012 compared to an operating loss of \$18 million in the year ended December 31, 2011. The operating loss in 2012 decreased compared to 2011 in the Services & Solutions segment mainly as a consequence of positive stock effect.

## Alloys & Specialties

The operating income for the Alloys & Specialties segment decreased from \$64 million for the year ended December 31, 2011 to \$50 million for the year ended December 31, 2012. The operating income in 2012 decreased primarily as a result of a net pricing squeeze. This impact was significantly offset by the progress made on the Leadership Journey® in 2012.

## *Income from Other Investments*

We recorded an income of \$2 million from other investments for the year ended December 31, 2012, compared to \$2 million for the year ended December 31, 2011. The income from other investments was attributable to dividends received from a minority stake we held in Gerdau.

## *Interest Income*

Interest income was \$3 million for the year ended December 31, 2012, in line with \$3 million recorded for the year ended December 31, 2011.

## *Interest Expense and Other Net Financing Costs*

Interest expense and other net financing costs include interest expense, net foreign exchange result and other financing costs. Interest expense and other net financing costs decreased to \$67 million for the year ended December 31, 2012, compared to \$127 million for the year ended December 31, 2011.

Net interest expense and other financing costs in 2012 relating to the service of debt and other financing facilities was \$78 million.

## *Unrealized Foreign Exchange and Derivative Losses/Gains*

Unrealized results on foreign exchange and derivative instruments increased in 2012 as compared to 2011. We had unrealized losses on foreign exchange and derivative instruments of \$4 million for the year ended December 31, 2012, compared to unrealized losses of \$30 million for the year ended December 31, 2011. These unrealized losses primarily related to instruments we entered into to hedge our exposure to nickel prices which do not qualify for hedge accounting treatment under IAS 39 and the accounting revaluation of US dollar denominated external debt held in subsidiaries.

## Income Tax

We recorded an income tax benefit of \$64 million for the year ended December 31, 2012, compared to an income tax benefit of \$48 million for the year ended December 31, 2011. Our income tax benefit in 2012 was primarily due to negative operational results in several countries with high tax rates.

## Non-controlling Interests

Net income attributable to non-controlling interests was nil for the year ended December 31, 2012, compared to \$1 million for the year ended December 31, 2011.

## Net Loss / Income

Our net result was a loss of \$108 million for the year ended December 31, 2012, compared to a loss of \$60 million for the year ended December 31, 2011. This was primarily due to the net pricing squeeze that occurred in 2012.

## Year Ended December 31, 2011 compared to Year Ended December 31, 2010

### Sales, Steel Shipments and Average Steel Selling Prices

The following table provides our sales, steel shipments and average selling prices by operating segment for the year ended December 31, 2011, as compared to the year ended December 31, 2010:

Operating Segment	Sales for the Year Ended December 31, <sup>(1)</sup>		Steel Shipments for the Year Ended December 31, <sup>(2)</sup>		Average Selling Price for the Year Ended December 31,		Changes in		
	2011	2010 Combined	2011	2010 Combined	2011	2010 Combined	Sales	Steel Shipments	Average Steel Selling Price
	(in million of U.S. dollars)		(thousands of tonnes)		(in U.S. dollars/tonne)			(%)	
Stainless & Electrical Steel <sup>(3)</sup>	5,068	4,431	1,675	1,638	2,903	2,591	14.4	2.3	12.0
Services & Solutions	2,603	2,327	662	652	3,764	3,397	11.9	1.5	10.8
Alloys & Specialties	721	529	37	33	18,805	15,368	36.3	12.1	22.4
Total (before intragroup eliminations)	8,392	7,287	2,374	2,323			15.2	2.2	
Total (after intragroup eliminations)	6,345	5,604	1,749	1,741			13.2	0.5	

#### Notes:

<sup>(1)</sup> Amounts are shown prior to intragroup eliminations. For additional information, see Note 23 to the consolidated financial statements.

<sup>(2)</sup> Steel shipments amounts are shown prior to intersegment shipments of 625 thousand tonnes and 582 thousand tonnes in 2011 and 2010, respectively.

<sup>(3)</sup> Includes shipments of special carbon steel from our Timóteo production facility.

The Company had sales of \$6,345 million for the year ended December 31, 2011 representing an increase of 13.2% compared to sales of \$5,604 million for the year ended December 31, 2010. The increase in sales was primarily due to the higher average selling price, which increased from \$3,066 per tonne in 2010 to \$3,475 per tonne in 2011. Steel shipments amounted to approximately 1,749 thousand tonnes for the year ended December 31, 2011, remaining stable compared to shipments of 1,741 thousand tonnes for the year ended December 31, 2010.

## Stainless & Electrical Steel

Sales in the Stainless & Electrical Steel segment (including intersegment sales) were \$5,068 million for the year ended December 31, 2011. Sales to external customers in the Stainless & Electrical Steel segment were \$3,126 million, representing 49.3% of total sales in 2011, an increase of 9.2% as compared to sales to external customers of \$2,862 million for the year ended December 31, 2010, or 51.1% of total sales in 2010. Steel shipments for this segment (including intersegment shipments) increased to 1,675 thousand tonnes for the year ended December 31, 2011 (of which 647 thousand tonnes were attributable to our operations in South America and 1,028 thousand tonnes were attributable to our operations in Europe, including intersegment shipments) from 1,638 thousand tonnes for the year ended December 31, 2010 (of which 622 thousand tonnes were attributable to our operations in South America and 1,016 thousand tonnes were attributable to our operations in Europe, including intersegment shipments), which represented an increase of 2.3%.

Despite relatively flat volumes in 2011 compared to 2010, sales in the Stainless & Electrical Steel segment increased by 14.4%, from \$4,431 million in 2010 to \$5,068 million in 2011, mainly as a result of a higher average selling price. The average selling price for the Stainless & Electrical Steel segment increased by 12.0% in 2011.

## Services & Solutions

Sales in the Services & Solutions segment (including intersegment sales) were \$2,603 million for the year ended December 31, 2011. Sales to external customers in the Services & Solutions segment were \$2,505 million, representing 39.5% of total sales in 2011, an increase of 12.8% as compared to sales of \$2,220 million for the year ended December 31, 2010, or 39.6% of total sales in 2010. Steel shipments for this segment increased to 662 thousand tonnes for the year ended December 31, 2011 from 652 thousand tonnes for the year ended December 31, 2010, which represented an increase of 1.5%. Sales in the Services & Solutions segment increased from \$2,327 million in 2010 to \$2,603 million in 2011, a 11.9% increase year-over-year. The main reason for this increase in sales is the higher average selling price for the segment in 2011 compared to 2010. The average selling price for the Services & Solutions segment increased by 10.8%, from \$3,397 per tonne in 2010 to \$3,764 per tonne in 2011.

## Alloys & Specialties

Sales in the Alloys & Specialties segment (including intersegment sales) were \$721 million for the year ended December 31, 2011. Sales to external customers in the Alloys & Specialties segment were \$712 million, representing 11.2% of total sales in 2011. There was an increase in sales of 36.3% from \$529 million in 2010 to \$721 million in 2011. This significant increase in sales in 2011 was the result of a combination of increased shipments and higher average selling prices. Steel shipments for this segment increased to 37 thousand tonnes for the year ended December 31, 2011 from 33 thousand tonnes for the year ended December 31, 2010, which represented an increase of 12.1%. The average selling price for the Alloys & Specialties segment increased by 22.4%, from \$15,368 per tonne in 2010 to \$18,805 per tonne in 2011.

## Operating Income

The following table provides our operating income/(loss) and operating margin for the year ended December 31, 2011, as compared to the year ended December 31, 2010:

Operating Segment	Operating Income		Operating Margin	
	Year Ended December 31,		Year Ended December 31,	
	2011	2010	2011	2010
	(in million of U.S. dollars)		2010	
				(%)
Stainless & Electrical Steel .....	(39)	8	(0.8)	0.2
Services & Solutions .....	(18)	53	(0.7)	2.3
Alloys & Specialties .....	64	36	8.9	6.8
Total <sup>(1)</sup> .....	45	93	0.7	1.7

Note:

- (1) Amounts shown include eliminations of 38 and (4) for the years ended December 31, 2011 and 2010, respectively, which includes all operations other than those that are part of the Stainless & Electrical Steel, Services & Solutions and Alloys & Specialties operating segments, together with intersegment eliminations and/or nonoperational items which are not segmented.

The Company's operating income for the year ended December 31, 2011 was \$45 million, compared to \$93 million for the year ended December 31, 2010. The decrease in 2011 operating income was mainly due to the combination of the net pricing squeeze and stock effect that occurred in 2011. Even though average selling prices for 2011 increased compared to 2010, base prices were under pressure throughout the year. Additionally, in 2011, nickel prices fell compared to 2010, resulting in a negative stock effect in 2011. The Company was, however, able to significantly offset the difficult market conditions with the progress made in 2011 with the management gains and profit enhancement initiative known as the Leadership Journey®.

### Stainless & Electrical Steel

The operating loss for the Stainless & Electrical Steel segment was \$39 million for the year ended December 31, 2011 (of which an operating loss of \$10 million and \$29 million was attributable to our operations in South America and Europe, respectively), compared to operating income of \$8 million for the year ended December 31, 2010 (of which operating income of \$99 million was attributable to our operations in South America and an operating loss of \$91 million was attributable to our operations in Europe). Despite a higher average selling price in 2011, the operating result in 2011 decreased compared to 2010 in the Stainless & Electrical Steel segment mainly as a result of the net pricing squeeze. Once again, this negative impact was significantly offset by the progress made on the Leadership Journey® in 2011.

### Services & Solutions

The operating loss for the Services & Solutions segment was \$18 million for the year ended December 31, 2011 compared to an operating income of \$53 million in the year ended December 31, 2010. The operating result in 2011 in the Services & Solutions segment was significantly impacted by a negative stock effect resulting mainly from the decline in nickel prices compared to a positive stock effect in 2010 resulting mainly from the rise in nickel prices.

### Alloys & Specialties

The operating income for the Alloys & Specialties segment improved from \$36 million for the year ended December 31, 2010, to \$64 million for the year ended December 31, 2011. The operating income in 2011 improved as a result of the increased level of shipments and higher average selling prices.

### Income from Other Investments

We recorded an income of \$2 million from other investments for the year ended December 31, 2011, compared to \$9 million for the year ended December 31, 2010. The income from other investments was attributable to dividends received from a minority stake we held in Gerdau.

### *Interest Income*

Interest income decreased to \$3 million for the year ended December 31, 2011, compared to \$9 million for the year ended December 31, 2010.

### *Interest Expense and Other Net Financing Costs*

Interest expense and other net financing costs include interest expense, revaluation of financial instruments, net foreign exchange income/expense and other financing costs. Interest expense and other net financing costs increased to \$127 million for the year ended December 31, 2011, compared to \$18 million for the year ended December 31, 2010. The 2010 interest expense and other net financing costs include a realized gain of \$120 million in relation to the exchange of Aços Villares shares against Gerdau shares, which we do not consider as strategic. Additionally, following the spin-off in the first quarter of 2011 we put in place a new financing structure appropriate for a stand-alone entity. Prior to this in 2010, a significant majority of the debt held by the Company was in the form of intercompany financing with ArcelorMittal.

Net interest expense and other financing costs in 2011 relating to the service of debt and other financing facilities was \$86 million.

### *Unrealized Foreign Exchange and Derivative Losses/Gains*

Unrealized results on foreign exchange and derivative instruments decreased in 2011 as compared to 2010. We had unrealized losses on foreign exchange and derivative instruments of \$30 million for the year ended December 31, 2011, compared to unrealized gains of \$9 million for the year ended December 31, 2010. These unrealized gains and losses primarily related to instruments we entered into to hedge our exposure to nickel prices which do not qualify for hedge accounting treatment under IAS 39 and the accounting revaluation of US dollar denominated external debt held in subsidiaries.

### *Income Tax*

We recorded an income tax benefit of \$48 million for the year ended December 31, 2011, compared to an income tax benefit of \$3 million for the year ended December 31, 2010. Our income tax benefit in 2011 was primarily due to negative operational results in several countries with high tax rates

### *Non-controlling Interests*

Net income attributable to non-controlling interests was \$1 million for the year ended December 31, 2011, remaining stable compared to the year ended December 31, 2010.

### *Net Loss / Income*

Our net result was a loss of \$60 million for the year ended December 31, 2011, compared to a net income of \$104 million for the year ended December 31, 2010. This was primarily due to the net pricing squeeze and negative stock effect that occurred in 2011.

## **B. Liquidity and Capital Resources**

### **Liquidity**

The Company's principal sources of liquidity are cash generated from its operations, its senior credit facility and credit facilities at the level of its operating subsidiaries. Management believes that the cash generated from the Company's operations and credit facilities are sufficient to meet the Company's present requirements.

Aperam S.A. is dependent upon the earnings and cash flows of, and dividends and distributions from, its operating subsidiaries to pay expenses and meet its debt service obligations since it is a holding company.

Our cash and cash equivalents amounted to \$226 million and \$247million as of December 31, 2012 and 2011, respectively.

Our total debt, which includes long-term debt and short-term debt was \$1,042 million and

\$1,125 million as of December 31, 2012 and 2011, respectively. Net debt (defined as long-term and short-term debt less cash and cash equivalents) was \$816 million as of December 31, 2012, compared to \$878 million at December 31, 2011. Gearing (defined as net debt divided by total equity) was 26% as of December 31, 2012.

As of December 31, 2012, the Company had drawn \$325 million of the \$800 million Borrowing Base Facility, leaving a committed credit line of \$475 million under the facility. In addition, as of December 31, 2012, Aperam had \$151 million of debt outstanding at the subsidiary level, of which the Company had granted security over \$37 million of indebtedness.

As of December 31, 2012, the Company had total liquidity of \$701 million, consisting of cash and cash equivalents (including short term investments) of \$226 million and committed credit lines <sup>(1)</sup> of \$475 million.

These facilities, together with other forms of financing, including the notes, represent an aggregate amount of approximately \$1.5 billion, with borrowing capacity of approximately \$400 million. In management's opinion, such financing will be sufficient for our future requirements.

## Financing

### *Borrowing Base Facility*

On March 15, 2011, Aperam entered into a \$800 million Secured Borrowing Base Revolving Credit Facility (the "\$800 million Borrowing Base Facility").

The purpose of the \$800 million Borrowing Base Facility is to finance the working capital requirements of the Company. The \$800 million Borrowing Base Facility may be repaid and redrawn from time to time until its final maturity in March 2014.

The \$800 million Borrowing Base Facility charges interest at a rate of LIBOR (or EURIBOR, in the case of an advance denominated in euro) plus a margin (depending on the Company's most recent corporate rating by Standard & Poor's or Moody's or both) for the relevant interest period, which may be one, two, three or six months or any other period agreed between the parties. The facility also charges a commitment fee of on the undrawn and uncanceled portion of the total facility amount, payable quarterly in arrears.

The Company's obligations under the \$800 million Borrowing Base Facility are guaranteed by Aperam Stainless Belgium N.V., Aperam Stainless France S.A., Aperam Stainless Services & Solutions Precision S.A., Aperam Stainless Services & Solutions France S.A.S., Aperam Alloys Imphy S.A., Aperam South America Ltda., Aperam Stainless Services & Solutions Brasil Ltda., Aperam Stainless Services & Solutions Tubes Brasil Ltda., Aperam Stainless Services & Solutions Germany GmbH and Aperam Treasury S.N.C.

The \$800 million Borrowing Base Facility is secured by first-ranking and second-ranking security interests over certain eligible receivables and inventory of certain of the guarantors, as well as over substantially all of the assets (other than fixed assets) of Aperam Stainless Belgium N.V. and certain bank accounts and insurance policies. The aggregate amount of advances drawn under the borrowing base facility may not exceed a borrowing base value equal to 70% to 100% of the book value (or, in some cases, market value or scrap value) of certain eligible receivables and inventory, which is reported to the facility agent on a monthly basis.

In addition to restrictive covenants limiting encumbrances on assets of Aperam and its subsidiaries, the ability of subsidiaries to incur debt and the ability of Aperam and its subsidiaries to dispose of assets in certain circumstances, the borrowing base facility contains financial covenants, including:

- a minimum ratio of consolidated current assets to consolidated current liabilities of 1.1:1;
- a minimum consolidated tangible net worth of \$2.2 billion; and
- a maximum consolidated total debt of 70% of consolidated tangible net worth.

On December 31, 2012, these financial covenants were fully met.

---

<sup>(1)</sup> Subject to eligible collateral available

On February 4, 2013, Aperam announces that it obtained an in-principle refinancing commitment to extend a portion of \$600 million of its current \$800 million Borrowing Base Facility from March 2014 until March 2015.

#### *Notes*

On March 28, 2011, Aperam issued two series of U.S. dollar denominated notes, consisting of \$250 million aggregate principal amount of its 7.375% notes due 2016 and \$250 million aggregate principal amount of its 7.75% notes due 2018, in a private placement in the international capital markets.

The notes are senior unsecured obligations, ranking equally in right of payment with all other existing and future senior unsecured indebtedness and senior in right of payment to all existing and future subordinated indebtedness. The notes are effectively subordinated to all the Company's secured obligations, including any indebtedness under its senior credit facility, to the extent of the value of the collateral. In addition, the notes are effectively subordinated to all current and future indebtedness and other obligations of the Company's subsidiaries, including trade payables and amounts drawn under the credit facilities of the Company's Brazilian subsidiary, Aperam South America Ltda.

The notes contain optional redemption options and certain covenants and events of default that, among other things, limit the ability of the Company and certain subsidiaries to incur or guarantee additional indebtedness, issue preferred shares, pay dividends or make other distributions.

#### *Other credit facilities*

On September 28, 2012, Aperam entered into a \$50 million credit facility secured by Gerdau shares. The two year facility, which will be accounted for as a secured bank loan, was fully drawn on October 3, 2012.

#### *True Sales of Receivables Program*

Following the spin-off, the Company obtained liquidity from the sale of receivables through a true sale of receivables ("TSR") program. As of the end of June 2012 the program was subsequently split into two programs under similar terms and conditions to the existing program and the maximum combined amount of the programs that could be utilized as of the end of December 2012 was EUR 250 million. Through the TSR program, the Company and certain of its operating subsidiaries surrender the control, risks and benefits associated with the accounts receivable sold, allowing it to record the amount of receivables sold as a sale of financial assets and remove the accounts receivable from its statement of financial position at the time of the sale.

The amount of receivables we sold under the True Sale of Receivables program and derecognized in accordance with IAS 39 for the years ended December 31, 2012 and 2011 was \$1.7 billion and \$1.7 billion, respectively. Expenses incurred under the TSR program (reflecting the discount granted to the acquirers of the accounts receivable) are recognized in the statement of operations as financing costs and amounted to \$10 million and \$19 million in the years ended December 31, 2012 and 2011, respectively. See Note 3 to the Consolidated Financial Statements for further information.

#### **Earnings distribution**

On May 8, 2012 the Board of Directors submitted to a shareholder's vote, at the annual general meeting, a proposal to maintain the quarterly dividend payment at \$0.1875 per share. The dividend payments occurred on a quarterly basis for the full year 2012 on March 13, 2012, June 14, 2012, September 10, 2012 and December 10, 2012 taking into account that the first quarterly dividend payment paid on March 13, 2012 was an interim dividend.

On February 4, 2013, Aperam announced that the Board of Directors will submit to a shareholder's vote, at the next annual general meeting on May 8, 2013, a proposal to stop the dividend payment to accelerate the net debt reduction target of \$650 million by the end of 2014.

## Sources and Uses of Cash

### ***Year Ended December 31, 2012 Compared to Year Ended December 31, 2011***

The following table presents a summary of our cash flow for the year ended December 31, 2012, as compared to the year ended December 31, 2011:

	Year Ended December 31,	
	2012	2011
	(in million of U.S. dollars)	
Net cash provided by operating activities .....	278	189
Net cash (used in) provided by investing activities .....	(158)	498
Net cash used in financing activities .....	(146)	(552)

#### *Net Cash Provided by Operating Activities*

Net cash provided by operating activities increased to \$278 million for the year ended December 31, 2012, compared to \$189 million for the year ended December 31, 2011. The increase was due to decreased working capital requirements. Working capital (defined for purposes of this Financial Report as consisting of inventories plus trade accounts receivable less trade accounts payable) for the year ended December 31, 2012 decreased by \$156 million due to an increased focus on inventory management by the Company, lower material prices and lower demand at the end of the year.

#### *Net Cash (Used in) / Provided by Investing Activities*

Net cash used in investing activities amounted to \$158 million for the year ended December 31, 2012, compared to net cash provided by investing activities of \$498 million for the year ended December 31, 2010. The net cash used in investing activities in 2012 was mainly related to capital expenditure. Capital expenditures were \$161 million for the year ended December 31, 2012, compared to \$158 million for the year ended December 31, 2011.

#### *Net Cash Used in Financing Activities*

Net cash used in financing activities was \$146 million for the year ended December 31, 2012, compared to net cash used in financing activities of \$552 million for the year ended December 31, 2011. The decrease of net cash used in financing activities was primarily due to transfer to Aperam in 2011 of borrowings under cash pooling arrangements with ArcelorMittal.

#### *Equity*

Equity attributable to the equity holders of the parent decreased to \$3,186 million at December 31, 2012, as compared to \$3,437 million at December 31, 2011, primarily due to the net loss of the year of \$108 million, foreign currency translation differences of \$103 million and dividend payments of \$59 million.

### ***Year Ended December 31, 2011 Compared to Year Ended December 31, 2010***

The following table presents a summary of our cash flow for the year ended December 31, 2011, as compared to the year ended December 31, 2010:

	Year Ended December 31,	
	2011	2010 Combined
	(in million of U.S. dollars)	
Net cash provided by operating activities .....	189	362
Net cash (used in) provided by investing activities .....	498	(404)
Net cash (used in) provided by financing activities .....	(552)	42



### *Net Cash Provided by Operating Activities*

Net cash provided by operating activities decreased to \$189 million for the year ended December 31, 2011, compared to \$362 million for the year ended December 31, 2010. Despite decreased working capital requirements, cash generated from operating activities decreased by \$173 million due to the net loss in the year as a result of the net pricing squeeze and negative stock effect that occurred in 2011. Working capital (defined for purposes of this financial report as consisting of inventories plus accounts receivable less accounts payable) for the year ended December 31, 2011 decreased by \$34 million due to an increased focus on inventory management by the Company, lower material prices and lower demand at the end of the year.

### *Net Cash (Used in)/ Provided Investing Activities*

Net cash provided by investing activities amounted to \$498 million for the year ended December 31, 2011, compared to net cash used in investing activities of \$404 million for the year ended December 31, 2010. The net cash provided by investing activities in 2011 was mainly related to the cash pooling arrangements in place with ArcelorMittal prior to the completion of the spin-off process. Capital expenditures were \$158 million for the year ended December 31, 2011, compared to \$101 million for the year ended December 31, 2010.

### *Net Cash (Used in)/ Provided by Financing Activities*

Net cash used in financing activities was \$552 million for the year ended December 31, 2011, compared to net cash provided by financing activities of \$42 million for the year ended December 31, 2010. Cash used in financing activities increased primarily as a result of the cash pooling arrangements in place with ArcelorMittal prior to the completion of the spin-off process.

### *Equity*

Equity attributable to the equity holders of the parent decreased to \$3,437 million at December 31, 2011, as compared to \$3,649 at December 31, 2010, primarily due to foreign currency translation differences.

### **Capital Expenditure**

Capital expenditures for the years ended December 31, 2012, 2011 and 2010 were \$161 million, \$158 million and \$101 million, respectively. Similar as in 2011, capital expenditures for 2012 related primarily to the key projects of our Leadership Journey® with investments in Gueugnon, Imphy and Campinas as well as maintenance investments in our facilities in Brazil, France and Belgium. Capital expenditure for 2010 related primarily to the Timóteo facility with the conversion of our second blast furnace from coke to charcoal (biomass) and to switch from LPG to natural gas as well as to the maintenance of our facilities in Brazil, Belgium and France.

We have budgeted less than the 2012 capital expenditures for capital expenditure projects in 2013, relating primarily to our Leadership Journey® and the maintenance of our facilities in Brazil, Belgium and France. Capital expenditures will be concentrated on security, environment and cost reduction. We will remain cautious on capital expenditures whilst enabling adjustments based upon market conditions.

### **C. Research and Development, Patents and Licenses**

Costs relating to research and development, patents and licenses were not significant as a percentage of sales. Research and development costs expensed (and included in selling, general and administration expenses) for the years ended December 31, 2012, 2011 and 2010 amounted to \$20 million, \$18 million and \$21 million, respectively.

### **D. Trend information**

On February 4, 2013, Aperam published its full year and fourth quarter 2012 results with its outlook for the first quarter 2013 and announced an accelerated net debt reduction target and an expansion of the Leadership Journey®.

EBITDA in the first quarter of 2013 is expected to improve compared to the fourth quarter of 2012 due to increased activity and the continuing progress of the Leadership Journey®. Net debt is expected to increase in the first quarter of 2013 compared to the fourth quarter of 2012 due to increased activity.

The Board of Directors will submit to a shareholder's vote, at the next annual general meeting, a proposal to stop the dividend payment to accelerate the net debt reduction target of \$650 million by the end of 2014.

In response to the current economic uncertainty and in a continuing effort to improve Aperam's cost competitiveness and profitability the company targets an expansion of the Leadership Journey® by 2014 with \$150 million of cost savings targeted over the next 2 years starting end of 2012. This expansion of the Leadership Journey® leads to a new combined target of \$425 million by 2014.

The full year and fourth quarter 2012 results press release is available on [www.aperam.com](http://www.aperam.com) under Investors & Shareholders, Earnings.

## E. Off-balance Sheet Arrangements

We have no uncombined special purpose financing or partnership entities. As discussed above, however, we participate in a TSR program for sales without recourse of trade accounts receivable programs with financial institutions. For additional information, see "—Liquidity and Capital Resources—True Sale of Receivables Program."

## F. Tabular Disclosure of Contractual Obligations

We have various purchase commitments for materials, supplies and items of permanent investment incidental to the ordinary course of business. As of December 31, 2012, management believes that these commitments are not in excess of current market prices and reflect normal business operations.

As of December 31, 2012, we had outstanding various long-term obligations. These various purchase commitments and long-term obligations will have an effect on our future liquidity and capital resources. The table below shows, by major category of commitment and obligations outstanding as of December 31, 2012, management's current estimate of their annual maturities (undiscounted except for environmental).

	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
	(in million of U.S. dollars)				
Long-term debt obligations— scheduled repayments— Note 13 to the consolidated financial statements .....	615	19	85	262	249
Operating lease obligations— Note 21 to the consolidated financial statements .....	29	4	5	4	16
Capital lease obligations.....	20	9	7	4	—
Environment commitments <sup>(1)</sup> — Note 19 to the consolidated financial statements .....	27	8	6	—	13
Purchase obligations—Note 21 to the consolidated financial statements.....	1,879	634	410	199	636
Funding contribution to the pension and post-employment plans <sup>(2)</sup> .....	9	9	—	—	—
Scheduled interest payments <sup>(3)</sup> .....	190	51	81	49	9
Other long-term liabilities .....	10	—	—	—	10
<b>Total .....</b>	<b>2,779</b>	<b>734</b>	<b>594</b>	<b>518</b>	<b>933</b>

Notes:

<sup>(1)</sup> We may be subject to additional environmental liabilities not included in the table above.

<sup>(2)</sup> The funding contributions to the pension and post-retirement plans are presented for the following year and to the extent known.

<sup>(3)</sup> In determining the future interest payments on our variable interest debt we used the interest rates applicable as of December 31, 2010.

We had \$416 million, \$503 million and \$568 million of short-term debt (excluding current portion of long-term debt) as of December 31, 2012, 2011 and 2010, respectively. Short-term debt includes short-term loans, which are payable within one year. As of December 31, 2011 and 2010, short-term debt also included overdrafts with ArcelorMittal, which were payable on demand.

## G. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to a number of different market risks arising from our normal business activities. Market risk is the possibility that changes in raw materials prices, foreign currency exchange rates, interest rates, base metal prices and energy prices (oil, natural gas and electricity) will adversely affect the value of our financial assets, liabilities or expected future cash flows.

The fair value information presented below is based on the information available to management as of the date of the statement of financial position.

### ***Risk Management***

Financial market risks are transferred from operating subsidiaries to Group treasury. They are managed centrally and according to Aperam's policies and procedures by a group specializing in foreign exchange, interest rate, commodity, internal and external funding and cash and liquidity management.

### ***Derivative Instruments***

We use derivative instruments to manage our exposure to movements in interest rates, foreign exchange rates, commodity prices and emissions rights allowances arising from operating, financing and investment activities. Changes in the fair value of derivative instruments were recognized in the statement of operations until June 30, 2010, as we did not apply hedge accounting treatment under IAS 39 until that date. From July 1, 2010 on, we have applied hedge accounting treatment under IAS 39 on some eligible contracts, and, as a consequence, changes in the fair value of these derivative instruments are recognized in other comprehensive income (while derivative instruments not qualifying for hedge accounting were still recognized in the statement of operations).

Derivatives used are over-the-counter derivatives such as over-the-counter swaps, options and forward contracts.

Our portfolio of derivatives currently consists of transactions of subsidiaries with Aperam Treasury, which in turn enters into offsetting positions with counterparties external to Aperam.

Our portfolio associated with derivative financial instruments as of December 31, 2012 is as follows:

	Assets		Liabilities	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(in million of U.S. dollars)			
<b>Foreign exchange rate instruments</b>				
Forward purchase contracts .....	14	—	19	—
Forward sale contracts .....	87	—	28	—
Total foreign exchange rate instruments .....		—		—
<b>Raw materials (base metal), energy</b>				
Term contracts sales metals .....	33	1	8	—
Term contracts purchases metals .....	71	4	115	(8)
Total raw materials (base metal), energy .....		5		(8)
Total .....		5		(8)

### ***Currency Exposure***

Because a substantial portion of our assets, liabilities, sales and earnings are denominated in currencies other than the U.S. dollar (our reporting currency), we are exposed to fluctuations in the values of these currencies relative to the U.S. dollar. These currency fluctuations, especially the fluctuation of the value of the U.S. dollar relative to the euro and the Brazilian real, as well as fluctuations in the currencies of the other countries in which we have significant operations and/or sales, could have a material impact on our results of operations.

We face transaction risk, where our businesses generate sales in one currency but incur costs relating to that revenue in a different currency. For example, we may purchase raw materials in U.S. dollars, but may sell finished steel products in other currencies. Consequently, an appreciation of the U.S. dollar will increase the cost of raw materials, thereby negatively impacting our operating margins.

We also face translation risk, which arises when we translate the statement of operations of our subsidiaries, our corporate net debt and other items denominated in currencies other than the U.S. dollar for inclusion in the consolidated financial statements.

We hedge our net exposure to exchange rates through spot and derivative transactions.

The following table details our sensitivity as it relates to derivative financial instruments to a 10% variation in the value of the U.S. dollar against the other currencies to which we are exposed. This sensitivity analysis does not include non-derivative foreign currency-denominated monetary items. A positive number indicates an increase in profit or loss, while a negative number indicates a decrease in profit or loss and other equity:

	Year Ended December 31,		
	2012	2011	2010 Combined
	(in million of U.S. dollars)		
10% appreciation in U.S. dollar .....	4	(2)	7
10% depreciation in U.S. dollar .....	(4)	2	(7)

### ***Interest Rate Exposure***

#### ***Short-term Interest Rate Exposure and Cash***

Cash balances, which are primarily denominated in euro and U.S. dollars, are managed according to the short-term (up to one year) guidelines established by senior management on the basis of a daily interest rate benchmark.

#### ***Interest Rate Risk on Debt***

Our policy consists of incurring debt at fixed and floating interest rates, primarily in U.S. dollars and euro according to general corporate needs.

We monitor the fixed/floating mix and may use interest rate derivatives if needed (mainly interest rate swaps) to manage our exposure to fluctuations in interest rates.

The carrying amount and fair value of our interest bearing financial instruments as of December 31, 2012, 2011 and 2010 was as follows:

	December 31,					
	2012		2011		2010 Combined	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in million of U.S. dollars)					
Instruments payable bearing interest at fixed rates.....	520	475	525	447	789	1,014
Instruments payable bearing interest at variable rates..	115	109	102	101	480	504

The following table details our sensitivity to a change of 1% variation in interest rates. This analysis assumes that all other variables, in particular foreign currency rates, remain constant:

Rate Instrument	December 31, 2012		
	Interest Rate Swaps/ Forward Rate Agreements	Cash Flow Sensitivity (net)	
	(in million of U.S. dollars)		
1% rise .....	(4)	—	(4)
1% fall .....	4	—	4

## Commodity Exposure

We use derivative instruments such as forwards, swaps and options to manage our exposure to commodity prices.

Fair values of raw material and energy instruments are as follows:

	Year Ended December 31,		
	2012	2011	2010 Combined
	(in million of U.S. dollars)		
Base metals.....	(3)	(2)	12
Energy (oil).....	—	—	—
Total .....	(3)	(2)	12
Assets associated with raw material and energy .....	5	4	14
Liabilities associated with raw material and energy .....	(8)	(6)	(2)
Total .....	(3)	(2)	12

We consume large amounts of commodities (mainly nickel), the price of which is linked to the London Metals Exchange price index. As a general matter, we are exposed to price volatility in respect of our purchases in the spot market and under our long term supply contracts.

The following table details our income sensitivity to a 10% variation in the prices of base metals. The sensitivity analysis include only outstanding base metal derivative instruments both held for trading at fair value through the statement of operations and those designated as eligible for hedge accounting treatment.

	Year Ended December 31,					
	2012		2011		2010 Combined	
	Income	Other Equity Cash Flow Hedging Reserves	Income	Other Equity Cash Flow Hedging Reserves	Income	Other Equity Cash Flow Hedging Reserves
	(in million of U.S. dollars)					
+10% in prices Base Metals .....	9	5	7	6	6	7
-10% in prices Base Metals .....	(9)	(5)	(7)	(6)	(6)	(7)

## Item 4. Directors, Senior Management and Employees

### A. Directors and Senior Management

Aperam places a strong emphasis on corporate governance. Aperam has four independent directors on its seven members of the Board of Directors and the Board's Audit and Risk Management Committee and Remuneration, Nomination and Corporate Governance Committee are each comprised exclusively of independent directors. In addition, two thirds of the Sustainability, Performance and Strategy Committee are comprised of independent directors. See "Item 4.C. - Board Practices/Corporate Governance - Committees of the Board of Directors". Mr. Lakshmi N. Mittal is the Chairman of the Board of Directors and Mr. Romain Bausch is the Lead Independent Director.

#### ***Board of Directors***

No members of the Board of Directors have entered into a service contract with Aperam or any of its subsidiaries providing for benefits upon the end of his or her service on the Board.

The members of the Board of Directors as of the date of this financial report are set forth below. The terms of the members of the Board of Directors expire at the annual general meeting of shareholders as described in the table below.

<b>Name</b>	<b>Age<sup>(1)</sup></b>	<b>Position within the Company <sup>(2)</sup></b>	<b>Date joined Board</b>	<b>Term Expires</b>
Mr. Lakshmi N. Mittal .....	62	Chairman, Non-independent member of the Board of Directors	December 2010	May 2013
Mr. Romain Bausch <sup>(3) (4)</sup> .....	59	Lead Independent Director, Independent member of the Board of Directors	January 2011	May 2013
Mr. David B. Burritt <sup>(3) (4)</sup> .....	57	Independent member of the Board of Directors	December 2010	May 2013
Ms. Kathryn A. Matthews <sup>(4) (5)</sup> .....	53	Independent member of the Board of Directors	December 2010	May 2013
Mr. Aditya Mittal .....	36	Non-independent member of the Board of Directors	December 2010	May 2013
Ms. Laurence Mulliez <sup>(3) (5)</sup> .....	46	Independent member of the Board of Directors	May 2011	May 2014
Mr. Gonzalo Urquijo <sup>(5)</sup> .....	51	Non-independent member of the Board of Directors	December 2010	May 2013

Notes:

Company Secretary: Mr. Laurent Beauloye

<sup>(1)</sup> Age on December 31, 2012.

<sup>(2)</sup> See Item 4.C. – Board Practices/section Corporate Governance/Board of Directors for the status of independent director.

<sup>(3)</sup> Member of the Audit and Risk Management Committee

<sup>(4)</sup> Member of the Remuneration, Nomination and Corporate Governance Committee

<sup>(5)</sup> Member of the Sustainability, Performance and Strategy Committee

Our Board of Directors has a majority of independent directors, with four members of the Board of Directors being independent and the remaining three members being non-independent. None of the members of the Board of Directors has entered into service contracts with the Company or any of its affiliates that provide for benefits upon the termination of their service.

The business address of Mr. Lakshmi N. Mittal, Mr. Aditya Mittal and Mr. Gonzalo Urquijo is 19, Avenue de la Liberté, L-2930 Luxembourg, Grand Duchy of Luxembourg. The business address of the other members of the Board of Directors is our registered office at 12C, rue Guillaume Kroll, L-1882 Luxembourg, Grand Duchy of Luxembourg.

*Mr. Lakshmi N. Mittal*

Lakshmi N. Mittal is the Chairman and CEO of ArcelorMittal. Mr. Mittal started his career in the steel industry in 1976 by founding Ispat Indo, a company that is still held privately by the Mittal family. He founded Mittal Steel Company (formerly the LNM Group) in 1989 and guided its strategic development, culminating in the merger in 2006 with Arcelor, to form the world's largest steelmaker. He is widely recognized for the leading role he has played in restructuring the steel industry towards a more consolidated and globalized model. Mr. Mittal is an active philanthropist and a member of various boards and trusts, including chairman and CEO of the board of ArcelorMittal and the boards of Goldman Sachs and European Aeronautic Defence & Space Company ("EADS") N.V. He is a member of the Indian Prime Minister's Global Advisory Council, the Foreign Investment Council in Kazakhstan, the Ukrainian President's Domestic and Foreign Investors Advisory Council, the World Economic Forum's International Business Council, the World Steel Association's Executive Committee and the Presidential International Advisory Board of Mozambique. He also sits on the Advisory Board of the Kellogg School of Management and on the Board of Trustees of Cleveland Clinic in the United States. Mr. Mittal began his career working in his family's steelmaking business in India, and has over 35 years of experience working in steel and related industries. In addition to spearheading the steel industry's consolidation, he championed the development of integrated mini-mills and the use of Direct Reduced Iron ("DRI") as a scrap substitute for steelmaking. Following the merger of Ispat International and LNM Holdings to form Mittal Steel in December 2004, with the simultaneous acquisition of International Steel Group, he led the formation of the world's then-leading steel producer. In 2006, he merged Mittal Steel and Arcelor to form ArcelorMittal. Mr. Mittal then led a successful integration of two large entities to firmly establish ArcelorMittal as one of the foremost industrial companies in the world. The company continues to be the largest and most global steel manufacturer. More recently, Mr. Mittal has been leading ArcelorMittal's expansion of its mining business through significant brownfield and greenfield growth. In 1996, Mr. Mittal was awarded 'Steelmaker of the Year' by New Steel in the United States and in 1998 the 'Willy Korf Steel Vision Award' by World Steel Dynamics for outstanding vision, entrepreneurship, leadership and success in global steel development. He was named Fortune magazine's 'European Businessman of the Year 2004'. Mr. Mittal was awarded 'Business Person of 2006' by the Sunday Times, 'International Newsmaker of the Year 2006' by Time Magazine and 'Person of the Year 2006' by the Financial Times for his outstanding business achievements. In January 2007, Mr. Mittal was presented with a Fellowship from King's College London, the college's highest award. He also received in 2007 the Dwight D. Eisenhower Global Leadership Award, the Grand Cross of Civil Merit from Spain and was named AIST Steelmaker of the year. In January 2008, Mr. Mittal was awarded the Padma Vibhushan, India's second highest civilian honor, by the President of India. In September 2008, Mr. Mittal was chosen for the third 'Forbes Lifetime Achievement Award', which honors heroes of entrepreneurial capitalism and free enterprise. In October 2010 he was awarded World Steel Association's medal in recognition of his services to the Association as its Chairman and also for his contribution to the sustainable development of the global steel industry. In January 2013, Mr. Mittal was awarded with a Doctor Honoris Causa by the AGH University of Science and Technology in Krakow, Poland. Mr. Mittal was born in Sadulpur in Rajasthan, India on June 15, 1950. He graduated from St Xavier's College in Kolkata, India, where he received a Bachelor of Commerce degree. Mr. Mittal is married to Usha Mittal. They have a son, Aditya Mittal, and a daughter, Vanisha Mittal Bhatia. Mr. Mittal is a citizen of India.

*Mr. Romain Bausch*

Mr. Romain Bausch is President and Chief Executive Officer of SES since July 2001. SES is a world-leading telecommunications satellite operator, with a global fleet of 50 geostationary satellites. SES holds participations in a number of satellite operators and satellite service provision companies. Mr. Bausch is also Chairman of the Board of Directors of SES ASTRA, Vice-Chairman of the Board of O3b Networks and member of the Board of Solaris Mobile. He became the Director General and the Chairman of the Management Committee of SES in 1995, following a career in the Luxembourg civil service (Ministry of Finance). Previously, he occupied key positions in the banking, media and telecommunications sectors in Luxembourg. Mr. Bausch is also a Vice-Chairman of Fedil (the Luxembourg Business Federation) and a member of the Boards of Directors of BIP Investment Partners and of Compagnie Financière La Luxembourgeoise. He graduated with a degree in economics (specialization in business administration) from the University of Nancy and holds an honorary doctorate from Sacred Heart University in Luxembourg. Mr. Bausch is a citizen of Luxembourg.

*Mr. David B. Burritt*

Mr. David Burritt worked for Caterpillar Inc. for almost thirty-three years before retiring in October 2010. Mr. Burritt was Vice President and Chief Financial Officer of Caterpillar Inc. from 2004 to 2010, and served as Caterpillar Inc.'s Corporate Controller and Chief Accounting Officer from 2002 to 2004. Mr. Burritt also held various positions in finance, tax, accounting, and international operations at Caterpillar Inc. from 1978 to 2002. He currently serves as a non-executive director of the Board of Directors of the Lockheed Martin Corporation where he is a member of the Executive, Audit (Chairman), Strategic Affairs & Finance and Management Development & Compensation Committees. Mr. Burritt holds a bachelor degree from Bradley University and an MBA from the University of Illinois in the United States. Mr. Burritt is also a Certified Public Accountant (CPA), a member of the American Institute of Certified Public Accountants (AICPA), a Certified Management Accountant (CMA) and a member of the Institute of Management Accountants (IMA). Mr. Burritt is a citizen of the United States of America.

*Ms. Kathryn A. Matthews*

Ms. Ms. Kathryn Matthews has over thirty years of experience in the financial sector, with a focus on asset management, and has held senior management roles with Fidelity International Ltd, AXA Investment Managers, Santander Global Advisors Inc. and Baring Asset Management. Currently, Ms Matthews is a non-executive director of the corporate board of publicly listed Rathbone Brothers Plc. Ms Matthews is a non-executive director of the investment funds boards of publicly listed Fidelity Asian Values Plc, JPMorgan Chinese Investment Trust Plc, Montanaro UK Smaller Companies Investment Trust and Conversus Capital LP. Ms. Matthews is also a non-executive director of non-publicly listed Royal London Group and Hermes Fund Managers Ltd. Following the agreement of July 2012 between Conversus Capital LP and HarbourVest Structured Solutions II, Ms Matthews will cease to be a director of Conversus Capital LP in 2013 when the transaction is finally completed. Ms. Matthews is a citizen of the United Kingdom.

*Mr. Aditya Mittal*

Mr. Aditya Mittal is the Chief Financial Officer ("CFO") of ArcelorMittal and a member of the Group Management Board of ArcelorMittal with additional responsibility for Flat Carbon Europe. Prior to the merger to create ArcelorMittal, Mr. Aditya Mittal held the position of President and CFO of Mittal Steel Company from October 2004 to 2006. He joined Mittal Steel in January 1997 and has held various finance and management roles within the company. In 1999, he was appointed Head of Mergers and Acquisitions for Mittal Steel. In this role, he led the company's acquisition strategy, resulting in Mittal Steel's expansion into Central Europe, Africa and the United States. Besides the Merger and Acquisitions responsibilities, Mr. Aditya Mittal was involved in post-integration, turnaround and improvement strategies. As CFO of Mittal Steel, he also initiated and led Mittal Steel's offer for Arcelor to create the first hundred million tonnes plus steel company. In 2008, Mr. Aditya Mittal was awarded 'European Business Leader of the Future' by CNBC Europe. In 2011, he was also ranked 4<sup>th</sup> in the '40 under 40' list of Fortune magazine. He is a member of the Young President's Organization, a Board member at the Wharton School and a member of the Board of Directors of PPR. Mr. Aditya Mittal holds a Bachelor's degree of Science in Economics with concentrations in Strategic Management and Corporate Finance from the Wharton School in Pennsylvania, United States. Mr. Aditya Mittal is the son of Mr. Lakshmi N. Mittal. Mr. Aditya Mittal is a citizen of India.

*Ms. Laurence Mulliez*

Ms. Laurence Mulliez is CEO of Eoxis since 2010. Privately held Eoxis produces energy from renewable sources. Ms. Laurence Mulliez was previously CEO of Castrol Industrial Lubricants and Services at BP from 2007 to 2009 and held various positions in BP starting in 1999, including Head of Strategy for Gas, Power and Renewable Energy. From 1993 to 1999, she held several positions at Amoco in finance, business analysis and business development. Ms. Laurence Mulliez started her career at Banque Nationale de Paris as a Financial Analyst. Ms. Laurence Mulliez is also a non-executive director at Voltalia, a renewable electricity producer in four countries and quoted on the second market in Paris, after spending ten years as a non-executive director at a leading international do-it-yourself retailer, Leroy Merlin, where she was also a member of the Audit Committee. Ms. Laurence Mulliez holds a degree in business from the Ecole Supérieure de Commerce de Rouen and an MBA from the University of Chicago. Ms. Mulliez is a citizen of France.



### *Mr. Gonzalo Urquijo*

Mr. Gonzalo Urquijo is a Member of the Group Management Board of ArcelorMittal and Responsible for Asia, Africa, Commonwealth of Independent States (excluding China and India), Distribution Solutions and Tubular Products. Mr. Gonzalo Urquijo serves as a director of publicly listed ArcelorMittal South Africa in addition to his other responsibilities within the ArcelorMittal group. Mr. Gonzalo Urquijo previously Senior Executive Vice President and Chief Financial Officer of Arcelor, has held the following responsibilities: Finance, Purchasing, IT, Legal Affairs, Investor Relations, Arcelor Steel Solutions and Services, and other activities. Mr. Gonzalo Urquijo also held several other positions within Arcelor, including Deputy Senior Executive Vice President and Head of the functional directorates of distribution. Until the creation of Arcelor in 2002, when he became Executive Vice President of the Operational Unit South of the Flat Carbon Steel sector, Mr. Gonzalo Urquijo was CFO of Aceralia. Between 1984 and 1992, he held a variety of positions at Citibank and Crédit Agricole before joining Aristrain in 1992 as CFO and later Co-CEO. Mr. Gonzalo Urquijo is a graduate in Economics and Political Science of Yale University and holds an MBA from the Instituto de Empresa in Madrid. Mr. Gonzalo Urquijo is a citizen of Spain.

### **Senior Management**

Each member of the Company's senior management is a member of the Management Committee, which is entrusted with the day-to-day management of the Company. The members of the Management Committee are appointed and dismissed by the Board of Directors. The Management Committee may exercise only the authority granted to it by the Board of Directors.

The members of the Company's senior management as of the date of this financial report are set forth below.

<b>Name</b>	<b>Age<sup>(1)</sup></b>	<b>Function</b>
Mr. Philippe Darmayan .....	60	Chief Executive Officer; Member of the Management Committee
Mr. Julien Burdeau .....	41	Responsible for Alloys & Specialties; Member of the Management Committee;
Mr. Timóteo Di Maulo .....	53	Chief Commercial and Sourcing Officer; Member of the Management Committee;
Mr. Clenio Guimarães .....	55	Chief Operating Officer Stainless & Electrical Steel South America; Member of the Management Committee;
Ms. Vanisha Mittal Bhatia.....	32	Responsible for Strategy; Member of the Management Committee;
Mr. Julien Onillon.....	42	Chief Financial Officer; Member of the Management Committee
Mr. Jean-Paul Rouffiac.....	60	Chief Operating Officer Stainless & Electrical Steel Europe; Member of the Management Committee;
Ms. Johanna Van Sevenant .....	44	Responsible for Sustainability, Human Resources and Communications; Member of the Management Committee;

Note:

Secretary to the Management Committee: Mr. Guillaume Bazetoux, Head of Finance

<sup>(1)</sup> Age on December 31, 2012.

Mr. Philippe Darmayan was appointed as the Company's new Chief Executive Officer by the Board of Directors on September 19, 2011 with effective date December 1, 2011 for an unlimited term of office. This decision follows the resignation of Mr. Bernard Fontana, appointed as Chief Executive Officer in 2010. The other members of the Management Committee were appointed by the Board of Directors on December 7, 2010 for an unlimited term of office.

The business address of each member of senior management is the Company's registered office at 12C, rue Guillaume Kroll, L-1882 Luxembourg, Grand Duchy of Luxembourg, except that the business

address of Mr. Clenio Guimarães is Av. Carandai, 1115, 23rd floor - Funcionários, 30130 915 - Belo Horizonte - MG, Brazil.

*Mr. Philippe Darmayan*

Mr. Philippe Darmayan is the Company's Chief Executive Officer since December 1, 2011. Since 2007, he has been President of the French Federation for Steel Industry ("FFA"). Mr. Darmayan graduated from the French business school – HEC in Paris. By joining Aperam, Mr. Darmayan's started its second period in the stainless steel industry as, from 2002 to 2006, he led the transformation of Ugine and ALZ – the stainless divisions of respectively Usinor and Arbed Groups – into one combined company which later became ArcelorMittal Stainless then Aperam. He has therefore a strong understanding of the stainless business fundamentals which led to heavily restructured Ugine and ALZ melt shop footprint and initiated the move to ferritic grades as a way to mitigate the high nickel price increase. Besides stainless steel, Mr. Darmayan has had an extensive experience in various metallurgical fields including nuclear fuel, aluminium and the carbon steel industries. From 2005 to 2011, before joining Aperam, Mr. Darmayan was Executive Vice President of ArcelorMittal, member of ArcelorMittal's Management Committee and the CEO of ArcelorMittal Distribution Solutions ("AMDS"), which activity gathers the ArcelorMittal processing and distribution businesses. Mr. Darmayan was previously in the aluminium industry and Vice President of Pechiney with various senior management positions as Head of the foil and bar divisions, followed by the leadership of the aerospace division, one of Pechiney's core assets with leading market shares at Airbus, Boeing and Embraer. Mr. Darmayan initiated his career in the nuclear fuel activity as plant manager and then managing director of Franco-Belge de Fabrication de Combustibles ("FBFC"), a subsidiary of Framatome. FBFC is the world largest nuclear fuel manufacturer for pressurized water reactors. As his continuous career vision, Mr. Darmayan has promoted entrepreneurship spirit and participative management, as the best way for large Groups to actively show renewed initiatives and decisions for fast development and value creation. Mr. Darmayan is a citizen of France.

*Mr. Julien Burdeau*

Mr. Julien Burdeau is Responsible for Alloys & Specialties since July 2009. Mr. Burdeau started his career in 1997, working with the French Ministry of Economy, Finance and Industry. He joined the Arcelor Group in 2002 as Director of Strategy for the Stainless Steel division. From 2005 to 2009, Mr. Burdeau held several operational positions within ArcelorMittal Stainless Europe, which included serving as a steel service center manager in Italy and as Head of the Finishing Department in Gueugnon. He subsequently became Head of Operations at the Gueugnon production facility and Chief Executive Officer of ArcelorMittal Stainless and Nickel Alloys in July 2009. Mr. Burdeau is a graduate of Ecole Normale Supérieure and Ecole des Mines, both located in Paris, France, and holds a Ph.D. in Mathematics. Mr. Burdeau is a citizen of France.

*Mr. Timóteo Di Maulo*

Mr. Timóteo Di Maulo is the Chief Commercial and Sourcing Officer of Aperam since May 2012. Prior to this function Mr. Di Maulo has served as Chief Executive Officer — Services & Solutions since 2005. In 1990, Mr. Di Maulo joined Ugine Italia, where he held various positions in the controlling, purchasing and sales departments. While at Ugine Italia, he successfully implemented and launched the ERP System, "Sidonie", across all of Ugine's subsidiaries worldwide. In 1996, Mr. Di Maulo joined Ugine's Commercial Direction in Paris where he was in charge of its Industry and Distribution division. Mr. Di Maulo was subsequently named Service Division Industrial Director in 1998 and took on additional responsibilities as Chief Executive Officer of the German SSC, RCC. In 2000, Mr. Di Maulo was named Chief Executive Officer of U&A Italy, a role which gave him full responsibility for its mill sales network and its two Italian SSCs. Mr. Di Maulo was then appointed Chief Executive Officer of ArcelorMittal's Stainless Europe Service Division in 2005 and, in 2008, of ArcelorMittal Stainless International (which included the division's worldwide mill sales network, all distribution and processing centers and ArcelorMittal Stainless Europe's tube mills and precision strips). Mr. Di Maulo is a graduate of Politecnico di Milano in Milan and holds an M.B.A. from Bocconi University in Milan. Mr. Di Maulo is a citizen of Italy.

*Mr. Clenio Guimarães*

Mr. Clenio Guimarães is the Chief Operating Officer Stainless & Electrical Steel South America since May 2012. Prior to this function, Mr. Guimarães was Chief Executive Officer — Stainless & Electrical Steel South America since December 2010. Mr. Guimarães joined Acesita in 1981 as a process engineer. In 1996, after performing various roles in quality, production and cost optimization, Mr. Guimarães was appointed Manager of Acesita's Continuous Improvement Department and then, Head of the stainless melt shop in 2002 and Industrial General Manager in 2005. Mr. Guimarães has since acted as the Chief

Operating Officer of ArcelorMittal Inox Brazil since 2008. Mr. Guimarães was appointed Chief Executive Officer — Stainless & Electrical Steel South America in December 2010. Mr. Guimarães holds a degree in Metallurgical Engineering from the Universidade Federal de Ouro Preto in Brazil and post-graduate degrees in Marketing from Unileste-MG in Brazil and in General Management from Fundação Dom Cabral in Brazil. Mr. Guimarães also underwent training in the ArcelorMittal University Pioneer program in 2008. Mr. Guimarães is a citizen of Brazil.

*Ms. Vanisha Mittal Bhatia*

Ms. Mittal Bhatia joined Aperam in April 2011 and is Responsible for Strategy. She has a degree in business administration from the European Business School and a master's in South Asian studies from the School of Oriental and African Studies, London. She has completed corporate internships at Mittal Shipping Ltd, Mittal Steel Hamburg GmbH and an internet-based venture capital fund. Vanisha Mittal Bhatia is a member of the Board of Directors of ArcelorMittal. She is also the daughter of Mr. Lakshmi N. Mittal. Ms. Mittal Bhatia is a citizen of India.

*Mr. Julien Onillon*

Mr. Julien Onillon was appointed Chief Financial Officer ('CFO') of Aperam in 2010. Prior to this function, Mr. Onillon was Head of Investor Relations at ArcelorMittal after having joined Mittal Steel as Head of Investor Relations in June 2005. Mr. Onillon spent five years acting as the Head of Global Steel Research at HSBC before joining Mittal Steel. Mr. Onillon worked as an Equity Analyst between 1994 and 2000 at BNP Paribas and Detryat Associés where he covered a variety of sectors, including pan-European materials and basic resources. Mr. Onillon is a graduate of the University of Bordeaux I in Bordeaux, France and the University of London (RHBNC) and holds a degree in Physical Chemistry. He is also a graduate of the Ecole Supérieure de Commerce de Bretagne in Brest, France and holds a Master's degree from the Société Française des Analystes Financiers in Paris and a degree from the European Federation of Financial Analysts Societies. Mr. Onillon is a citizen of France.

*Mr. Jean-Paul Rouffiac*

Mr. Jean-Paul Rouffiac is the Chief Operating Officer Stainless & Electrical Steel Europe since May 2012. Prior to this function Mr. Jean-Paul Rouffiac has served as Chief Executive Officer — Stainless & Electrical Steel Europe since December 2007. Mr. Rouffiac joined the Usinor Group in 1978 as a lawyer and served as Secretary of the Management Board from 1982 to 1985. He subsequently held various senior sales and marketing positions in the Flat Carbon division between 1986 and 1997. In March 1997, Mr. Rouffiac was appointed Vice President of International & Economic Affairs and Secretary of the Board of Directors. Between 2000 and 2002, Mr. Rouffiac was appointed Vice President of Flat Carbon Sales and Marketing and, prior to the creation of ArcelorMittal, he headed negotiations with the EU's Competition Directorate General. Mr. Rouffiac was named Vice President in charge of SSCs in 2002 and, in 2006, was appointed Vice President responsible for SSCs within Arcelor's Distribution and Solutions division. He was appointed Chief Executive Officer of ArcelorMittal Stainless Steel — Europe in 2007. Mr. Rouffiac is a graduate of Sciences Po in Paris, France and Paris 1 Panthéon-Sorbonne Law University. Mr. Rouffiac is a citizen of France.

*Ms. Johanna Van Sevenant*

Ms. Johanna Van Sevenant is Responsible for Sustainability, Human Resources and Communications. Ms. Johanna Van Sevenant started her career at PricewaterhouseCoopers Brussels in 1993 and later joined Deloitte & Touche in 1999 where she worked as a Senior Manager of the Human Resources Advisory Services. She subsequently joined the Arcelor Group in 2001 as Managing Director of the Belgian Pension Competence Center at Usinor in Liège, Belgium. Between 2003 and 2006, Ms. Van Sevenant served as International Manager—Pension and Risks Benefits at the Human Resources Corporate Center in Luxembourg. Ms. Van Sevenant became Manager of Integration in 2006 and, in 2007, was named Head of Human Resources, Communications and General Services of the ArcelorMittal International division within Steel Services & Solutions. She was later named Head of Human Resources and Communication of the Stainless Steel segment in December 2008. Ms. Van Sevenant holds a Master's degree in Political Science and Business Administration from Université Libre de Bruxelles in Brussels, Belgium and a Master's degree in Tax Law from HEC St. Louis in Brussels. Ms. Van Sevenant is a citizen of Belgium.

## B. Compensation

### Board of Directors

The table below shows the directors compensation paid in 2012 for the financial period ending December 31, 2011 and in 2011 for the financial period ending January 25, 2011. The directors compensation for the financial period ending December 31, 2012 will be submitted to shareholder approval at the annual general meeting of May 8, 2013.

(Amounts in USD):

Name	Financial period ending January 25, 2011 <sup>(1) (2)</sup>	Financial period ending December 31, 2011 <sup>(1) (2)</sup>	Financial period ending December 31, 2012
Mr. Lakshmi N. Mittal .....	\$ 13,118	\$ 84,398	\$ 92,358
Mr. Romain Bausch .....	\$ 1,215	\$ 116,696	\$ 128 642
Mr. David B. Burritt .....	\$ 12,763	\$ 113,314	\$ 125 343
Ms. Kathryn A. Matthews.....	\$ 12,763	\$ 107,531	\$ 118 746
Mr. Aditya Mittal .....	\$ 13,118	\$ 84,398	\$ 92 358
Ms. Laurence Mulliez	—	\$ 72,904	\$ 115 448
Mr. Gonzalo Urquijo.....	\$ 13,118	\$ 95,964	\$ 105 552
Total	\$ 66,095	\$ 675,205	\$ 778 446
Shareholder approval date	July 12, 2011	May 8, 2012	May 8, 2013

Notes:

<sup>(1)</sup> Due to the complexity of the spin-off which was preceded by a multi-jurisdictional reorganization of ArcelorMittal's entire stainless and specialty steels businesses, the operating entities of which are predominantly based in France, Belgium and Brazil, and the related accounting and tax consequences of the spin-off, Aperam closed its financial year started on January 1, 2011 on the date on which the spin-off became effective, i.e., January 25, 2011.

<sup>(2)</sup> Ms. Sylvie Ouziel who stepped down from the Board of Directors for personal considerations effective on May 10, 2011 decided to renounce to her compensation as member of the Board of Directors.

The annual compensation of the Board of Directors is based on the following € based remuneration structure:

Position	Compensation (annual basis) <sup>(1)</sup>
Basic Director's remuneration.....	€ 70,000
Lead Independent Director's remuneration.....	€ 80,000
Additional remuneration for the Chair of the Audit and Risk Management Committee.....	€ 15,000
Additional remuneration for the other Audit and Risk Management Committee members ..	€ 7,500
Additional remuneration for the Chairs of the other Committees.....	€ 10,000
Additional remuneration for the members of the other Committees.....	€ 5,000

Notes:

<sup>(1)</sup> Remuneration structure approved at the annual general meeting of shareholders on May 8, 2012.

See “—Board of Directors and Senior Management Compensation Policy” below for details of our compensation policies.

As of December 31, 2012 and 2011, Aperam did not have any outstanding loans or advances to members of its Board of Directors and, Aperam had not given any guarantees for the benefit of any member of its Board of Directors. None of the members of the Board of Directors benefit from an Aperam pension plan.

### **Senior Management**

The total compensation paid in 2012 to the persons comprising the Company's Management Committee members was \$2.82 million in base salary (including certain allowances paid in cash) and \$0.34 million in short-term performance related variable pay (consisting of a bonus linked to the 2011 results). As of December 31, 2012, approximately \$450,000 was accrued to provide pension benefits to such persons.

The members of the Management Committee also participate in share-based compensation plans sponsored by Aperam. The Remuneration, Nomination and Corporate Governance Committee of the Board of Directors decided to further improve the remuneration disclosure published by the Company by focusing the information on those executive officers whose remuneration is tied to the performance of the entire Aperam group. The Management Committee is defined going forward as Aperam's senior management.

The table below summarizes the detailed allocation of RSUs and PSUs to the Management Committee Members under the shareholder approvals. Additional information about the RSU and PSU plans is available in the Long Term Incentive Section of this report.

	Allocation under the shareholder approval of	
	July 12, 2011	May 8, 2012
Authorisation to issue up to.....	70,000 RSU	70,000 RSU
- corresponding to maximum.....	20,000 PSU	20,000 PSU
- representing in % of issued shares.....	110,000 shares less than 0.15%	110,000 shares less than 0.15%
Targeted population under the RSU Plan.....	30 most senior managers	30 most senior managers
Targeted population under the PSU Plan.....	Subset of the RSU population	Subset of the RSU population
Allocation under the shareholder approval limit to Members of the Management Committee		
- for RSUs.....	23,750 RSU (vesting November 3, 2014)	No PSUs and RSUs will be granted to the Management Committee under the May 8, 2012 shareholder approval
- for PSUs.....	14,250 PSU (vesting March 31, 2015)	
Performance criteria of PSU.....	50% weighting: 2012-2014 average ROCE of 6.5%	Not applicable as no PSUs will be granted under the May 8, 2012 shareholder approval
	50% weighting: Management gains of \$350 million under Leadership Journey® end 2014	

We do not have any outstanding loans or advances to members of the Company's senior management or any guarantees for the benefit of any member of the Company's senior management.

None of the members of senior management has entered into service contracts with the Company or any of our affiliates that provide for benefits upon the termination of their service.

The general meeting of the Company held on January 21, 2011, resolved to delegate to the Board of Directors to determine how to compensate employees who have outstanding ArcelorMittal stock options and who are transferring from ArcelorMittal to the Company. Upon the recommendation of the Board of Directors' Remuneration, Nomination & Corporate Governance Committee, the Board has approved that Aperam employees remain beneficiaries of the ArcelorMittal Stock option, under the same conditions as if they were still ArcelorMittal employees. The ArcelorMittal stock option plan administration committee has agreed this treatment for the ArcelorMittal management transferred to Aperam.

### ***Remuneration governance***

The Board has to ensure that the Groups' remuneration arrangements are equitable and aligned with the long-term interests of Aperam and its shareholders.

To this end, the Board has established the Remuneration, Nomination and Corporate Governance Committee ("RNCG Committee") to assist it in among others making decisions affecting employee remuneration. All members of the RNCG committee are required to be independent under the company's corporate governance guidelines, the 10 Principles of Corporate Governance of the Luxembourg Stock Exchange and the NASDAQ Listing Rules.

The members are appointed by the Board of Directors each year after the annual general meeting of shareholders. The members have relevant expertise or experience relating to the purposes of the committee. The RNCG Committee is chaired by Mr. Romain Bausch, Lead Independent Director.

Additional information with respect to the Remuneration, Nomination and Corporate Governance Committee is provided in "Item 4.C. - Board Practices/Corporate Governance - Committees of the Board of Directors".

### ***Board of Directors and Senior Management Compensation Policy***

#### ***Philosophy***

The Company's Compensation Policy for senior managers is based on the following principles:

- provide total compensation competitive with executive compensation levels of industrial companies of a similar size and scope;
- promote internal equity and market median base pay levels for executives, combined with "pay for performance";
- motivate managers towards the achievement of group-wide and personal goals, including efficiency and growth; and
- retain individuals who consistently perform at expected levels and contribute to the success of the organization.

#### ***Compensation Framework***

The Remuneration, Nomination and Corporate Governance Committee draws up proposals for executive compensation on an annual basis for presentation to the Board of Directors. It also prepares proposals for the fees to be paid annually to the members of the Board of Directors. Its principal objective is to encourage and reward performance that will lead to the long-term enhancement of shareholder value. The proposals of the Remuneration, Nomination and Corporate Governance Committee for executive compensation comprise a fixed annual salary, short-term incentives (performance-related bonuses) and long-term incentives (Restricted Share Units and Performance Share Units).

The proposals prepared by the Remuneration, Nomination and Corporate Governance Committee apply to the Chief Executive Officer and members of the Management Committee. The Remuneration, Nomination and Corporate Governance Committee's decisions on short and long-term incentive plans may also apply to a larger group of employees. It receives updates regarding the application of these plans on a regular basis.

### *Fixed Annual Salary*

Fixed annual salaries are determined based upon benchmarking against the median salary level of peer companies, which include industrial companies of a size and scope similar to that of the Company. Fixed annual salaries are reviewed annually to ensure that we remain competitive.

### *Short-term Incentives: Performance-Related Bonus*

Our Global Performance Bonus Plan is a performance-related bonus plan. Performance-related bonuses are calculated as a percentage of an employee's fixed annual salary. Different percentages apply depending upon the employee's rank. Performance-related bonuses are determined based upon the performance of the Company and/or the relevant operating segment, the achievement of specific objectives and the relevant employee's overall performance and potential. Performance-related bonuses are paid only if certain minimum performance thresholds are met by the Company as a whole and/or the relevant segment.

The calculation of Aperam's 2012 performance bonus is aligned with Aperam's strategic objectives of improving health and safety performance and our overall competitiveness.

The following three levels of achievement apply:

- 80% achievement: the threshold or minimum level of achievement. The performance bonus is not paid out if the level of achievement of the business plan target is below this threshold;
- 100% achievement: the business plan target has been fully reached;
- 120% achievement: the maximum or ceiling for over-achievement of the business plan.

The bonus is calculated as a percentage of the individual employee's base salary, as indicated in the table below. Different percentage ranges are used depending on the position of the individual employee.

	<b>Business Plan Achievement Threshold at 80%</b>	<b>Business Plan Achievement Target at 100%</b>	<b>Business Plan Achievement Ceiling at 120%</b>
CEO	30% of base pay	60% of base pay	90% of base pay
Management Committee Member (VP)	20% of base pay	40% of base pay	60% of base pay
Management Committee Member (GM)	15% of base pay	30% of base pay	45% of base pay

---

Note: VP, Vice-President; GM, General Manager

For the Chief Executive Officer and the Members of the Management Committee, the 2012 bonus formula is based on:

- EBITDA at group level: 40% (this acts as a "circuit breaker" with respect to group-level financial performance measures, as explained below);
- Free Cash Flow at group level: 30%;
- Health and Safety performance at group level: 10%;
- Quantified specific measures (including specific Health and Safety targets): 20%.

In the 2012 bonus formula, EBITDA was operating as a "circuit breaker" for financial measures means that the 80% threshold described above must be met for EBITDA in order to trigger any bonus payment with respect to the EBITDA and Free Cash Flow performance measures.

The different performance measures are combined through a cumulative system: each measure is calculated separately and is added up for the performance bonus calculation. The individual performance and potential assessment ratings define the individual bonus multiplier that will be applied to the performance bonus calculated based on actual performance against the performance measures. Those individuals who

consistently perform at expected levels will have an individual multiplier of 1. For outstanding performers, an individual multiplier of up to 1.3 may cause the performance bonus pay-out to be higher than 150% of the target bonus, up to 195% of target bonus being the absolute maximum. Similarly, a reduction factor will be applied for those at the lower end. No bonus pay-out is a possible outcome for substandard performance. The principles of the performance bonus plan, with different weight for performance measures and different levels of target bonus, are applicable to about 1,000 employees worldwide.

#### *Long-term Incentives: Restricted Share Unit Plan and Performance Share Unit Plan*

The shareholders have approved at the last annual general meeting of May 8, 2012 the implementation of a Restricted Share Unit Plan and a Performance Share Unit Plan to enhance the long-term performance of the Company and to retain key employees. The two Plans are intended to promote the alignment of interests between the Company's shareholders and eligible employees by allowing them to participate in the success of the Company. The table page 69 summarizes the key characteristics of long term incentive plans since the creation of Aperam.

#### **Restricted Share Unit (RSU) Plan**

The aim of the RSU Plan is to provide a retention incentive to eligible employees. It is subject to "cliff vesting" after three years, with 100% of the grant vesting on the third anniversary of the grant contingent upon the continued active employment of the eligible employee within the Aperam group. The RSUs are an integral part of the Company's remuneration framework in which it serves the specific objective of medium-term and long-term retention.

For the period from the July 12, 2011 general shareholders' meeting to the annual general meeting of shareholders held on May 8, 2012, a maximum of 70,000 RSUs and 20,000 PSUs might be allocated to qualifying employees under the RSU Plan and the PSU Plan, respectively. In November 2011, a total of 59,750 shares under the RSU Plan were granted to a total of 28 employees. In March 2012, a total of 14,250 PSU were granted to the Management Committee of the Company.

For the period from the annual general meeting of May 8, 2012 to the annual general meeting of shareholders to be held in 2013 a maximum of seventy thousand (70,000) Restricted Share Units (each, a "RSU") of the Company may be allocated to qualifying employees under the 2012 RSU Plan. The RSU Plan is targeted at the 30 most senior managers across the Aperam group. The decision was taken by the Board of Directors not to allocate any RSUs to the Management Committee Members between the May 2012 and May 2013 shareholder meetings as the long-term incentives schemes for the Members of the Management Committee are under review. The Company expects to make a grant under the RSU Plan by the end of the first quarter of 2013 to the other eligible managers.

#### **Performance Share Unit (PSU) Plan**

The PSU Plan's main objective is to be an effective performance-enhancing scheme based on the employee's contribution to the eligible achievement of the Company's strategy. Awards under the PSU Plan are subject to the fulfillment of cumulative performance criteria over a three-year period from the date of the PSU grant. The employees eligible to participate in the PSU Plan are a sub-set of the group of employees eligible to participate in the RSU Plan. The target group for PSU grants is primarily the Chief Executive Officer and the other members of the Management Committee.

For the period from the May 2012 annual general shareholders' meeting to the May 2013 annual general shareholders' meeting, a maximum of 20,000 PSUs may be allocated to eligible employees under the PSU Plan. The decision was taken by the Board of Directors not to grant any PSUs to the members of the Management Committee between the May 2012 and May 2013 shareholder meetings as the long-term incentives schemes for the Members of the Management Committee are under review.

PSUs will vest three years after their date of grant subject to the eligible employee's continued employment with the Company and the fulfilment of targets related to the following performance measures as described in Item 4.B – Compensation – Senior Management. Under the allocation of the July 12, 2011 shareholder meeting, performance measures are Return On Capital Employed ("ROCE") and management gains reached under the "Leadership Journey®". Each performance measure has a weighting of 50%. In case the level of achievement of both performance targets together is below 80%, there is no vesting, and the rights are automatically forfeited. The two targets to be reached over the period 2012 to 2014 are an average ROCE of 6.5% and USD 350 million of management gains.



The allocation of RSUs and PSUs to members of the Senior Management under the RSU Plan and the PSU Plan is reviewed by the Remuneration, Nomination and Corporate Governance Committee, comprised of three independent directors, which makes a recommendation to the full Board of Directors. The Remuneration, Nomination and Corporate Governance Committee also reviews the proposed grants of RSUs and PSUs to eligible employees other than the members of the Management Committee and the principles governing their proposed allocation. The Committee also decides the criteria for granting PSUs and makes its recommendation to the Board of Directors. These criteria are based on the principle of rewarding performance upon the achievement of clear and measurable metrics for shareholder value creation.

#### *Other Benefits*

In addition to the primary elements of compensation described above, other benefits may be provided to senior management, such as company cars and contributions to pension plans and insurance policies, which will be in line with relevant local market and peer group practices.

None of the members of the Board of Directors is a party to a contract with the Company that provides for benefits upon termination of employment.

#### *Employee Share Purchase Plan ("ESPP")*

Upon the recommendation of the Remuneration, Nomination and Corporate Governance Committee, the Board has decided not to implement an Aperam employee share purchase plan.

Certain of our employees became shareholders in Aperam through the 2008, 2009 and 2010 Employee Share Purchase Plans implemented by ArcelorMittal. Following the spin-off from ArcelorMittal, an addendum to the ArcelorMittal charter of the 2008, 2009 and 2010 ArcelorMittal ESPPs was adopted providing, among other measures, that:

- the spin-off was to be deemed an early exit event for the participants who were employees of one of the entities that was to be exclusively controlled by Aperam, except in certain jurisdictions where termination of employment was not an early exit event; and
- Aperam shares received by ESPP participants would be blocked in line with the lock-up period applicable to the ArcelorMittal shares in relation to which the Aperam shares were allocated based on a ratio of one Aperam share for twenty ArcelorMittal shares.

As at December 31, 2012, Aperam employees were holding 21,735 Aperam shares under the ArcelorMittal ESPP 2008, 2009 and 2010 Plans.

#### *Stock option plan*

For historical reasons, certain of the Company's employees participate in stock-based compensation plans sponsored by ArcelorMittal. These plans provide employees with stock or options to purchase stock in ArcelorMittal. Given that the Company's employees directly benefit from participation in these plans, the expense incurred by ArcelorMittal for options granted to its employees has been reflected in the Company's consolidated statement of operations as selling, general and administrative. The compensation expense recognized for stock option plans was \$1 million and \$3 million for each of the years ended December 31, 2012 and 2011, respectively. For the years ended December 31, 2012 and 2011, the amount of outstanding options was 661,909, and 843,681 respectively. The amount of exercisable options was 605,942 and 684,604 respectively for the years ended December 31, 2012 and 2011. Exercise prices of ArcelorMittal stock options vary from \$27.31 to \$78.44. Weighted average contractual life of the options varies from 0.5 to 7.6 years.

## C. Board Practices/Corporate Governance

*This item provides a summary of the corporate governance practices of Aperam.*

*The 10 Principles of Corporate Governance of the Luxembourg Stock Exchange constitute Aperam's domestic corporate governance code.*

### **Board of Directors**

The Board of Directors is in charge of the overall governance and direction of the Company. It is responsible for the performance of all acts of administration necessary or useful to implement the corporate purpose of the Company as described in the Articles of Association, except for matters expressly reserved by Luxembourg law or the Articles of Association to the general meeting of shareholders. The Articles of Association provide that the Board of Directors must be composed of a minimum of three members. None of the members of the Board of Directors may hold an executive position or executive mandate within the Company or any entity controlled by the Company.

The Articles of Association provide that directors are elected and removed by the general meeting of shareholders by a simple majority of votes cast. Directors are appointed for a maximum term of three years and are automatically eligible for reappointment at the end of such period. Any director may be removed with or without cause by a simple majority vote at any general meeting of shareholders. In the event that a vacancy arises on the Board of Directors for any reason, the remaining members of the Board of Directors may, by a simple majority, elect a new director to fulfill temporarily the duties attaching to the vacant post until the next general meeting of shareholders.

As of the date of this financial report, the Board of Directors is composed of seven members. Mr. Lakshmi N. Mittal was elected Chairman of the Board of Directors in December 2010. Mr. Romain Bausch joined the Aperam Board of Directors in January 2011 and was elected Lead Independent Director in February 2011. The Board is assisted by a Company Secretary who also acts as Secretary of all the Board Committees.

The 10 Principles of Governance of the Luxembourg Stock Exchange, which constitute Aperam's domestic corporate governance code, require Aperam to define the independence criteria that apply to its directors.

The Board of Directors has a majority of independent directors, with four members of the Board of Directors being independent and the remaining three members being non-independent. A member of the Board of Directors is considered as "independent", if (i) he or she is independent within the meaning of the NASDAQ Listing Rules, as amended from time to time, or any successor manual or provisions, subject to the exemptions available for foreign private issuers, if (ii) he or she is unaffiliated with any shareholder owning or controlling more than two percent (2%) of the total issued share capital of the Company and (iii) the Board of Directors makes an affirmative determination to this effect. For the purposes of this article, a person is deemed affiliated to a shareholder if he or she is an executive officer, or a director who is also employed by the shareholder, a general partner, a managing member, or a controlling shareholder of such shareholder.

### *Specific characteristics of the director role*

There is no requirement in the Articles of Association that directors be shareholders of the Company.

The Board of Directors improved its corporate governance framework on February 4, 2013 to align the Company's corporate governance practices with developing best practices in the area of term limits and overboarding.

The purpose of these improvements is to limit the time of service of directors on the Board of Directors and to set limits with respect to the number of directorships they can hold. An independent director shall not serve on the Board of Directors for more than 12 consecutive years. The Board of Directors may, by way of exception to this rule, make an affirmative determination, on a case-by-case basis, that a director may continue to serve beyond 12 years in consideration of his or her exceptional contribution to the Board. An independent director will no longer be considered "independent" as defined in the 10 Principles of Corporate Governance of the Luxembourg Stock Exchange and the NASDAQ Listing Rules as applicable to foreign private issuers when he or she has completed 12 years of service on the Board.

As membership of the Board of Directors represents a significant time commitment, directors require devoting sufficient time to the discharge of their duties as a director of Aperam. Directors are therefore required to consult with the Chairman and the Lead Independent Director before accepting any additional commitment that could conflict with or impact on the time they can devote to their role as a Director of Aperam. Furthermore, a director may not serve on more than four public company boards in addition to the Aperam Board of Directors. However, service on the board of directors of any subsidiary or affiliate of the foregoing companies shall not be taken into account for purposes of complying with the foregoing limitation. The Board may, by way of exception, allow for a temporarily lifting of this rule.

None of the members of the Board of Directors have entered into service contracts with Aperam or any of its subsidiaries that provide for any form of remuneration or for benefits upon the termination of their term.

The remuneration of the members of the Board of Directors is determined on a yearly basis by the annual general meeting of shareholders.

### ***Operation of the Board of Directors***

#### *General*

Luxembourg law permits the Board of Directors to engage the services of external experts or advisers, as well as to take all actions necessary or useful to implement the Company's corporate purpose (*objet social*).

#### *Meetings*

The Board of Directors meets when convened by the Chairman of the Board or two members of the Board of Directors. The Board of Directors holds meetings in person on at least a quarterly basis and additional meetings are held as circumstances require, either in person or by teleconference.

The Board of Directors held five meetings in 2012. The average attendance rate of the directors at the Board of Directors' meetings held in 2012 was 100%.

In order for a meeting of the Board of Directors to be validly held, a majority of the directors must be present or represented. In the absence of the Chairman, the Board of Directors will appoint by majority vote a chairman pro tempore for the meeting in question. For any meeting of the Board of Directors, a director may designate another director to represent him or her and vote in his or her name.

The agenda of the meeting of the Board of Directors is agreed by the Chairman of the Board of Directors and the Lead Independent Director.

## *Votes*

Each member of the Board of Directors has one vote and none of the directors, including the Chairman, has a casting vote. Decisions of the Board of Directors are made by a majority of the directors present and represented at a validly constituted meeting.

## *Lead Independent Director*

The independent members of the Board of Directors are entitled to nominate annually a Lead Independent Director, whose functions include the following:

- coordination of the activities of the independent directors;
- liaising between the non-independent directors and the independent directors;
- calling meetings of the independent directors when necessary and appropriate; and
- performing such other duties as may be assigned to him or her by the Board of Directors from time to time.

Mr. Romain Bausch was elected by the Board of Directors as Aperam's Lead Independent Director in February 2011.

## *Separate Meetings of Independent Members of the Board of Directors*

The independent members of the Board of Directors may schedule meetings outside the presence of the management and the non-independent Directors. Five meetings of the independent Directors outside the presence of management and non-independent Directors were held in 2012.

The Chairman of the Board of Directors and the Lead Independent Director held 5 meetings in 2012 enabling to provide feedback on the separate meetings of the independent directors outside the presence of the management and the non-independent directors.

## *Board of Directors Self-evaluation and Continuing Education Program*

The Board of Directors conducts an annual self-evaluation in order to identify potential areas for improvement of the Board and its Committees. The self-evaluation process is based on interviews of the Lead Independent Director and the members of the Board of Directors and covers the overall performance of the Board of Directors, its relations with senior management, the performance of individual directors, and the performance of the Committees. The process is supported by the Company Secretary under the supervision of the Chairman and the Lead Independent Director. The findings of the self-evaluation process are examined by the Remuneration, Nomination and Corporate Governance Committee and presented with recommendations from the Committee to the Board of Directors for adoption and implementation.

Suggestions for improvement of the Board of Directors' process based on the prior year's performance and functioning are implemented during the following year.

The Company's first Board of Directors' self-evaluation was conducted early 2012 after a full yearly cycle of Board and Committee meetings had been completed and was discussed by the Board in May 2012. The items reviewed during the self-evaluation process included the functioning of the Board, the composition of the Board, the contribution to the Board and areas for improvement. Overall satisfaction with the quality of the Board and Committee process was high with successful induction sessions for the Board members. The balance of the time spent by the Board of Directors on strategic issues compared to the review of performance was an issue identified to merit further consideration. The second self-evaluation began in December 2012 and was on the agenda of the February 2013 Board Meeting. The previous year's recommendation on the balance of the time spent by the Board of Directors on strategic issues compared to the review of performance was successfully addressed. Specific topics that deserve further attention in the Board were suggested and will be followed up in the course of 2013, and include succession planning, specific industry briefings and trainings, visits to key Aperam facilities and management exposure to the Board.

The Board of Directors believes that its members have the appropriate range of skills, knowledge and experience necessary to enable them to effectively fulfill their duties. To enhance these skills, the Board of Directors implements a continuing education program for its members. The topics addressed through the program include areas of importance for our future growth and development (e.g., strategy, marketing, human resources, industrial development, research and development, sustainability, corporate governance, legal, accounting and regulatory). Additional topics may be added at the request of the members of the Board of Directors. The continuing education program consists of an introduction by recognized experts in the relevant fields who may be practitioners or academics followed by a facilitated discussion between the presenter and the Board of Directors. The members of the Board of Directors will also have the opportunity to participate in specific programs designed for directors of publicly listed companies at reputable academic institutions and business schools.

### ***Committees of the Board of Directors***

The Board of Directors has 3 committees: the Audit and Risk Management Committee, the Remuneration, Nomination and Corporate Governance Committee and the Sustainability, Performance and Strategy Committee.

#### ***Committee Composition***

The composition of the Committees of the Board of Directors as of the date of this financial report is set forth below.

<b>Name</b>	<b>Position within Aperam</b>	<b>Independent/ Non Independent Status</b>	<b>Audit and Risk Management Committee</b>	<b>Remuneration, Nomination and Corporate Governance Committee</b>	<b>Sustainability, Performance and Strategy Committee</b>
Romain Bausch.....	Member of Board of Directors	Lead Independent Director	X	X (Chairman)	
David Burritt .....	Member of Board of Directors	Independent	X (Chairman)	X	
Kathryn Matthews.....	Member of Board of Directors	Independent		X	X
Laurence Mulliez .....	Member of Board of Directors	Independent	X		X
Gonzalo Urquijo .....	Member of Board of Directors	Non Independent			X (Chairman)

#### ***Audit and Risk Management Committee***

The Audit and Risk Management Committee is composed of three directors. The members are appointed by the Board of Directors each year after the annual general meeting of shareholders. The Audit and Risk Management Committee takes decisions by a simple majority.

With respect to audit related matters, the primary function of the Audit and Risk Management Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing:

- our financial reports and other financial information provided to any governmental body or the public;
- our system of internal control regarding finance, accounting, legal, compliance and ethics established by the Board of Directors and senior management; and
- our auditing, accounting and financial reporting processes generally.

With respect to audit related matters the Audit and Risk Management Committee's primary duties and responsibilities relating to this function are to:

- be an independent and objective party to monitor our financial reporting process and internal controls system;
- review and appraise the audit efforts of Aperam's independent auditors and internal auditing department;

- review major legal and compliance matters and their follow up;
- provide an open avenue of communication among our independent auditors, senior management, the internal audit department, and the Board of Directors
- approve the appointment and fees of our independent auditors; and
- monitor the independence of the independent auditors.

With respect to risk management related matters, the primary function of the Audit and Risk Management Committee is to support the Board of Directors in fulfilling its corporate governance and oversight responsibilities by assisting with the monitoring and review of our risk management process. In that regard, its main responsibilities and duties are to assist the Board of Directors by developing recommendations regarding the following matters:

- oversight, development and implementation of a risk identification and management process and the review of this process in a consistent manner throughout the Company;
- review of the effectiveness of our risk management framework, policies and process at the corporate and operating segment levels and the proposal of improvements, with the aim of ensuring that our management is supported by an effective risk management system;
- promotion of constructive and open exchanges on risk identification and management among senior management, the Board of Directors, the legal department and other relevant departments of the Company;
- review of proposals to assess, define and review the level of risk tolerance to ensure that appropriate risk limits are in place;
- review of our internal and external audit plans to ensure that they include a review of the major risks we face; and
- making recommendations within the scope of its charter to Aperam's senior management and to the Board of Directors about senior management's proposals concerning risk management.

In fulfilling its duties, the Audit and Risk Management Committee may seek the advice of outside experts.

The three members of the Audit and Risk Management Committee are Messrs. David Burritt and Romain Bausch and Ms. Laurence Mulliez. Mr. David Burritt is the Chairman of the Audit and Risk Management Committee. Each of these members is an independent director in accordance with the 10 Principles of Corporate Governance of the Luxembourg Stock Exchange.

According to its charter, the Audit and Risk Management Committee is required to meet at least four times a year. During 2012, the Audit Committee met five times. The average attendance rate of the directors at the Audit and Risk Management Committee meetings held in 2012 was 100%.

As part of the annual self-evaluation interviews, the Audit and Risk Management Committee performed an evaluation, which was completed in February 2013 with respect to performance in 2012.

#### *Remuneration, Nomination and Corporate Governance Committee*

The Remuneration, Nomination and Corporate Governance Committee may be composed of two or three directors, and is currently composed of three directors. The members are appointed by the Board of Directors each year after the annual general meeting of shareholders. The Remuneration, Nomination and Corporate Governance Committee takes decisions by a simple majority.

The Board of Directors has established the Remuneration, Nomination and Corporate Governance Committee to:

- determine Aperam's compensation framework, including short and long term incentives for the Chief Executive Officer, the Chief Financial Officer, the members of the Management Committee;

- review and approve succession and contingency plans for key managerial positions at the level of the Management Committee;
- consider any candidate for appointment or reappointment to the Board of Directors at the request of the Board of Directors and provide advice and recommendations to it regarding the same;
- evaluate the functioning of the Board of Directors and monitor the Board of Directors' self-assessment process; and
- develop, monitor and review corporate governance principles and corporate responsibility policies applicable to Aperam, as well as their application in practice.

The Remuneration, Nomination and Corporate Governance Committee's principal criteria in determining the compensation of executives is to encourage and reward performance that will lead to long-term enhancement of shareholder value. In fulfilling its duties, the Remuneration, Nomination and Corporate Governance Committee may seek the advice of outside experts.

The three members of the Remuneration, Nomination and Corporate Governance Committee are Messrs. Romain Bausch and David Burritt and Ms. Kathryn Matthews. Mr. Romain Bausch is the Chairman of the Remuneration, Nomination and Corporate Governance Committee. Each of these members is an independent director in accordance with the 10 Principles of Corporate Governance of the Luxembourg Stock Exchange.

The Remuneration, Nomination and Corporate Governance Committee is required to meet at least twice a year. During 2012, this committee met four times. The average attendance rate at the Remuneration, Nomination and Corporate Governance Committee meetings held in 2012 was 100%.

As part of the annual self-evaluation interviews, the Remuneration, Nomination and Corporate Governance Committee performs an evaluation, which was completed in February 2013 with respect to performance in 2012.

#### *Sustainability, Performance and Strategy Committee*

The Sustainability, Performance and Strategy Committee is composed of three directors. The members are appointed by the Board of Directors each year after the annual general meeting of shareholders. The Sustainability, Performance and Strategy Committee takes decisions by a simple majority.

The primary function of the Sustainability, Performance and Strategy Committee is to review on a regular basis our sustainability, financial and industrial performance and strategy. With respect to sustainability related matters, Health and Safety is the top priority and reviewed systematically at each Committee meeting. Other sustainability related matters include the overall sustainability approach for the Company and its operating segments, in particular from the perspective of value creation, the use of green energy and, more generally, the environmental impact of production cycles and expansion projects.

The three members of the Sustainability, Performance and Strategy Committee are Mr. Gonzalo Urquijo, Ms. Kathryn Matthews and Ms. Laurence Mulliez. Mr. Gonzalo Urquijo is the Chairman of the Sustainability, Performance and Strategy Committee. Ms. Kathryn Matthews and Ms. Laurence Mulliez are independent directors in accordance with the 10 Principles of Corporate Governance of the Luxembourg Stock Exchange.

During 2012, this committee met four times. The average attendance rate at the Sustainability, Performance and Strategy Committee meetings held in 2012 was 100%.

As part of the annual self-evaluation interviews the Sustainability, Performance and Strategy Committee performs a self-evaluation, which was completed in February 2013 with respect to performance in 2012.

#### *Transition Committee*

Following the spin-off of ArcelorMittal's stainless and specialty steels business into Aperam on January 25, 2011, an ad hoc Transition Committee was formed by the Board of Directors in order to monitor the implementation of the transitional agreements entered into with ArcelorMittal. The Transition Committee was created for a maximum of three years, after which an evaluation of its purpose would take place. Its

members were Ms. Kathryn Matthews, Ms. Laurence Mulliez and Mr. David Burritt with Ms. Kathryn Matthews acting as Chairman. Each of these members is an independent director in accordance with the 10 Principles of Corporate Governance of the Luxembourg Stock Exchange.

The Transition Committee reviewed the terms and conditions of the transitional services received from ArcelorMittal in the course of 2012. The Transition Committee then decided that a separate committee focused on the transition was no longer necessary, as the transitional agreements with ArcelorMittal had decreased in relevance and order of magnitude, effective October 30, 2012. Responsibility for the remaining arrangements with ArcelorMittal has been transferred to line management with oversight by the Audit and Risk Management Committee in the normal course of business.

During 2012, this committee met two times. The average attendance rate at the Transition Committee meetings held in 2012 was 100%. As part of the annual self evaluation interviews the Transition Committee members performed a self-evaluation, which was completed in February 2013 with respect to performance in 2012.

### ***Management Committee***

The Management Committee is entrusted with the day-to-day management of Aperam. Mr. Philippe Darmayan is the Chief Executive Officer and a member of the Management Committee. The members of the Management Committee are appointed and dismissed by the Board of Directors. As the Management Committee is not a corporate body created by Luxembourg law or Aperam's Articles of Association, the Management Committee may exercise only the authority granted to it by the Board of Directors.

### ***Succession Planning***

Succession planning at the Company is a systematic and deliberate process for identifying and preparing employees with potential to fill key organizational positions should the current incumbent's term expire. This process applies to all executives up to and including the Management Committee. Succession planning aims to ensure the continued effective performance of the organization by providing for the availability of experienced and capable employees who are prepared to assume these roles as they become available. For each position, candidates are identified based on performance and potential and their "years to readiness" and development needs are discussed and confirmed. Regular reviews of succession plans are conducted to ensure that they are accurate and up to date. Succession planning is a necessary process to reduce risk, create a pipeline of future leaders, ensure smooth business continuity and improve employee motivation.

### ***Other Corporate Governance Practices***

We are committed to adopting best practice corporate governance standards. We will continuously monitor legal requirements and best practices in order to make adjustments to our corporate governance controls and procedures where necessary.

We comply with the 10 Principles of Corporate Governance of the Luxembourg Stock Exchange.

### ***Ethics and Conflicts of Interest***

Ethics and conflicts of interest are governed by Aperam's Code of Business Conduct, which establishes the standards for ethical behavior that are to be followed by all employees and directors of Aperam in the exercise of their duties. They must always act in the best interests of Aperam and must avoid any situation in which their personal interests conflict, or could conflict, with their obligations to Aperam. As employees, they must not acquire any financial or other interest in any business or participate in any activity that could deprive Aperam of the time or the attention needed to devote to the performance of their duties. Any behavior that deviates from the Code of Business Conduct is to be reported to the employee's supervisor, a member of the management, the head of the legal department or the head of the combined assurance department. Code of Business Conduct training is offered throughout Aperam. The Code of Business Conduct is available in the "About – Investors & Shareholders - Corporate Governance—Code of Business Conduct" section of Aperam's website at [www.aperam.com](http://www.aperam.com).



### *Process for Handling Complaints on Accounting and financial Matters*

As part of the procedures of the Board of Directors for conducting the business in a fair and transparent manner, Aperam Code of Business Conduct and Anti-Fraud Policy (available on Aperam's website, [www.aperam.com](http://www.aperam.com), under About - Investors & Shareholders - Corporate Governance) encourage all employees to bring any issues related to accounting, internal controls, auditing or banking matters to the Audit and Risk Management Committee's attention on a confidential basis. In accordance with Aperam Anti-Fraud Policy and Aperam Whistleblower Charter, concerns with regard to possible fraud or irregularities in accounting, auditing or banking matters or financial corruption within Aperam or any of its subsidiaries or other controlled entities, a part from regular or internal information and reporting means, may be communicated using the Aperam whistleblowing line at the disposal of all employees.

### *Combined Assurance*

Aperam has a Combined Assurance function that, through its Head of Combined Assurance, reports to the Audit and Risk Management Committee. The function, using best-in class methodology in line with the Institute of Internal Auditors standards, is staffed by full-time professional staff located at the Head Office and the main production sites. The function supports the Audit and Risk Management Committee and the Management Committee in fulfilling their oversight responsibilities in Governance, Risk Management and Compliance & Forensic Services. Recommendations relating to the internal control environment are made by the Combined Assurance function and their implementation is regularly reviewed by the Audit and Risk Management Committee.

### *Independent Auditors*

The appointment and determination of fees of the independent auditors is the direct responsibility of the Audit and Risk Management Committee. The Audit and Risk Management Committee is further responsible for obtaining, at least once each year, a written statement from the independent auditors that their independence has not been impaired. The Audit and Risk Management Committee has obtained from Aperam's principal independent auditors such an independence statement as well as a confirmation that none of its former employees are in a position within Aperam that may impair the principal auditors' independence. The appointment of the independent auditors is submitted to shareholder approval.

Audit fees in 2012 were \$2.9 million for the audits of financial statements.

### *Measures to Prevent Insider Dealing and Market Manipulation*

The Board of Directors of Aperam has adopted Insider Dealing Regulations ("IDR"), which are updated when necessary and in relation to which training is conducted throughout the group. The IDR are available on Aperam's website, [www.aperam.com](http://www.aperam.com), under "About - Investors & Shareholders - Corporate Governance—Insider Dealing Regulations".

The General Counsel of Aperam is the IDR compliance officer and answers questions that members of senior management, the Board of Directors, or employees may have about the IDR's interpretation. Aperam maintains a list of insiders as required by the Luxembourg market manipulation ("*abus de marché*") law of May 9, 2006. The compliance officer may assist senior executives and directors with the filing of notices required by Luxembourg law to be filed with the Luxembourg financial regulator, the CSSF ("*Commission de Surveillance du Secteur Financier*"). Furthermore, the compliance officer has the power to conduct investigations in connection with the application and enforcement of the IDR, in which any employee or member of senior management or of the Board of Directors is required to cooperate.

In addition, Aperam's Code of Business Conduct contains a section on "Trading in the Securities of the Company" that emphasizes the prohibition to trade on the basis of inside information.

## D. Employees

We had 9,815 employees as of December 31, 2012. The increase from 2010 to 2011 is linked to Aperam BioEnergia, fully consolidated in the accounts of Aperam since the third quarter 2011.

The table below sets forth the total number of employees by operating segment as of December 31, 2012, 2011 and 2010:

Operating Segment	2012 <sup>(1)</sup>	2011 <sup>(1)</sup>	2010 <sup>(1)</sup>
Stainless & Electrical Steel.....	5,166	5,642	6,176
Services & Solutions.....	2,349	2,617	2,784
Alloys & Specialties.....	1,008	989	944
Other <sup>(2)</sup> .....	1,292	1,285	—
Total <sup>(3)</sup> .....	9,815	10,533	9,904

Notes:

(1) The number of employees is presented on a full-time equivalent basis, including only employees who have standard permanent and fixed-term contracts. In 2012, the total number of employees included 235 part-time employees, of which 146 were employed by the Stainless & Electrical Steel operating segment, 55 were employed by the Services & Solutions operating segment, 32 were employed by the Alloys & Specialties operating segment and 2 were employed by Other. In 2011, the total number of employees included 278 part-time employees, of which 196 were employed by the Stainless & Electrical Steel operating segment, 56 were employed by the Services & Solutions operating segment, 25 were employed by the Alloys & Specialties operating segment and 1 was employed by Other. In 2010, the total number of employees included 305 part-time employees, of which 202 were employed by the Stainless & Electrical Steel operating segment, 70 were employed by the Services & Solutions operating segment and 33 were employed by the Alloys & Specialties operating segment.

(2) Includes employees of Aperam BioEnergia.

(3) The total number of employees includes 127 employees in our research and development units and 53 employees in corporate functions in our head office as of December 31, 2012.

We have a long track record of promoting social dialogue with employee representatives in each of the jurisdictions in which we operate. Our employees in various parts of the world are represented by trade unions, and we are a party to collective labor agreements with employee organizations in certain locations. In 2012, we negotiated new social agreements in different countries and following the creation of Aperam, the company and the trade unions started the negotiations for the implementation of the European Work Council of Aperam. During 2012, we also continued to reduce our costs to improve the productivity and competitiveness with a particular focus on white collars workforce. All these actions have been conducted in a good social climate, as proved by our good level of absenteeism and low attrition rate, and with a regular dialogue with our trade unions. In the same time, we launched some renewal competencies plans, mainly for critical jobs (quality, maintenance, production, metallurgy, research and commercial).

## E. Share Ownership

As of December 31, 2012, the aggregate beneficial share ownership of Aperam directors and senior management totaled 16,842 Aperam shares (excluding shares owned by Aperam's Significant shareholder). Other than the Significant shareholder, each director and member of senior management beneficially owns less than 1% of Aperam's shares. See definition of Significant shareholder in Share Capital table on page 83.

The allocation of Aperam RSUs and PSUs granted to senior management is described in "Item 4.B.- Compensation – Senior Management".

In accordance with the Luxembourg Stock Exchange's 10 Principles of Corporate Governance, non-executive members of Aperam's Board of Directors do not receive share options, RSUs or PSUs.

See "Item 4.B. Compensation" for a description of the remuneration framework of Aperam.

## Item 5. Major Shareholders and Related Party Transactions

### A. Major Shareholders

As of December 31, 2012, the Company's authorized share capital, including the issued share capital, consisted of 85,854,303 shares without nominal value. The Company's issued share capital was represented by 78,049,730 fully paid up shares without nominal value. The following table sets forth information as of December 31, 2012 with respect to the beneficial ownership and voting rights in the Company by each person who is known to be the beneficial owner of 2.5% or more of the Company's issued share capital.

	Shares	% of Issued Shares	% of Voting Rights
Significant shareholder <sup>(1)</sup> .....	31,880,243	40.85%	40.85%
Other public shareholders .....	46,169,487	59.15%	59.15%
<i>of which is held by the Luxembourg State</i> <sup>(2)</sup> .....	1,948,226	2.50%	2.50%
Total issued shares.....	78,049,730	100.00%	100.00%
Directors and Senior Management <sup>(3) (4)</sup> .....	16,842	0.02%	0.02%

Notes:

- (1) The term "Significant shareholder" means the trust (HSBC Trust (C.I.) Limited, as trustee) of which Mr Lakshmi N. Mittal, Mrs Usha Mittal and their children are the beneficiaries, holding ArcelorMittal shares through the following two companies: Nuavam Investments Sàrl and Lumen Investments Sàrl. For purposes of this table, ordinary shares owned directly by Mr. Lakshmi Mittal and his wife, Mrs. Usha Mittal are aggregated with those ordinary shares beneficially owned by the Significant Shareholder. At December 31, 2012, Mr. Lakshmi Mittal and his wife, Mrs. Usha Mittal, had direct ownership of Aperam ordinary shares and indirect ownership, through the Significant Shareholder, of two holding companies that own Aperam ordinary shares—Nuavam Investments S.à r.l. ("Nuavam") and Lumen Investments S.à r.l. ("Lumen"). Nuavam, a limited liability company organized under the laws of Luxembourg, was the owner of 5,616,913 Aperam ordinary shares. Lumen, a limited liability company organized under the laws of Luxembourg, was the owner of 26,250,000 Aperam ordinary shares. Mr. Mittal was the direct owner of 11,080 Aperam ordinary shares. Mrs. Mittal was the direct owner of 2,250 Aperam ordinary shares. Mr. Mittal, Mrs. Mittal and the Significant Shareholder shared indirect beneficial ownership of 100% of each of Nuavam and Lumen. Accordingly, Mr. Mittal was the beneficial owner of 31,877,993 Aperam ordinary shares, Mrs. Mittal was the beneficial owner of 31,869,163 Aperam ordinary shares and the Significant Shareholder was the beneficial owner of 31,880,243 ordinary shares.
- (2) According to the Company's Articles of Association, a shareholder owning 2.5% or more of the share capital must notify the Company. The only registered shareholder owning 2.5% or more but less than 5% of the share capital of the Company at December 31, 2012 is the Luxembourg State, with 1,948,226 shares, representing 2.5% of the total issued share capital.
- (3) Includes shares beneficially owned by directors and members of senior management listed in the sections "Board of Directors" and "Senior Management"; Excludes shares beneficially owned by Mr. Mittal.
- (4) These 16,842 Aperam common shares are included in the shares owned by Other public shareholders in the table above.

The Company's ordinary shares are in registered form only and are freely transferable. Ownership of the Company's shares is recorded in a shareholders' register kept by the Company at its corporate headquarters at 12C, rue Guillaume Kroll, L-1882 Luxembourg, Grand Duchy of Luxembourg (the "Shareholders' Register").

The Company's ordinary shares may also be registered on one of two local registers, the European register (the "European Register") and the New York register (the "New York Register"). The European Register is kept by the Company. BNP Paribas Securities Services provides certain administrative services in relation to the European Register. The New York Register is kept by Citibank, N.A. (New York Branch) ("Citibank") on the Company's behalf. Ordinary shares registered on the European Register are referred to as "European Shares" and ordinary shares registered on the New York Register are referred to as "New York Registry Shares".

At December 31, 2012, there were 2,374 shareholders other than the Significant shareholder holding an aggregate of 2,667,917 Aperam common shares registered in Aperam's shareholder register, representing approximately 3.42% of the common shares issued.

At December 31, 2012, there were 104 U.S. shareholders holding an aggregate of 883,514 New York Registry Shares, representing approximately 1.13% of the common shares issued. Aperam's knowledge of the number of New York Registry Shares held by U.S. holders is based solely on the records of Citibank.

At December 31, 2012, there were 42,631,386 Aperam common shares being held through the Euroclear clearing system in The Netherlands, France and Luxembourg.

***Voting Rights***

None of the shareholders have voting rights different from any other shareholders.

***Public Takeover Offers***

No public takeover offers by third parties have been made in respect of the shares or by the Company in respect of other companies' shares during the last and current financial year.

**B. Related Party Transactions**

We are engaged in certain commercial and financial transactions with related parties. Please refer to "Item 3. Management's Discussion and Analysis of Financial Condition and Results of Operations – Related Party Transactions" and Note 12 to the consolidated financial statements for further details.

## **Item 6. Financial Information**

### **A. Consolidated Statements and Other Financial Information**

#### **Export Sales**

Because Aperam has no significant operations in its home country of Luxembourg, all of its sales are considered to be export sales. Annual sales to a single customer did not exceed 5% of sales in any of the periods presented.

#### **Legal Proceedings**

The Company is involved in litigation, arbitration or other legal proceedings. Provisions related to legal and arbitral proceedings are recorded in accordance with the principles described in Note 2 to the consolidated financial statements.

Most of these claims involve highly complex issues, actual damages and other matters. Often these issues are subject to substantial uncertainties and, therefore, the probability of loss and an estimation of damages are difficult to ascertain. Consequently, for certain of these claims, the Company is unable to make a reasonable estimate of the expected financial effect that will result from ultimate resolution of the proceeding. In those cases, the Company has disclosed information with respect to the nature of the contingency. The Company has not accrued a reserve for the potential outcome of these cases.

In the cases in which quantifiable fines and penalties have been assessed, the Company has indicated the amount of such fine or penalty, or the amount of provision accrued, which is the estimate of the probable loss.

In a limited number of ongoing cases, the Company is able to make a reasonable estimate of the expected loss or range of possible loss and has accrued a provision for such loss, but management believes that publication of this information on a case-by-case basis would seriously prejudice its position in the ongoing legal proceedings or in any related settlement discussions. Accordingly, in these cases, the Company has disclosed information with respect to the nature of the contingency, but has not disclosed its estimate of the range of potential loss.

These assessments can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions. The Company's assessments are based on estimates and assumptions that have been deemed reasonable by management. Management believes that the aggregate provisions recorded for these matters are adequate based upon currently available information. However, given the inherent uncertainties related to these cases and in estimating contingent liabilities, the Company could, in the future, incur judgments that have a material adverse effect on its results of operations in any particular period.

In addition, in the normal course of business, the Company and its operating subsidiaries may be subject to audits by the tax authorities in the countries in which they operate. Those audits could result in additional tax liabilities and payments, including penalties for late payment and interest.

#### **Environmental Liabilities**

The Company is subject to a broad range of environmental laws and regulations. As of December 31, 2012, the Company had established reserves of \$27 million for environmental and remedial activities and liabilities.

##### ***Belgium***

In Belgium, there is an environmental provision of \$13 million, of which the most significant elements are legal obligations linked to soil treatment and removal of slag and fines.

##### ***France***

In France, there is an environmental provision of \$14 million, which relates to the demolition and clean-up of the Company's Ardoise facility after operations ceased at the site.

## **Brazil**

In Brazil, violation of an environmental regulation may result in fines, imprisonment, interruption of the Company's activities, cancellation of tax incentives and credit lines with governmental financial entities and dissolution of the corporate entity, in addition to the obligation to repair or to indemnify for damages caused to the environment and third parties.

Therefore, changes in environmental laws or regulations, or in the interpretation thereof, or in the administrative procedures and policies adopted under current environmental laws and regulations, could require the Company to invest in additional resources in environmental compliance and the renewal of its licenses, and could therefore adversely affect it. Additionally, non-compliance with or violation of any such laws and regulations could result in the revocation of the Company's licenses and suspension of its activities or in its responsibility for environmental remediation costs, which could be substantial. The Company cannot assure that its expenses relating to compliance with applicable environmental regulations will not be significant or that it will be able to renew its licenses in a timely manner, or at all. Moreover, under certain circumstances the Company's corporate shareholder structure could be disregarded in order to enable claimants to recover for environmental claims against it.

## **Tax Claims**

The Company is party to various tax claims, the most significant of which are set out below. As of December 31, 2012, the Company has established reserves in the aggregate of approximately \$16 million for those of the claims as to which the criteria for provisioning were met.

- In March 2012, the Company received two tax assessments regarding PIS and COFINS (social contributions on revenue) related to importation of services (freight, logistics and commercial representation services) made by the Company in 2007. The total amount claimed is \$10 million. In June 2012, the Company obtained a partial favorable decision from the first administrative instance. The case is pending at the second administrative instance.
- On December 27, 2011, Aperam South America received a tax assessment from the State of Minas Gerais regarding VAT tax credit ("ICMS") used by the Company related to the purchasing of scraps from a supplier which the State considered as not being authorized to issue invoices with VAT. The total amount claimed is \$9 million. The case is in first administrative instance where the Company presented its defense.
- On December 16, 2011, Aperam Services and Solutions Brazil has been assessed by the Tax authorities aiming at collecting \$38 million (including interest on late payments and penalties) related to VAT ("ICMS"). Tax authorities claimed that the Company has not collected to the State of Sao Paulo the ICMS imposed on importation of products performed by a trading company located in the State of Espirito Santo and disregarded the ICMS credit recognized by the Company at the time of acquisition of the goods from the trading company. After several unfavorable decisions, the Company presented an appeal to the Special Court in the second administrative instance.
- In December 2011, the Federal Revenue issued four tax assessments against Aperam South America for a total amount of \$28 million considering that the Company did not pay several social contributions due on payments made to employees under the Profit Sharing Program. These cases are at the first administrative instance where the Company presented its defense.
- On May 26, 2011, Aperam South America received a tax assessment from the Federal Revenue Service for a total amount of \$20 million related to sales by Aperam South America to Acesita Imports & Exports (Madeira Island). The tax authorities require that the profits of Acesita Imports & Exports be added to Aperam South America's tax basis. In November 2011 and on July 4, 2012, the Company obtained a partial favorable decision by the Administrative Court and it presented its appeal for the remaining amount in dispute.
- On March 29, 2011, Aperam South America received a tax assessment related to drawback tax benefit. Federal revenue states that the Company did not respect the conditions to use the benefit and demand to pay taxes related to importation and fees. The total amount claimed is \$10 million. The Company presented its appeal at the first administrative level.

- On December 2, 2010, Aperam South America received a tax assessment in the total amount of \$35 million. The Minas Gerais State Revenue claims that the Company should have paid VAT ("ICMS") related to the distribution of electric power between 2005 and 2009. The Company believes that this charge should not prevail since the distribution of electrical power should not be considered as a good or transportation and therefore it should not be subject to VAT ("ICMS"). On May 5, 2011 the Company received a partial favorable decision. Minas Gerais State Revenue concluded that the Company has to pay ICMS but stated that the amount for late payments and penalties was wrong. In March 2012, the Company has brought the case before the judicial court that confirmed the favorable decision obtained by the administrative court; nevertheless the procedure is still pending before the court of Appeal where the Company presented its defense.
- On December 5, 2007, the Federal Revenue Service challenged IPI tax credits (Tax on Industrialized Products similar to Federal VAT) registered by Aperam South America from January 2003 to December 2006 related to the acquisition of certain materials. The claim alleges that the products acquired are either not related to the final product or not integrally consumed during operations. In December 2010, there was a partial favorable decision and the Company filed an appeal in February 2011 at the second administrative level for the remaining non favorable part of the decision obtained at the first administrative level. The amount in dispute is approximately \$7 million.
- In June 2007, the Company was assessed for payment of social contributions on some payments made to employees related to bonus granted by collective work agreement. The total amount asked by the Federal Union is \$10 million. The first administrative instance's decision was favorable to the Company, but it still need to be confirmed by the second administrative instance.
- On December 21, 2005, Aperam South America has been assessed by the Federal Revenue Service in relation to its calculation of social contributions on revenue (PIS and COFINS) due to (i) unconditional discounts given to clients, (ii) the value of tax incentives granted by federal legislation (specifically, credits to be offset with IPI) and (iii) revenues derived from exchange rate variations. The amount in dispute is approximately \$34 million and the Company obtained a partial favorable decision from the Special Court in the second administrative instance but presented a special motion regarding the pending unfavorable decision.
- On December 21, 2005, the Brazilian Federal Revenue Service assessed Aperam South America for taxes related to intra-group credit transactions. The amount in dispute of \$6 million is currently on appeal before the Federal Administrative Council of Appeals.
- On March 15 and March 18, 2005, Aperam South America has been assessed by the INSS (the Brazilian Social Securities Institute) for the non-collection of certain payroll taxes between 1999 and 2004 related to the special retirement of employees exposed to unhealthy working conditions. The amount in dispute comprising six cases is \$29 million as of December 31, 2012. The Company has received a partial unfavorable decision by the second administrative instance.
- On October 13, 1998, the Federal Revenue Service filed a tax foreclosure action against the Company in relation to the alleged underpayment of payroll taxes in the period of January 1987 to July 1997. After the Company initially prevailed in the Federal Court, the Brazilian Federal Revenue Service filed an appeal with the Federal Court of Appeals. The amount in dispute is approximately \$6 million.
- In November 1995, the Company was assessed for unauthorized compensation of losses and negative basis of social contribution between 1989 and 1994. The total amount claimed is \$11 million. After unfavorable decision in the first and second judicial instances, the Company is waiting for the final decision of the superior courts.

## **Labor and Other Claims**

The Company is presently involved in a number of labor disputes, the most significant of which are set out below. As of December 31, 2012, the Company has established reserves in the aggregate of approximately \$41 million for those of the claims as to which the criteria for provisioning were met.

### ***Brazil***

- On April 1, 2004, a sanctioning administrative process with the Central Bank was brought against Aperam South America based on alleged irregular exchange operations utilized by it in the purchase and sale of treasury bills. On March 22, 2007, Aperam South America has been assessed with a fine of \$10 million plus interest. The Company brought the case before the judicial court in 2012.



## **Item 7. Listing**

### **Nature of the trading market**

The Company's ordinary shares are admitted to trading on the Luxembourg Stock Exchange's regulated market and listed on the Official List of the Luxembourg Stock Exchange (symbol "APAM") and are traded on the NYSE Euronext Single Order Book with Amsterdam as the Market of Reference (symbol "APAM" and Euronext code NSCNL00APAM5). The ordinary shares were admitted to listing and trading on the regulated market of the Luxembourg Stock Exchange, Euronext Amsterdam and Euronext Paris on January 31, 2011. The ordinary shares of the Company are accepted for clearance through Euroclear and Clearstream Luxembourg under common code number 056997440. The ISIN code of the ordinary shares of the Company is LU0569974404. The Aperam shares are also traded as New York registry shares on the OTC under the symbol APEMY.

## **Item 8. Additional Information**

### **A. Share Capital**

As of December 31, 2012, the issued share capital amounts to four hundred and eight million eight hundred and thirty-one thousand Euro (EUR 408,831,000). It is represented by seventy-eight million forty-nine thousand seven hundred and thirty (78,049,730) fully paid up shares without nominal value.

The Company's authorized share capital, including the issued capital, amounts to four hundred fifty million thirty-one thousand Euro (EUR 450,031,000) represented by eighty-five million eight hundred fifty-four thousand three hundred three (85,854,303) ordinary shares without nominal value.

### **B. Articles of Association**

Set out below is a summary description of the Articles of Association. For a full description, please see the Articles of Association, the full text of which is available at [www.aperam.com](http://www.aperam.com) in the section Corporate Governance.

#### **Corporate Purpose of the Company**

The corporate purpose of the Company, as stated in Article 3 (Corporate Purpose) of the Articles of Association as follows:

"The corporate purpose of the Company shall be the manufacture, processing and marketing of stainless and specialty steel, stainless and specialty steel products and all other metallurgical products, as well as all products and materials used in their manufacture, their processing and their marketing, and all industrial and commercial activities connected directly or indirectly with those objects, including mining and research activities and the creation, acquisition, holding, exploitation and sale of patents, licenses, knowhow and, more generally, intellectual and industrial property rights.

The Company may perform and carry out its corporate purpose either directly or through the creation of companies, the acquisition, holding or acquisition of interests in any companies or partnerships, membership in any associations, consortia and joint ventures.

In general, the Company's corporate purpose comprises the participation, in any form, in companies and partnerships, and the acquisition by purchase, subscription or in any other manner as well as the transfer by sale, exchange or in any other manner of shares, bonds, debt securities, warrants and other securities and instruments of any kind.

The Company may grant assistance of any kind (including financial assistance) to any affiliated company and take any measure for the control and supervision of such companies.

In general, it may carry out any commercial, financial or industrial activity, operation or transaction which it considers to be directly or indirectly necessary or useful in order to achieve or further its corporate purpose."

#### **Form and Transfer of Shares**

The Company's issued share capital consists of 78,049,730 ordinary shares that each carry the right to one vote. The ordinary shares are issued in registered form only and are freely transferable. Luxembourg law does not impose any limitations on the rights of Luxembourg or non-Luxembourg residents to hold or vote the Company's ordinary shares.

Under Luxembourg law, the ownership of registered shares is evidenced by the inscription of the name of the shareholder, the number of shares and the amount paid up on each share in the Shareholders' Register, which is kept by the Company at its corporate headquarters. Each transfer of shares is made by a written declaration of transfer recorded in the Shareholders' Register, such declaration to be dated and signed by the transferor and the transferee or by their duly appointed agent. The Company may accept and enter into the Shareholders' Register any transfer made on the basis of an agreement between the transferor and the transferee provided a true and complete copy of the agreement is provided to the Company. The Company

uses the services of BNP Paribas Securities Services to assist it with certain administrative tasks relating to the day-to-day management of the Shareholders' Register.

The Articles of Association provide that its ordinary shares may be held through a securities settlement system or a professional depository of securities. Shares held in this manner have the same rights and obligations as the registered shares. Shares held through a securities settlement system or a professional depository of securities may be transferred in accordance with customary procedures for the transfer of securities in book-entry form.

The shares may consist of:

- European Shares, which are registered in the European Register kept by the Company, in relation to which BNP Paribas Securities Services provides certain administrative services; or
- New York Registry Shares, which are registered in the New York Register kept on the Company's behalf by Citibank.

A draft bill of law, currently expected to come into effect during the course of 2013, will allow Luxembourg issuers to opt for the full dematerialization of shares. If Aperam were to opt for full dematerialization in the future, shareholders would be required to hold their shares in a securities account at a bank or other financial intermediary, which would in turn hold the shares via an account with a securities depository such as Clearstream or Euroclear. Dematerialized securities would be solely represented by account entries with the securities depository and would therefore exist only in electronic form. If Aperam were to opt for the full dematerialization of its shares, it would no longer be possible for shareholders to hold shares through a direct, nominative registration in the Company's register of shareholders as is currently the case.

### **Issuance of Shares**

The issuance of shares by Aperam requires either an amendment of the Articles of Association approved by an extraordinary general meeting of shareholders (EGM) or a decision of the Board of Directors that is within the limits of the authorized share capital set out in the Articles of Association. In the latter case, the Board of Directors may determine the conditions for the issuance of shares, including the consideration (cash or in kind) payable for such shares.

The EGM may not validly deliberate unless at least half of the share capital is present or represented upon the first call. If the quorum is not met, the meeting may be reconvened as described in "General Meetings of Shareholders" below. The second meeting will be held regardless of the proportion of share capital represented. At both meetings, resolutions, in order to be adopted, must be carried by at least two-thirds of the votes cast.

The Articles of Association authorize the Board of Directors, during a period ending on the fifth (5th) anniversary of the date of publication in the Luxembourg legal gazette of the articles of association, without prejudice to any renewals, to increase the issued share capital on one or more occasions up to the maximum amount of the authorized share capital in connection with the issue and the exercise of subordinated or non-subordinated bonds, notes or debentures, convertible into, or repayable by or exchangeable for, shares, or following the issue of bonds, notes or debentures with warrants or other rights to subscribe for shares attached, or through the issue of standalone warrants or any other instrument carrying an entitlement to, or the right to subscribe for, shares.

The Board of Directors has the power to determine the conditions for all share issues within the limits of the authorized share capital, including the payment in cash or in kind for such shares.

### **Pre-emptive Rights**

Unless limited or cancelled by the Board of Directors as described below, holders of the Company's ordinary shares have a pro rata pre-emptive right to subscribe for newly issued shares, except for shares issued for consideration other than cash (i.e., in kind).

The Articles of Association provide that pre-emptive rights may be limited or cancelled by the Board of Directors in the event of an increase of the issued share capital decided by the Board of Directors within the limits of the authorized share capital.

## **Repurchase of Shares**

The Company is prohibited by Luxembourg law from subscribing for its own shares.

The Company may, however, repurchase its ordinary shares or have another person repurchase its ordinary shares on its behalf, subject to the following conditions:

- a prior authorization of the general meeting of shareholders, which sets out the terms and conditions of the proposed repurchase, including at a minimum the maximum number of shares to be repurchased, the duration of the period for which the authorization is given (which may not exceed five years) and, in the case of repurchase for consideration, the minimum and maximum consideration per share;
- the repurchase may not reduce the net assets of the Company on a non-combined basis to a level below the aggregate of the issued share capital and the reserves that the Company must maintain pursuant to Luxembourg law or the Articles of Association; and
- only fully paid up shares may be repurchased.

In addition, Luxembourg law allows the Board of Directors to approve the repurchase of the Company's ordinary shares without the prior approval of the general meeting of shareholders if necessary to prevent serious and imminent harm to the Company. In such a case, the next general meeting of shareholders must be informed by the Board of Directors of the reasons for and the purpose of the acquisitions made, the number and nominal values, or in the absence thereof, the accounting value of the shares acquired, the proportion of the issued share capital which they represent and the consideration paid for them.

A general meeting of the Company held on January 21, 2011 adopted a resolution (which became effective upon the effectiveness under Luxembourg law of the spin-off of ArcelorMittal's stainless and specialty steels assets into the Company) whereby the general meeting authorizes the Company to acquire and to own Company shares, including through off-market and over-the-counter transactions, and through derivative financial instruments on any of the stock exchanges on which the Company is listed, for a period of five years or until the date of its renewal by a resolution of the general meeting of shareholders if such renewal date is prior to the expiration the five-year period, provided that (a) the maximum number of own shares the Company may hold at any time directly or indirectly may not exceed 10% of its issued share capital and may not have the effect of reducing the Company's net assets ("actif net") below the amount mentioned in the relevant provisions of the Luxembourg law on commercial companies of 10 August 1915, as amended (Article 72-1), and (b) the purchase price per share to be paid may not represent more than 105% of the trading price of the Company shares on the stock exchanges where the Company is listed, and no less than one cent. For off-market transactions, the maximum purchase price will be 105% of the Company share price on Euronext. The reference price will be deemed to be the average of the final listing prices per share on the relevant stock exchange during 30 consecutive days on which the relevant stock exchange is open for trading preceding the three trading days prior to the date of purchase. The total amount allocated for the Company's share repurchase program may not in any event exceed the amount of the Company's then available equity. The authorization is valid for a period of five years, or until the date of its renewal by a resolution of the general meeting of shareholders if such renewal date is prior to the expiration the five-year period.

Any acquisitions, disposals, exchanges, contributions or transfers of shares by the Company or other companies in the Aperam group must be in accordance with Luxembourg laws transposing Directive 2003/6/EC regarding insider dealing and market manipulation (the "Market Abuse Directive") and EC Regulation 2273/2003 regarding exemptions for buy-back programmes and stabilisation of financial instruments. Such transactions may be carried out by all means, on or off-market, including by a public offer to buy-back shares, or by the use of derivatives or option strategies. The fraction of the capital acquired or transferred in the form of a block of shares may amount to the entire program. Such transactions may be carried out at any time, including during a tender offer period, in accordance with applicable laws and regulations.

## **Capital Reduction**

The Articles of Association provide that the issued share capital of the Company may be reduced subject to the approval of at least two-thirds of the votes cast at an extraordinary general meeting of shareholders where at first call at least 50% of the issued share capital is required to be represented. No quorum is required at a reconvened meeting but the resolution must carry two-thirds of the votes at such reconvened meeting.

## **General meeting of shareholders**

Directive 2007/36/EC of the European Parliament and of the Council of July 11, 2007 on the exercise of certain rights of shareholders in listed companies of July 14, 2007 (the “Shareholders’ Rights Directive”) was transposed into Luxembourg law effective July 1, 2011.

The Shareholders’ Rights Law abolished the blocking period and introduced the record date system into Luxembourg law. As set out in the Articles of Association, the record date applicable to Aperam is the 14th day at midnight before the general meeting date. Only the votes of shareholders who are shareholders of the Company on the record date will be taken into account, regardless of whether they remain shareholders on the general meeting date. Shareholders who intend to participate in the general meeting must notify the Company at the latest on the date indicated in the convening notice of their intention to participate (by proxy or in person).

*Ordinary General Meetings of Shareholders* – At an ordinary general meeting of shareholders there is no quorum requirement and resolutions are adopted by a simple majority, irrespective of the number of shares represented. Ordinary general meetings deliberate on any matter that does not require the convening of an extraordinary general meeting.

*Extraordinary General Meetings of Shareholders* – An extraordinary general meeting must be convened to deliberate on the following types of matters:

- an increase or decrease of the authorized or issued share capital,
- a limitation or exclusion of existing shareholders’ preemptive rights,
- the acquisition by any person of 25% or more of the issued share capital of Aperam,
- approving a merger or similar transaction such as a spin-off, and
- any transaction or matter requiring an amendment of the Articles of Association.

The extraordinary general meeting must reach a quorum of shares present or represented at the meeting of 50% of the share capital in order to validly deliberate. If this quorum is not reached, the meeting may be reconvened and the second meeting will not be subject to any quorum requirement. In order to be adopted by the extraordinary general meeting (on the first or the second call), any resolution submitted must be approved by at least two-thirds of the votes cast except for certain limited matters where the Articles of Association require a higher majority (see “Amendment of the Articles of Association” below). Votes cast do not include votes attaching to shares with respect to which the shareholder has not taken part in the vote, has abstained or has returned a blank or invalid vote.

## **Voting and Information Rights**

The voting and information rights of Aperam’ shareholders have been further expanded since the entry into force of the Shareholders’ Rights Law on July 1, 2011.

There are no restrictions on the rights of Luxembourg or non-Luxembourg residents to vote Aperam shares. Each share entitles the shareholder to attend a general meeting of shareholders in person or by proxy, to address the general meeting of shareholders and to vote. Each share entitles the holder to one vote at the general meeting of shareholders. There is no minimum shareholding (beyond owning a single share or representing the owner of a single share) required to be able to attend or vote at a general meeting of shareholders.

The Board of Directors may also decide to allow shareholders to vote by correspondence by means of a form providing for a positive or negative vote or an abstention on each agenda item. The conditions for voting by correspondence are set out in the Articles of Association and in the convening notice.

The Board of Directors may decide to arrange for shareholders to be able to participate in the general meeting by electronic means by way, among others, of (i) real-time transmission to the public of the general meeting, (ii) two-way communication enabling shareholders to address the general meeting from a remote location, or (iii) a mechanism allowing duly identified shareholders to cast their votes before or during the general meeting without the need for them to appoint a proxyholder who would be physically present at the meeting.

A shareholder may act at any general meeting of shareholders by appointing another person (who need not be a shareholder) as his or her attorney by means of a written proxy using the form made available on the website of the Company. The completed and signed proxy must be sent to the Company in accordance with the instructions set out in the convening notice.

General meetings of shareholders are convened by the publication of a notice at least 30 days before the meeting date in a Luxembourg newspaper, in the Luxembourg official legal gazette, the Mémorial, Recueil des Sociétés et Associations, and by way of press release sent to the major news agencies. Ordinary general meetings are not subject to any minimum shareholder participation level. Extraordinary general meetings, however, are subject to a minimum quorum of 50% of the share capital. In the event the 50% quorum is not met upon the first call, the meeting may be reconvened by way of convening notice published in the same manner as the first notice, at least 17 days before the meeting date. No quorum is required upon the second call.

Shareholders whose share ownership is directly registered in the shareholders' register of the Company must receive the convening notice by regular mail, unless they have accepted to receive it through other means (i.e., electronically). In addition, all materials relating to a general meeting of shareholders must be made available on the website of Aperam from the first date of publication of the convening notice.

Based on an amendment voted by the extraordinary general meeting of shareholders on May 8, 2012, the Articles of Association of Aperam provide that the annual general meeting of shareholders is held each year at a date and time set by the Board of Directors during the second or third week of May, between 9.00 a.m. and 4.00 p.m. Central European Time, in Luxembourg.

Luxembourg law requires the Board of Directors to convene a general meeting of shareholders if shareholders representing in the aggregate 10% of the issued share capital so require in writing with an indication of the requested agenda. In this case, the general meeting of shareholders must be held within one month of the request. If the requested general meeting of shareholders is not so convened, the relevant shareholder or group of shareholders may petition the competent court in Luxembourg to have a court appointee convene the general meeting.

Shareholders representing in the aggregate 5% of the issued share capital may also request that additional items be added to the agenda of a general meeting and may draft alternative resolutions to be submitted to the general meeting regarding existing agenda items. The request must be made in writing and sent either to the electronic address or to the Company's postal address set out in the convening notice.

The Shareholders' Rights Law provides that a company's articles of association may allow shareholders to ask questions prior to the general meeting which will be answered by management during the general meeting's questions and answers session prior to the vote on the agenda items. The Articles of Association of Aperam provide Shareholders may send questions to the Company to be answered during the general shareholders' meeting provided they are received by the Company at the latest on the tenth (10<sup>th</sup>) calendar day prior to the date of the meeting.

*Election and Removal of Directors.* Members of the Board of Directors are elected by simple majority of the represented shareholders at an ordinary general meeting of shareholders. Directors are elected for a period ending on a date determined at the time of their appointment. The directors of Aperam are elected for three-year terms. Any director may be removed with or without cause by a simple majority vote at any general meeting of shareholders.

Aperam's Articles of Association provide that the Significant Shareholder is entitled to nominate a number of candidates for election by the shareholders to the Board of Directors in proportion to its shareholding. The Significant Shareholder has not exercised this right to date.

### **Amendment of the Articles of Association**

Any amendments to the Articles of Association other than those described below must be approved by an extraordinary general meeting of shareholders held in the presence of a Luxembourg notary, followed by the publications required by Luxembourg law.

In order to be adopted, amendments of the Articles of Association of Aperam relating to the size and the requisite minimum number of independent and non-executive directors of the Board of Directors, the composition of the audit and risk management committee, and the nomination rights to the Board of Directors of the Significant Shareholder require a majority of votes representing two-thirds of the voting rights attached to the shares in Aperam. The same majority rule would apply to amendments of the provisions of the Articles of Association that set out the foregoing rule.

## **Annual Accounts**

Each year before submission to the annual ordinary general meeting of shareholders, the Board of Directors approves the parent company accounts for Aperam, the parent company of the Aperam group, consisting of an inventory of its assets and liabilities together with a statement of financial position and a profit and loss account, as well as the consolidated accounts of the Aperam group which are prepared in accordance with IFRS. The Board of Directors also approves the management reports on each of the stand-alone audited accounts and the consolidated accounts, and in respect of each of these sets of accounts a report must be issued by the independent auditors.

The annual accounts, the consolidated annual accounts, the management reports and the auditor's reports will be available on request from the Company and on the Company's website from the date of publication of the convening notice for the annual ordinary general meeting of shareholders. The parent company annual accounts and the consolidated annual accounts, after their approval by the annual ordinary general meeting of shareholders, are filed with the Luxembourg register of trade and companies.

## **Dividends**

Subject to certain limitations set out by Luxembourg law, each ordinary share of the Company is entitled to participate equally in dividends when and if declared by the annual general meeting of shareholders out of funds legally available for such purposes. The Articles of Association provide that the annual general meeting of shareholders may declare a dividend and the Board of Directors may declare interim dividends within the limits set by Luxembourg law.

Declared and unpaid dividends held by the Company for the account of its shareholders do not bear interest. Under Luxembourg law, claims for dividends lapse in favor of the Company five years after the date on which the dividends have been declared.

Neither the Articles of Association nor Luxembourg law contain any restrictions on the payment of dividends specifically applicable to non-Luxembourg resident holders of ordinary shares.

On May 8, 2012 the Board of Directors submitted to a shareholder's vote, at the annual general meeting, a proposal to maintain the quarterly dividend payment at \$0.1875 per share. The dividend payments occurred on a quarterly basis for the full year 2012 on March 13, 2012, June 14, 2012, September 10, 2012 and December 10, 2012 taking into account that the first quarterly dividend payment paid on March 13, 2012 was an interim dividend.

On February 4, 2013, Aperam announced that the Board of Directors will submit to a shareholder's vote, at the next annual general meeting on May 8, 2013, a proposal to stop the dividend payment to accelerate the net debt reduction target of \$650 million by the end of 2014.

## **Merger and Division**

A merger whereby the Luxembourg company being acquired transfers to an existing or newly incorporated Luxembourg company all of its assets and liabilities in exchange for the issuance to the shareholders of the company being acquired of shares in the acquiring company, and a division whereby a company (the company being divided) transfers all its assets and liabilities to two or more existing or newly incorporated companies in exchange for the issuance of shares in the beneficiary companies to the shareholders of the company being divided or to such company, and certain similar restructurings must be approved by an extraordinary general meeting of shareholders of the relevant companies held in the presence of a notary. These transactions require the approval of at least two-thirds of the votes cast at a general meeting of shareholders of each of the companies where at least 50% of the share capital is represented upon first call, with no such quorum being required at a reconvened meeting..

## **Liquidation**

In the event of the liquidation, dissolution or winding-up of Aperam, the assets remaining after allowing for the payment of all liabilities will be paid out to the shareholders pro rata to their respective shareholdings. The decision to liquidate, dissolve or wind-up requires the approval of at least two-thirds of the votes cast at a general meeting of shareholders where at first call at least 50% of the share capital is represented, with no quorum being required at a reconvened meeting. Irrespective of whether the liquidation is subject to a vote at the first or a subsequent extraordinary general meeting of shareholders, it requires the approval of at least two-thirds of the votes cast at the extraordinary general meeting of shareholders.

## **Mandatory Bids, Squeeze-out Rights and Sell-out Rights**

### ***Mandatory Bids***

The Luxembourg law of May 19, 2006 implementing Directive 2004/25/EC of the European Parliament and the Council of April 21, 2004 on takeover bids (the “**Luxembourg Takeover Law**”) provides that if a person, acting alone or in concert, acquires securities of the Company which, when added to any existing holdings of the Company’s securities, give such person voting rights representing 33 1/3% of all of the voting rights attached to the issued shares in the Company, this person is obliged to make an offer for the remaining shares in the Company. In a mandatory bid situation the “fair price” is considered to be the highest price paid for the securities during the 12-month period preceding the mandatory bid.

The Articles of Association provide that any person who acquires shares in the Company giving such person 25% or more of the total voting rights of the Company must make or cause to be made in each country where the Company’s securities are admitted to trading on a regulated or other market and in each of the countries in which the Company has made a public offering of its shares, an unconditional public offer to acquire to all shareholders for all of their shares and also to all holders of securities giving access to capital or linked to capital or whose rights are dependent on the profits of the Company. The price offered in such public offerings must be fair and equitable and must be based on a report drawn up by a leading international financial institution or other internationally recognized expert.

### ***Squeeze-out Rights***

The Luxembourg Takeover Law provides that, when an offer (mandatory or voluntary) is made to all of the holders of voting securities of the Company and after such offer the offeror holds 95% of the securities carrying voting rights and 95% of the voting rights, the offeror may require the holders of the remaining securities to sell those securities (of the same class) to the offeror. The price offered for such securities must be a “fair price”. The price offered in a voluntary offer would be considered a “fair price” in the squeeze-out proceedings if 90% of the ordinary shares of the Company carrying voting rights were acquired in such voluntary offer. The price paid in a mandatory offer is deemed a “fair price”. The consideration paid in the squeeze-out proceedings must take the same form as the consideration offered in the offer or consist solely of cash. Moreover, an all-cash option must be offered to the remaining shareholders of the Company. Finally, the right to initiate squeeze-out proceedings must be exercised within three months following the expiration of the offer.

### ***Sell-out Rights***

The Luxembourg Takeover Law provides that, when an offer (mandatory or voluntary) is made to all of the holders of voting securities of the Company and if after such offer the offeror holds 90% of the securities carrying voting rights and 90% of the voting rights, the remaining security holders may require that the offeror purchase the remaining securities of the same class. The price offered in a voluntary offer would be considered “fair” in the sell-out proceedings if 90% of the ordinary shares of the Company carrying voting rights were acquired in such voluntary offer. The price paid in a mandatory offer is deemed a “fair price”. The consideration paid in the sell-out proceedings must take the same form as the consideration offered in the offer or consist solely of cash. Moreover, an all-cash option must be offered to the remaining shareholders of the Company. Finally, the right to initiate sell-out proceedings must be exercised within three months following the expiration of the offer.

### **Disclosure of Significant Ownership in the Company’s Shares**

Holders of the Company’s ordinary shares and derivatives or other financial instruments linked to the Company’s ordinary shares may be subject to notification obligations pursuant to the Luxembourg law of January 11, 2008 on transparency requirements regarding information about issuers whose securities are admitted to trading on a regulated market (the “**Luxembourg Transparency Law**”). The following description summarizes these obligations. The Company’s shareholders are advised to consult with their own legal advisers to determine whether the notification obligations apply to them.

The Luxembourg Transparency Law provides that, if a person acquires or disposes of a shareholding in the Company, and if following the acquisition or disposal the proportion of voting rights held by the person reaches, exceeds or falls below one of the thresholds of 5%, 10%, 15%, 20%, 25%, 33 1/3%, 50% or 66 2/3% of the total voting rights existing when the situation giving rise to a declaration occurs, such person must simultaneously notify the Company and the CSSF of the proportion of voting rights held by it further to such event.



A person must also notify the Company of the proportion of his or her voting rights if that proportion reaches, exceeds or falls below the abovementioned thresholds as a result of events changing the breakdown of voting rights.

The Articles of Association provide that the above disclosure obligations also apply:

- to any acquisition or disposal of shares resulting in the threshold of 2.5% of voting rights in the Company being crossed upwards or downwards;
- to any acquisition or disposal of shares resulting in the threshold of 3.0% of voting rights in the Company being crossed upwards or downwards; and
- over and above 3.0% of voting rights in the Company, to any acquisition or disposal of shares resulting in successive thresholds of 1% of voting rights in the Company being crossed upwards or downwards.

Any person who acquires shares giving him or her 5% or more or a multiple of 5% or more of the voting rights in the Company must inform the Company within 10 Luxembourg Stock Exchange trading days following the date on which the threshold was crossed by registered letter with return receipt requested as to whether he or she intends to acquire or dispose of shares in the Company within the next 12 months or intends to seek to obtain control over the Company or to appoint a member to the Company's Board of Directors.

For the purposes of calculating the percentage of a shareholder's voting rights in the Company, the following will be taken into account:

- voting rights held by a third party with whom that person or entity has concluded an agreement and which obliges them to adopt, by concerted exercise of the voting rights they hold, a lasting common policy towards the Company;
- voting rights held by a third-party under an agreement concluded with that person or entity providing for the temporary transfer for consideration of the voting rights in question;
- voting rights attaching to shares pledged as collateral with that person or entity, provided the person or entity controls the voting rights and declares its intention to exercise them;
- voting rights attaching to shares in which a person or entity holds an interest for the duration of the life of such person or entity;
- voting rights which are held or may be exercised within the meaning of the four foregoing points by an undertaking controlled by that person or entity;
- voting rights attaching to shares deposited with that person or entity which the person or entity may exercise at its discretion in the absence of specific instructions from the shareholders;
- voting rights held by a third-party in its own name on behalf of that person or entity; and
- voting rights which that person or entity may exercise as a proxy where the person or entity may exercise the voting rights in its sole discretion.

### **Disclosure of Insider Transactions**

Members of the Board of Directors and the Management Committee and other executives fulfilling senior management responsibilities ("Persons Discharging Senior Managerial Responsibilities", as defined below) within the Company and persons closely associated with them must disclose to the CSSF and to the Company all transactions relating to shares of the Company or derivatives or other financial instruments linked to shares of the Company conducted by them or for their account.

"Persons Discharging Senior Managerial Responsibilities" within the Company are the members of the Board of Directors and the Management Committee and executives who, while occupying a high level management position, are not members of the above corporate bodies, but who have regular access to non-public material information relating, directly or indirectly, to the Company and have the authority to make management decisions about the future development of the Company and its business strategy.

Information on trading in the Company's ordinary shares by "Persons Discharging Senior Managerial Responsibilities" are available on the Company's website: [www.aperam.com](http://www.aperam.com), About, Investors & Shareholders, Corporate Governance. The Company's Insider Dealing Regulations can be found on the following website: [www.aperam.com](http://www.aperam.com), About, Investors & Shareholders, Corporate Governance.

Disclosure to the public of “regulated information” (within the meaning of the Luxembourg Transparency Law) concerning the Company will be made by the Company by publishing the information via the centralized document storage system managed by the Luxembourg Stock Exchange. This information is accessible on the Luxembourg Stock Exchange's website, [www.bourse.lu](http://www.bourse.lu) in addition to the Company's website: [www.aperam.com](http://www.aperam.com), About, Investors & Shareholders, Corporate Governance.

### **Limitation of Directors' Liability/Indemnification of Officers and Directors**

The Articles of Association provide that the Company will, to the extent permitted by law, indemnify every member of the Board of Directors and the Management Committee as well as every former member of the Board of Directors or the Management Committee for fees, costs and expenses reasonably incurred in the defense or resolution (including a settlement) of any legal actions or proceedings, whether civil, criminal or administrative, he or she has been involved in his or her role as former or current member of the Board of Directors or the Management Committee.

The right to indemnification does not exist in the case of gross negligence, fraud, fraudulent inducement, dishonesty or for a criminal offense, or if it is ultimately determined that the member of the Board of Directors or the Management Committee has not acted honestly, in good faith and with the reasonable belief that he or she was acting in the best interests of the Company.

### **C. Material Contracts**

The following are material contracts not entered into in the ordinary course of business that were entered into, novated or amended by the Company during the past two years:

Please refer to “Item 3. - Management's Discussion and Analysis of Financial Condition and Results of Operations – Related Party Transactions” for details about Agreements with ArcelorMittal in connection with the spin-off from ArcelorMittal and Financing Arrangements with ArcelorMittal.

### **D. Exchange Controls**

There are no other legal provisions currently in force in Luxembourg or arising under the Articles of Association that restrict the payment of dividends to holders of the Company's ordinary shares not resident in Luxembourg, except for regulations restricting the remittance of dividends and other payments in compliance with United Nations and European Union sanctions. There are no limitations, either under the laws of Luxembourg or in the Articles of Association, on the right of non Luxembourg nationals to hold or vote the Company's ordinary shares.

### **E. Taxation**

THE BELOW TAX SUMMARIES ARE NOT INTENDED TO BE, NOR SHOULD IT BE CONSTRUED AS BEING LEGAL OR TAX ADVICE. SHAREHOLDERS OR PROSPECTIVE SHAREHOLDERS ARE THEREFORE STRONGLY ADVISED TO CONSULT THEIR TAX ADVISERS REGARDING THE TAX CONSEQUENCES OF THE RECEIPT, ANY PURCHASE, OWNERSHIP OR DISPOSAL OF THE SHARES. THE SPECIFIC TAX SITUATION OF EACH SHAREHOLDER CAN ONLY BE ADEQUATELY ADDRESSED BY INDIVIDUAL TAX ADVICE.

#### **Material Luxembourg Tax Considerations**

This section describes the material Luxembourg tax implications for investors in respect of the acquisition, ownership and disposition of the Company's ordinary shares.

This summary does not cover all aspects of Luxembourg taxation which may be relevant to, or the actual tax effect that any of the matters described herein will have on, a decision by particular investors to purchase, own or dispose of the Company's ordinary shares. This summary does not address foreign tax laws. It is based on the laws in force in Luxembourg as at the date of this financial report and subject to any change in law that might take effect after such date. Investors should be aware that the residence concept used under the respective headings applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Moreover, a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial*

*communal*), a solidarity surcharge (*contribution au fonds pour l'emploi*), as well as personal income tax (*impôt sur le revenu*) generally. Corporate shareholders may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of a professional or business undertaking, municipal business tax may apply as well.

### ***Luxembourg Tax Consequences of the Holding of the Ordinary Shares***

#### ***Tax Residence***

A holder of ordinary shares will not become resident, or be deemed to be resident, in Luxembourg by reason only of the holding of the ordinary shares, or the execution, performance, delivery and/or enforcement of the ordinary shares.

#### ***Withholding Tax***

Under current Luxembourg tax law, dividends distributed by the Company to its shareholders will be subject to a 15% withholding tax computed on the gross amount of the dividends distributed.

This rate could be reduced pursuant to double taxation treaties concluded between Luxembourg and the country of residence of the non-resident shareholders. Withholding tax is usually reduced by refunding to the shareholder the excess of the total amount withheld over the withholding tax actually owed under the pertinent double taxation treaty upon the shareholder's application for a refund to the Luxembourg tax authorities (Administration des Contributions Directes, Division 5 – Relations Internationales, 45, boulevard Roosevelt, L-2982 Luxembourg). Forms for the refund request can be obtained from the Luxembourg tax authorities.

No withholding tax is levied if (A) the dividends are paid (i) to a joint-stock company which is a fully taxable Luxembourg resident company, (ii) to a company resident in a Member State of the European Union as defined in article 2 of the EU Directive 90/435/EEC of 23 July 1990 as amended or to its permanent establishment located in Luxembourg, (iii) to a company resident in a country with which Luxembourg has concluded a double taxation treaty and which is fully liable to a tax corresponding to Luxembourg corporate income tax or its permanent establishment located in Luxembourg, (iv) to a Swiss joint-stock company subject to the Swiss income tax without any exemption, (v) to a joint-stock company or a cooperative company resident in a Member State of the European Economic Area ("EEA") and which is fully liable to a tax corresponding to Luxembourg corporate income tax, or to its permanent establishment located in Luxembourg, and (B) provided that, at the date of the payment, the shareholder holds or commits to hold, directly or through a tax transparent vehicle, during an uninterrupted period of at least 12 months, a participation of at least 10% in the share capital of the Company or a participation with an acquisition price of at least EUR 1.2 million.

No Luxembourg withholding tax will be levied on liquidation proceeds distributed by the Company without any conditions. The redemption by the Company of all the ordinary shares belonging to one shareholder or of all the ordinary shares belonging to the same class of ordinary shares, followed by the cancellation of such ordinary shares, may be treated as a partial liquidation for Luxembourg tax purposes and will consequently not be subject to Luxembourg withholding tax.

### ***Income Tax***

#### ***Taxation of Dividends***

##### ***(i) Luxembourg non-resident holders of ordinary shares***

Dividends received by non-resident individuals or non-resident companies which do not have a permanent establishment in Luxembourg are not subject to any tax in Luxembourg, apart from the dividend withholding tax, if applicable.

##### ***(ii) Luxembourg resident holders of ordinary shares***

According to the Luxembourg participation exemption regime, dividends and liquidation proceeds received from the Company by (i) a joint-stock company which is a fully taxable Luxembourg resident company, (ii) a permanent establishment located in Luxembourg of a company resident in a Member State of the European Union as defined in article 2 of the EU Directive 90/435/EEC of 23 July 1990 as amended, (iii) a permanent establishment located in Luxembourg of a company resident in a country which has concluded a

double taxation treaty with Luxembourg, or (iv) a permanent establishment located in Luxembourg of a joint-stock company or of a cooperative company resident in a Member State of the EEA, will be exempt from income tax in Luxembourg provided that, at the date of the distribution, the shareholder holds or commits to hold, directly or through a tax transparent vehicle, during an uninterrupted period of at least 12 months, a participation of at least 10% in the share capital of the Company or a participation with an acquisition price of at least EUR 1.2 million. Ordinary shares held through a tax transparent entity are considered as a direct participation proportionally to the percentage held in the net assets of the transparent entity.

Dividends received from the Company by a Luxembourg resident company, or by a permanent establishment located in Luxembourg, which do not fall within the scope of the Luxembourg participation exemption regime, will be subject to Luxembourg corporate income tax (including the solidarity surcharge and the municipal business tax) at the ordinary rate. Dividends received by a Luxembourg resident individual shareholder will be subject to Luxembourg income tax (including the solidarity surcharge) at the ordinary progressive rate. Half of the dividends received from the Company will, however, be excluded from the taxable basis of the Luxembourg resident (individual or corporate) shareholder.

Upon their income tax assessment, resident shareholders and non-resident shareholders holding the ordinary shares via a permanent establishment (including a permanent representative) or fixed base in Luxembourg, may credit the dividend withholding tax against their final income tax liability.

#### (iii) Luxembourg companies benefitting from a special tax regime

Luxembourg companies, which benefit from a special tax regime under (i) the laws of 17 December 2010, as amended, on undertakings for collective investment, (ii) the law of 13 February 2007, as amended, on specialised investment funds or (iii) the law of 11 May 2007, as amended, on family estate management companies, are not subject to tax on dividends received from the Company.

### *Taxation of Capital Gains*

#### (i) Luxembourg non-resident holders of Ordinary Shares

No Luxembourg income tax will be payable as a result of a disposal of the ordinary shares by a non-resident (individual or corporate) shareholder, unless the participation directly or indirectly held by the shareholder, together with his/her close relatives, represents more than 10% of the share capital of the Company, and the relevant shareholder (i) was a Luxembourg resident taxpayer for more than 15 years and has become a non-resident taxpayer less than 5 years before the sale of the ordinary shares, or (ii) has held the ordinary shares for less than 6 months at the time of the sale. These conditions could be relaxed by double taxation treaties concluded between Luxembourg and the country of residence of the shareholders.

#### (ii) Luxembourg resident holders of Ordinary Shares

Capital gains realized on the disposal of ordinary shares (including their sale, exchange, contribution or any other kind of alienation) by resident individuals acting in the course of their private wealth are not subject to income tax, unless said capital gains qualify either as speculative gains or as gains on a substantial participation.

Capital gains are deemed to be speculative and are subject to income tax at ordinary rates if the ordinary shares are disposed of within 6 months of their acquisition or if the disposal precedes the acquisition of the ordinary shares.

A participation is considered substantial where a resident individual has held, alone or together with his/her close relatives, directly or indirectly, at any time within the 5 years preceding the disposal, more than 10% of the share capital of the Company. A shareholder is also deemed to alienate a substantial participation if, within the 5 years preceding the transfer, he acquired, free of charge, a participation constituting a substantial participation in the hands of the alienator (or the alienators in case of several successive transfers free of charge within the same 5-year period). Capital gains realized on a substantial participation more than 6 months after the acquisition are subject to income tax according to the half-global rate method (i.e. the average rate applicable to the total income is calculated according to progressive income tax rates and half of the average rate is applied to the capital gains realized on the substantial participation).

Capital gains realized on the disposal of ordinary shares by resident individual shareholders, acting in the course of their professional/business activity, are subject to income tax at ordinary rates.

Capital gains realized upon the disposal of the ordinary shares by a Luxembourg resident company, or by a permanent establishment located in Luxembourg, will be fully subject to corporate income tax (including the solidarity surcharge and the municipal business tax) in Luxembourg, except if the Luxembourg participation regime is applicable.

According to the Luxembourg participation exemption regime, capital gains realized upon the disposal of ordinary shares by (i) a joint-stock company which is a fully taxable Luxembourg resident company, or (ii) a permanent establishment located in Luxembourg of a company resident in a Member State of the European Union as defined in article 2 of the EU Directive 90/435/EEC of 23 July 1990 as amended, or (iii) a permanent establishment located in Luxembourg of a company resident in a country which has concluded a double taxation treaty with Luxembourg, or (iv) a permanent establishment located in Luxembourg of a joint-stock company or of a cooperative company resident in a Member State of the EEA, will be exempt from income tax in Luxembourg provided that, at the date of the distribution, the shareholder holds or commits to hold, directly or through a tax transparent vehicle, during an uninterrupted period of at least 12 months, a participation of at least 10% in the share capital of the Company or a participation with an acquisition price of at least EUR 6 million. ordinary shares held through a tax transparent entity are considered as being a direct participation proportionally to the percentage held in the net assets of the transparent entity.

Taxable gains are determined as being the difference between the price for which the ordinary shares have been disposed of and the lower of their cost or book value.

(iii) Luxembourg companies benefitting from a special tax regime

Luxembourg companies, which benefit from a special tax regime under (i) the law of 17 December 2010, as amended, on undertakings for collective investment, (ii) the law of 13 February 2007, as amended, on specialised investment funds or (iii) the law of 11 May 2007, as amended, on family estate management companies, are not subject to tax on capital gains realized on the disposal of ordinary shares.

**Net Wealth Tax**

Luxembourg resident companies, which do not benefit from a special tax regime under (i) the law of 17 December 2010 on undertakings for collective investment, (ii) the law of 13 February 2007, as amended, on specialised investment funds, (iii) the law of 22 March 2004, as amended, on securitization, (iv) the law of 15 June 2004, as amended, on venture capital vehicles, or (v) the law of 11 May 2007, as amended, on family estate management companies, are subject to net wealth tax on their net assets. However, ordinary shares held by fully taxable Luxembourg resident companies will be excluded from their taxable basis for net wealth tax purposes, provided the conditions of the participation exemption regime (which are the same as for dividends, except that the twelve months holding period is not required) are met.

Non-resident companies will be subject to net wealth tax on their assets which are attributable to an enterprise or part thereof which is carried on in Luxembourg through a permanent establishment, except as otherwise provided for by a tax treaty concluded by Luxembourg and the country of residence of the non-resident company.

**Other Taxes**

No Luxembourg registration tax, stamp duty or any other similar tax or duty will be due by the shareholders as a consequence of the issuance of the ordinary shares, nor will any of these taxes become payable as a consequence of a subsequent transfer, exchange or redemption of the ordinary shares, unless the documents relating to the ordinary shares are voluntarily registered in Luxembourg.

There is no Luxembourg value added tax payable in respect of payments in consideration for the issuance of the ordinary shares or in respect of the payment of dividends or principal under the ordinary shares or the transfer of the ordinary shares.

No Luxembourg estate or inheritance taxes are levied on the transfer of the ordinary shares upon the death of a shareholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes. No Luxembourg gift tax is levied on the transfer of the ordinary shares by way of a gift, unless the gift is recorded in a Luxembourg notarized deed or otherwise registered in Luxembourg.

**Dutch tax regime of the holding and disposal of Shares**

*Dividend tax*

The Company is not required to withhold Dutch dividend tax in respect of distributions made on the Shares.

### *Income tax*

Resident holders: A holder who is a private individual and a resident, or treated as being a resident of the Netherlands for the purposes of Dutch income tax, must record the Shares as assets that are held in box 3. Taxable income with regard to the Shares is then determined on the basis of a deemed return on income from savings and investments (*sparen en beleggen*), rather than on the basis of income actually received or gains actually realised. This deemed return is fixed at a rate of 4% of the holder's yield basis (*rendementsgrondslag*) at the beginning of the calendar year, insofar as the yield basis exceeds a certain threshold (*heffingvrij vermogen*). Such yield basis is determined as the fair market value of certain qualifying assets held by the holder of the Shares, less the fair market value of certain qualifying liabilities at the beginning of the calendar year. The fair market value of the Shares will be included as an asset in the holder's yield basis. The deemed return on income from savings and investments is taxed at a rate of 30%.

Luxembourg dividend tax which is withheld with respect to proceeds from the Shares will generally be creditable for Dutch income tax purposes.

Non-resident holders: A holder who is a private individual and neither a resident, nor treated as being a resident of the Netherlands for the purposes of Dutch income tax, will not be subject to such tax in respect of benefits derived from the Shares unless such holder is entitled to a share in the profits of an enterprise or a co-entitlement to the net worth of an enterprise which is effectively managed in the Netherlands, to which enterprise the Shares are attributable.

### *Corporate income tax*

Resident holders: A holder which is a corporate entity and for the purposes of Dutch corporate income tax a resident (or treated as being a resident) of the Netherlands is taxed in respect of benefits derived from the Shares at rates of up to 25%.

Luxembourg dividend tax which is withheld with respect to proceeds from the Shares will generally be creditable for Dutch corporate income tax purposes.

Non-resident holders: A holder which is a corporate entity and for the purposes of Dutch corporate income tax neither a resident, nor is treated as being a resident, of the Netherlands will not be subject to corporate income tax, unless such holder has an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands, a Netherlands Enterprise (*Nederlandse onderneming*), to which Netherlands Enterprise the Shares are attributable, or such holder is (other than by way of securities) entitled to a share in the profits of an enterprise or a co-entitlement to the net worth of an enterprise, which is effectively managed in the Netherlands and to which enterprise the Shares are attributable. Such holder is taxed in respect of benefits derived from the Shares at rates of up to 25%.

### *Gift and inheritance tax*

Resident holders: Dutch gift tax or inheritance tax (*schenk- of erfbelasting*) will arise in respect of an acquisition (or deemed acquisition) of Shares by way of a gift by, or on the death of, a holder of Shares who is a resident, or treated as being a resident, of the Netherlands for the purposes of Dutch gift and inheritance tax.

Non-resident holders: No Dutch gift tax or inheritance tax will arise in respect of an acquisition (or deemed acquisition) of Shares by way of a gift by, or on the death of, a holder of Shares who is neither a resident, nor treated as being a resident, of the Netherlands for the purposes of Dutch gift and inheritance tax.

### *Other taxes*

No Dutch registration tax, capital tax, transfer tax or stamp duty (nor any other similar tax or duty) will be payable in connection with the holding or disposal of the Shares.

## **Certain French Income Tax Considerations**

The following is a summary of certain material French tax consequences that are likely to be relevant to French resident investors in respect of their investment in the Company's shares.

This summary is of general nature only and does not purport to be a comprehensive description of all the French material tax considerations which may be relevant to the receipt of the Company's shares, nor to the decision to purchase, hold or dispose of the Company's shares. It is based on the laws, regulations, practice and applicable tax treaties in force in France as at the date of this financial report, all of which are

subject to change, possibly with retroactive effect. More particularly, the following summary takes into account the tax measures included in several Finance Acts enacted in 2012.

This summary does not take into account the specific circumstances of particular investors some of which may be subject to special tax rules. French holders of Company's shares should consult their own tax advisors as to the particular French tax consequences of the receipt of the Company's shares and/or of the holding or disposal of the Company's shares.

As used herein, a "**French individual**" is an individual who is a resident of France for tax purposes, is subject to personal income tax (*impôt sur le revenu*) and owns the Company's shares as private assets (otherwise than through a fixed base outside France) and a "**French legal entity**" is a legal entity which is a French tax resident subject to corporate income tax (*impôt sur les sociétés*) which does not own its interests in the Company through a permanent establishment outside France, and which does not hold an interest in the Company that would qualify as participation shares (*titres de participation*) or other interest representing more than 5% of the Company's share capital and benefit from a taxation at a reduced rate. "**French holders**" shall mean all these holders collectively.

### ***French tax regime of the holding and disposal of Company's shares***

#### *Taxation of dividends*

Pursuant to Article 19-3-b of the tax treaty dated April 1, 1958 between France and Luxembourg (the "**Treaty**"), France grants a tax credit for the withholding tax levied in Luxembourg on dividends. The amount of such tax credit is equal to the withholding tax as reduced by the Treaty that is, generally, 15/85 of the net amount of the dividends, capped at the amount of the French tax due with respect to such dividends.

#### *French individuals*

Dividends received by French individuals are generally included in their taxable income of the relevant tax year. As a result of new provisions introduced by the Finance Act for 2013, dividends received as from 1 January 2013 are subject to personal income tax at the progressive scale (up to a marginal rate of 45%), plus the exceptional contribution on high income taxpayers (up to 4%) and 15.5% social related contributions (of which a portion representing 5.1% of the gain is tax-deductible – see further details below), with no possibility to elect for the 21% flat-rate tax that could apply until then.

If the conditions set out in Article 158-3-2° of the *Code général des impôts* are satisfied with respect to such dividends, an allowance of 40% (the "**40% Allowance**") is first applied to the gross amount of the dividends, including the attached tax credit determined for the Luxembourg withholding tax when computing the income subject to personal income tax.

A taxation at a 21% flat-rate tax is besides applied on dividends received as from 1 January 2013. Such 21% flat-rate tax is applied on the gross amount of dividends received and constitutes an instalment on the personal income tax due for the year during which the 21% flat-rate tax is applied. If the amount paid under the 21% flat-rate tax exceeds the amount of income tax due, the difference will be reimbursed. It does however not apply to shares held in a Share Savings Plan (*plan d'épargne en actions – PEA*).

Individuals belonging to a tax domicile (*domicile fiscal*) with a tax revenue of reference for the penultimate year that did not exceed €50,000 (taxpayers who are single or widowed) or €75,000 (taxpayers subject to joint taxation) may be exempted of such 21% flat-rate tax provided that they comply with some disclosure requirements set out in Article 242 *quater* of the *Code general des impôts*.

If dividends are paid by a French paying agent, the French paying agent will report and pay on behalf of the French taxpayer the 21% flat-rate tax to the French tax authorities, within the first fifteen days of the month following the month of payment of the dividends.

If dividends are paid by a foreign paying agent, the 21% tax is either (i) paid to the French tax authorities by the French taxpayer within the first fifteen days of the month following the month of payment or (ii) if the paying agent is established in a country within the EEA, and upon written authorization from the French taxpayer, withheld at the time of payment by the paying agent who will report and pay on behalf of the French taxpayer the 21% flat-rate tax to the French tax authorities.

Dividends are further subject to the following social security contributions: the general social contribution (*contribution sociale généralisée – CSG*) at the rate of 8.2% (of which 5.1% is deductible from the aggregate taxable income of the taxpayer of the year of payment of the social related contributions), the social levy (*prélèvement social*) at the rate of 4.5%, the contribution for the repayment of the social debt (*contribution au remboursement de la dette sociale – CRDS*) at the rate of 0.5% and the contributions payable in addition to the social levy at the respective rates of 0.3% and 2%, giving a global rate of 15.5% of social security

contributions. These social security contributions are recovered under similar rules as those applicable to the 21% flat-rate tax when the dividend is paid by a French paying agent.

The tax credit granted by France in respect of the Luxembourg withholding tax can be set off against the personal income tax; any excess may neither be refunded nor carried forward.

Specific tax treatment applicable to Company's shares held in Share Savings Plans (*plan d'épargne en actions – PEA*)

Company's shares are eligible to be held in a PEA.

Under certain conditions, a PEA confers the right (i) during the duration of the PEA, to an exemption from income tax and social related contributions on the net proceeds and net capital gains resulting from investments made through a PEA, provided that these proceeds and capital gains are kept in the PEA and (ii) upon closure of the PEA (if it takes place more than five years after the opening of the PEA) or after a partial withdrawal (if it takes place more than eight years after the opening of the PEA), to an income tax exemption on the net gain realised since the opening of the PEA. These proceeds and capital gains remain nevertheless subject to social related contributions (currently at a total rate of 15.5% but the effective rate of such contributions depends on the date when such gain will be realised). Specific rules apply to the use of capital losses realised within a PEA; investors are invited to consult their tax advisor on this issue.

A withdrawal from a PEA in the form of a life annuity is subject to a specific tax regime not described herein.

Individuals owning Company's shares in a PEA will not be able to use the tax credit granted by France in respect of the Luxembourg withholding tax.

#### *French legal entities*

Gross dividends (including the Luxembourg withholding tax) received by French legal entities will be subject to corporate income tax at the current standard rate of 33 1/3% (or, as the case may be, at the reduced rate of 15% within the limit of €38,120 of taxable income per twelve-month period for companies that meet the conditions of Article 219 I-b of the *Code général des impôts*, that is, which have a yearly turnover net of tax of less than €7,630,000 and with a fully paid up share capital of which at least 75% is held by individuals or by companies which themselves satisfy the conditions relating to turnover and share capital ownership), increased, as the case may be, by the social related contribution of 3.3% assessed on the corporate income tax due, after deduction of an allowance that may not exceed €763,000 per twelve-month period (Article 235 *ter* ZC of the *Code général des impôts*) and, as the case may be, by the exceptional contribution of 5% assessed on the corporate income tax due for financial years closed between 30 December 2011 and 30 December 2015.

The tax credit granted by France in respect of the Luxembourg withholding tax is in principle offsettable against the corporate income tax; any excess may neither be refunded nor carried forward.

#### ***Taxation of capital gains***

The capital gains, if any, realised by French holders on the disposal of their Company's shares held may be subject to tax in France but not in Luxembourg in accordance with Article 18 of the tax treaty dated April 1, 1958 between France and Luxembourg.

#### *French individuals*

As from 2013, capital gains realised by French individuals on the sale of Company's shares are subject to personal income tax at the progressive scale (up to a marginal rate of 45%), plus the exceptional contribution on high income taxpayers (up to 4%) and 15.5% social related contributions (of which a portion representing 5.1% of the gain is tax-deductible from the aggregate taxable income of the taxpayer of the year of payment of the social related contributions). Special tax allowances based on duration of ownership: 20% after 2 years of ownership, 30% after 4 years and 40% after 6 years, may apply to the amount of the capital gain for the determination of the personal income tax.

Under Article 150-0 D 11 of the *Code général des impôts*, capital losses incurred during a fiscal year may offset capital gains of the same nature realised over the same year or the ten following years.

Specific tax treatment applicable to Company's shares held in a PEA

See further the paragraph "Taxation of dividends – French individuals".



#### *French legal entities*

Capital gains realised upon the transfer of Company's shares will be, in principle, subject to corporate income tax under the same conditions as mentioned in the paragraph "Taxation of dividends – Legal entities".

Capital losses incurred as a result of the transfer of Company's shares will, in principle, be deductible from the taxable income subject to corporate income tax.

#### *Wealth tax*

Company's shares held by French individuals among their private assets will have to be included in their taxable estate and subject to, if applicable, French wealth tax (*Impôt de solidarité sur la fortune*).

#### *Inheritance and gift tax*

Company's shares acquired by French individuals through inheritance or as a gift will be subject to inheritance tax or gift tax.

#### *Transfer tax*

Disposals of Company's shares are as a rule not subject to registration taxes in France, provided that they are not recorded in an agreement entered into in France.

### **Material U.S. Federal Income Tax Considerations**

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS FINANCIAL REPORT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE COMPANY IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE COMPANY OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

This summary assumes that U.S. Holders hold the Shares, as capital assets. The summary does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Shares by particular investors, and does not address state, local, foreign or other tax laws. This summary also does not address tax considerations applicable to investors that own (directly or indirectly) 10% or more of the voting stock of the Company, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, investors that currently hold the Shares as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar).

As used herein, the term "U.S. Holder" means a beneficial owner of Shares that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organized under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership that holds Shares will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax advisers concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Shares by the partnership.

The summary assumes that the Company is not a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes, which the Company believes to be the case. The Company's possible status as a PFIC must be determined annually and therefore may be subject to change. If the Company were to be a PFIC in any year, materially adverse consequences could result for U.S. Holders.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, and existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS OF COMPANY SHARES SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

### ***Ownership and disposition of Shares***

#### ***Dividends***

General – Distributions paid by the Company out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), before reduction for any Luxembourg withholding tax paid by the Company with respect thereto, will generally be taxable to a U.S. Holder as foreign source dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder's basis in the Shares and thereafter as capital gain. However, the Company does not expect to maintain calculations of its earnings and profits in accordance with U.S. federal income tax accounting principles. U.S. Holders should therefore assume that any distribution by the Company with respect to its Shares will constitute ordinary dividend income. U.S. Holders should consult their own tax advisers with respect to the appropriate U.S. federal income tax treatment of any distribution received from the Company.

Foreign currency dividends – Dividends paid in euros will be included in income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the U.S. Holder, regardless of whether the euros are converted into U.S. dollars at that time. If dividends received in euros are converted into U.S. dollars on the day they are received by the U.S. Holder, the U.S. Holder generally will not be required to recognize foreign currency gain or loss in respect of the dividend income.

Effect of Luxembourg withholding taxes – Under current law payments of dividends by the Company to foreign investors are subject to Luxembourg withholding tax. For U.S. federal income tax purposes, U.S. Holders will be treated as having received the amount of Luxembourg taxes withheld by the Company, and as then having paid over the withheld taxes to the Luxembourg taxing authorities. As a result of this rule, the amount of dividend income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of dividends may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Company with respect to the payment.

A U.S. Holder will generally be entitled, subject to certain limitations, to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Luxembourg income taxes withheld by the Company. For purposes of the foreign tax credit limitation, foreign source income is classified in one of two "baskets", and the credit for foreign taxes on income in any basket is limited to U.S. federal income tax allocable to that income. Dividends paid by the Company generally will constitute foreign source income in the "passive income" basket. In certain circumstances, a U.S. Holder may be unable to claim foreign tax credits (and may instead be allowed deductions) for foreign taxes imposed on a dividend if the U.S. Holder has not held the Shares for at least 16 days in the 31-day period beginning 15 days before the ex dividend date.

U.S. Holders that are accrual basis taxpayers, and who do not otherwise elect, must translate Luxembourg taxes into U.S. dollars at a rate equal to the average exchange rate for the taxable year in which the taxes accrue, while all U.S. Holders must translate taxable dividend income into U.S. dollars at the spot rate on the date received. This difference in exchange rates may reduce the U.S. dollar value of the credits for Luxembourg taxes relative to the U.S. Holder's U.S. federal income tax liability attributable to a dividend. However, cash basis and electing accrual basis U.S. Holders may translate Luxembourg taxes into U.S. dollars using the exchange rate in effect on the day the taxes were paid. Any such election by an accrual basis U.S. Holder will apply for the taxable year in which it is made and all subsequent taxable years, unless revoked with the consent of the IRS.

Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of the payment of Luxembourg taxes.

#### *Sale or other disposition*

Upon a sale or other disposition of Shares, a U.S. Holder generally will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realized on the sale or other disposition and the U.S. Holder's adjusted tax basis in the Shares. This capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period in the Shares exceeds one year. Any gain or loss will generally be U.S. source.

The amount realized on a sale or other disposition of Shares for an amount in euros will be the U.S. dollar value of this amount on the date of sale or disposition. On the settlement date, the U.S. Holder will recognize U.S. source foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the U.S. dollar value of the amount received based on the exchange rates in effect on the date of sale or other disposition and the settlement date. However, in the case of Shares traded on an established securities market that are sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), the amount realized will be based on the exchange rate in effect on the settlement date for the sale, and no exchange gain or loss will be recognised at that time.

#### *Disposition of foreign currency*

Foreign currency received on the sale or other disposition of a Share will have a tax basis equal to its U.S. dollar value on the settlement date. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Shares or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

#### *Backup withholding and information reporting*

Payments of dividends and other proceeds with respect to Shares by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

#### *New legislation*

Recently enacted legislation imposes new reporting requirements on the holding of certain foreign financial assets, including equity of foreign entities, if the aggregate value of all of these assets exceeds \$50,000. The Shares are expected to constitute foreign financial assets subject to these requirements unless the Shares are held in an account at a domestic financial institution. U.S. Holders should consult their tax advisors regarding the application of this legislation.

## **F. Dividends and Paying Agent**

The paying agent for European Shares (which are listed on the official list of the Luxembourg Stock Exchange, Euronext Amsterdam and Euronext Paris) is BNP Paribas Securities Services.

The paying agent for the New York Registry Shares (which are not listed on any U.S. exchange, but are eligible for trading on the OTC market) is Citibank.

## INDEX TO THE FINANCIAL STATEMENTS

	<u>Page</u>
<b>Consolidated Financial Statements as of and for the Three Years Ended December 31, 2012</b>	
Consolidated Statement of Financial Position .....	109
Consolidated Statement of Operations .....	111
Consolidated Statement of Comprehensive Income (Loss) .....	112
Consolidated Statement of Changes in Equity .....	113
Consolidated Statement of Cash Flows .....	114
Notes to the Consolidated Financial Statements .....	115

**Aperam**  
**Consolidated Statement of Financial Position**  
(millions of U.S. dollars)

	December 31,		
	2012	2011	2010 Combined
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents .....	226	247	120
Trade accounts receivable (note 3) .....	330	391	405
Inventories (note 4) .....	1,227	1,262	1,496
Prepaid expenses and other current assets (note 5) .....	120	133	816
Income tax receivable .....	14	12	10
Total current assets .....	1,917	2,045	2,847
<b>Non-current assets:</b>			
Goodwill and intangible assets (note 6) .....	859	904	989
Biological assets (note 7) .....	135	145	—
Property, plant and equipment (note 8) .....	2,474	2,659	2,917
Investments in associates (note 9) .....	2	2	152
Other investments (note 10) .....	120	98	181
Deferred tax assets (note 17) .....	289	249	183
Other assets (note 11) .....	113	99	66
Total non-current assets .....	3,992	4,156	4,488
Total assets .....	5,909	6,201	7,335

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

**Aperam**  
**Consolidated Statement of Financial Position**  
(millions of U.S. dollars)

	December 31,		
	2012	2011	2010 Combined
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Short-term debt and current portion of long-term debt (note 13) .....	435	538	900
Trade accounts payable .....	950	846	942
Short-term provisions (note 18) .....	33	41	39
Accrued expenses and other liabilities (note 19) .....	297	309	426
Income tax liabilities (note 17) .....	3	4	11
Total current liabilities .....	<u>1,718</u>	<u>1,738</u>	<u>2,318</u>
<b>Non-current liabilities:</b>			
Long-term debt, net of current portion (note 13) .....	607	587	932
Deferred tax liabilities (note 17) .....	136	173	116
Deferred employee benefits (note 21) .....	169	174	181
Long-term provisions (note 18) .....	75	80	123
Other long-term obligations .....	14	6	11
Total non-current liabilities .....	<u>1,001</u>	<u>1,020</u>	<u>1,363</u>
Total liabilities .....	<u>2,719</u>	<u>2,758</u>	<u>3,681</u>
Commitments and contingencies (note 20 and note 22)			
<b>Equity (note 15):</b>			
Common shares (no par value, 85,854,303, 85,854,303 and 85,854,303 shares authorized, 78,049,730, 78,049,730 and 4,000 shares issued and outstanding at December 31, 2012, 2011 and 2010, respectively) .....	547	547	—
Additional paid-in capital .....	1,600	1,600	—
Retained earnings .....	967	1,133	3,143
Foreign currency translation adjustments .....	73	176	457
Unrealized gain (loss) on available-for-sale securities .....	3	(15)	44
Unrealized (loss) gain on derivative financial instruments .....	(4)	(4)	5
Equity attributable to the equity holders of the parent .....	3,186	3,437	3,649
Non-controlling interests .....	4	6	5
Total equity .....	<u>3,190</u>	<u>3,443</u>	<u>3,654</u>
Total liabilities and equity .....	<u>5,909</u>	<u>6,201</u>	<u>7,335</u>

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

**Aperam**  
**Consolidated Statement of Operations**  
(millions of U.S. dollars)

	Year Ended December 31,		
	2012	2011	2010 Combined
Sales .....	5,261	6,345	5,604
(including 150, 180 and 194 of sales to related parties in 2012, 2011 and 2010, respectively)			
Cost of sales .....	5,128	6,039	5,254
(including depreciation and impairment of 320, 311 and 317, and purchases from related parties of 157, 269 and 1,165 in 2012, 2011 and 2010, respectively)			
Gross margin.....	133	306	350
Selling, general and administrative .....	239	261	257
Operating (loss) income .....	(106)	45	93
Income from other investments.....	2	2	9
Interest income (note 16) .....	3	3	9
Interest expense and other net financing costs (note 16).....	(71)	(157)	(9)
(Loss) income before taxes.....	(172)	(107)	102
Income tax benefit (note 17) .....	64	48	3
Net (loss) income (including non-controlling interests).....	(108)	(59)	105
Net (loss) income attributable to			
Equity holders of the parent.....	(108)	(60)	104
Non-controlling interests .....	—	1	1
Net (loss) income (including non-controlling interests).....	(108)	(59)	105
Earnings per common share (in U.S. dollars):			
Basic common shares	(1.39)	(0.76)	1.34
Diluted common shares	(1.39)	(0.76)	1.34
Weighted average common shares outstanding (in thousands)			
Basic common shares	78,050	78,050	78,050
Diluted common shares	78,050	78,050	78,050

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

**Aperam**  
**Consolidated Statement of Comprehensive (Loss) Income**  
(millions of U.S. dollars)

	Year Ended December 31,		
	2012	2011	2010 Combined
<b>Net (loss) income (including non-controlling interests).....</b>	<b>(108)</b>	<b>(59)</b>	<b>105</b>
Available-for-sale investments:			
Gain (loss) arising during the period, net of tax (expense) benefit of (6), 16 and (13) for 2012, 2011 and 2010, respectively.....	18	(59)	70
Reclassification adjustments for gain included in the statement of operations, net of tax expense of nil, nil and 41 for 2012, 2011 and 2010, respectively .....	<u>—</u>	<u>—</u>	<u>(79)</u>
	18	(59)	(9)
Cash flow hedges:			
(Loss) gain arising during the period, net of tax benefit (expense) of 4, 6 and (5) for 2012, 2011 and 2010, respectively.....	(6)	(12)	12
Reclassification adjustments for loss (gain) included in the statement of operations, net of tax (benefit) expense of (4), (1) and 2 for 2012, 2011 and 2010, respectively .....	<u>6</u>	<u>3</u>	<u>(7)</u>
	—	(9)	5
Exchange differences arising on translation of foreign operations, net of tax benefit (expense) of 21, 36 and (12) for 2012, 2011 and 2010, respectively.....	(103)	(281)	(80)
Share of other comprehensive income related to associates ....	<u>—</u>	<u>—</u>	<u>2</u>
<b>Total other comprehensive loss .....</b>	<b>(85)</b>	<b>(349)</b>	<b>(82)</b>
Total other comprehensive loss attributable to:			
Equity holders of the parent.....	(85)	(349)	(82)
	<u>(85)</u>	<u>(349)</u>	<u>(82)</u>
<b>Net comprehensive (loss) income .....</b>	<b><u>(193)</u></b>	<b><u>(408)</u></b>	<b><u>23</u></b>
Net comprehensive (loss) income attributable to:			
Equity holders of the parent.....	(193)	(409)	22
Non-controlling interests .....	<u>—</u>	<u>1</u>	<u>1</u>
<b>Net comprehensive (loss) income .....</b>	<b><u>(193)</u></b>	<b><u>(408)</u></b>	<b><u>23</u></b>

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



**Aperam**

**Consolidated Statement of Changes in Equity**

(millions of U.S. dollars)

	Shares <sup>(1)</sup>	Share capital	Additional paid-in capital	Retained earnings	Foreign currency translation adjustments	Unrealized gains (losses) on derivatives financial instruments	Unrealized gains (losses) on available for sale securities	Equity attributable to the equity holders of the parent	Non-controlling interests	Total Equity
<b>Balance at December 31, 2009 (Combined)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2,995</b>	<b>535</b>	<b>—</b>	<b>53</b>	<b>3,583</b>	<b>6</b>	<b>3,589</b>
Net income .....	—	—	—	104	—	—	—	104	1	105
Other comprehensive income (loss) .....	—	—	—	—	(78)	5	(9)	(82)	—	(82)
Total comprehensive income (loss) .....	—	—	—	104	(78)	5	(9)	22	1	23
Recognition of share-based payments .....	—	—	—	4	—	—	—	4	—	4
Incorporation of Aperam S.A. ....	4	—	—	—	—	—	—	—	—	—
Capital transactions with ArcelorMittal (note 15) .....	—	—	—	55	—	—	—	55	—	55
Dividends .....	—	—	—	(15)	—	—	—	(15)	(2)	(17)
<b>Balance at December 31, 2010 (Combined)</b>	<b>4</b>	<b>—</b>	<b>—</b>	<b>3,143</b>	<b>457</b>	<b>5</b>	<b>44</b>	<b>3,649</b>	<b>5</b>	<b>3,654</b>
Net income (loss) .....	—	—	—	(60)	—	—	—	(60)	1	(59)
Other comprehensive loss .....	—	—	—	—	(281)	(9)	(59)	(349)	—	(349)
Total comprehensive income (loss) .....	—	—	—	(60)	(281)	(9)	(59)	(409)	1	(408)
Recognition of share-based payments .....	—	—	—	3	—	—	—	3	—	3
Capital transactions with ArcelorMittal (note 15) .....	—	—	—	33	—	—	—	33	—	33
Capital increase and Spin-off .....	78,046	547	1,600	(1,927)	—	—	—	220	—	220
Dividends .....	—	—	—	(59)	—	—	—	(59)	(1)	(60)
Other movements .....	—	—	—	—	—	—	—	—	1	1
<b>Balance at December 31, 2011</b>	<b>78,050</b>	<b>547</b>	<b>1,600</b>	<b>1,133</b>	<b>176</b>	<b>(4)</b>	<b>(15)</b>	<b>3,437</b>	<b>6</b>	<b>3,443</b>
Net loss .....	—	—	—	(108)	—	—	—	(108)	—	(108)
Other comprehensive income (loss) .....	—	—	—	—	(103)	—	18	(85)	—	(85)
Total comprehensive income (loss) .....	—	—	—	(108)	(103)	—	18	(193)	—	(193)
Recognition of share-based payments .....	—	—	—	1	—	—	—	1	—	1
Dividends .....	—	—	—	(59)	—	—	—	(59)	(2)	(61)
<b>Balance at December 31, 2012</b>	<b>78,050</b>	<b>547</b>	<b>1,600</b>	<b>967</b>	<b>73</b>	<b>(4)</b>	<b>3</b>	<b>3,186</b>	<b>4</b>	<b>3,190</b>

(1) Number of shares denominated in thousands.

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

**Aperam**  
**Consolidated Statement of Cash Flows**  
(millions of U.S. dollars)

	Year Ended December 31,		
	2012	2011	2010 Combined
<b>Operating activities:</b>			
Net (loss) income .....	(108)	(59)	105
<b>Adjustments to reconcile net (loss) income to net cash provided by operations and payments:</b>			
Depreciation .....	293	307	293
Impairment .....	27	4	24
Interest expense .....	73	74	116
Income tax benefit .....	(64)	(48)	(3)
Write-downs of inventories to net realizable value and expense related to onerous supply contracts (*) .....	38	35	39
Labor agreements and separation plans .....	5	21	18
Impairment of financial assets .....	—	1	—
Unrealized (gains) losses on derivative instruments .....	(3)	7	(2)
Realized gain on exchange of shares Aços Villares/Gerdau .....	—	—	(120)
Unrealized foreign exchange effects, provisions and other non-cash operating expenses (net) .....	39	(8)	(47)
<b>Changes in operating assets, liabilities and provisions:</b>			
Trade accounts receivable .....	46	7	(93)
Inventories .....	(14)	176	(489)
Interest paid (net) .....	(72)	(70)	(114)
Income taxes (paid) refund .....	(15)	(17)	5
Trade accounts payable .....	124	(149)	371
Cash paid for separation plans .....	(4)	(17)	(7)
Cash received for tax indemnification .....	—	—	265
Other working capital and provisions movements .....	(87)	(75)	1
Net cash provided by operating activities .....	278	189	362
<b>Investing activities:</b>			
Purchase of property, plant and equipment .....	(161)	(158)	(101)
Loans under cash pooling arrangements (net) .....	—	647	(317)
Other investing activities (net) .....	3	9	14
Net cash (used in) provided by investing activities .....	(158)	498	(404)
<b>Financing activities:</b>			
Proceeds from short-term debt .....	96	704	25
Proceeds from long-term debt .....	80	518	11
Payments of short-term debt .....	(259)	(1,165)	(116)
Payments of long-term debt .....	—	(2)	(99)
Borrowings under cash pooling arrangements (net) .....	—	(540)	197
Dividends paid to ArcelorMittal .....	—	(1)	(69)
Dividends paid (includes 2, 1 and 2 of dividends paid to non-controlling interests in 2012, 2011 and 2010, respectively) .....	(61)	(60)	(2)
Change in ArcelorMittal's net investment (**). .....	—	—	98
Other financing activities (net) .....	(2)	(6)	(3)
Net cash (used in) provided by financing activities .....	(146)	(552)	42
Effect of exchange rate changes on cash .....	5	(8)	2
Net (decrease) increase in cash and cash equivalents .....	(21)	127	2
<b>Cash and cash equivalents:</b>			
At the beginning of the year .....	247	120	118
At the end of the year .....	226	247	120

(\*) Refer to Note 4 for more information on inventory write-downs

(\*\*) Includes cash flows resulting from legal reorganizations between Aperam and ArcelorMittal. Refer to Note 15 for more information on changes in ArcelorMittal's net investment.

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

## **Aperam**

### **Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

#### **NOTE 1: NATURE OF BUSINESS, BASIS OF PRESENTATION AND CONSOLIDATION**

##### **Nature of business**

Aperam Société Anonyme (the “Company” or “Aperam”) was incorporated in Luxembourg on September 9, 2010 to own certain operating subsidiaries of ArcelorMittal Société Anonyme (“ArcelorMittal”) which primarily comprise ArcelorMittal’s stainless steel and nickel alloys business. This business was transferred to the Company prior to the distribution of all its outstanding common shares to shareholders of ArcelorMittal on January 26, 2011. The Company’s shares have been trading on the European stock exchanges of Amsterdam, Paris (Euronext) and Luxembourg since January 31, 2011.

These consolidated financial statements were authorized for issuance on March 5, 2013 by Aperam’s Board of Directors.

Aperam is a global stainless steel producer with an annual capacity of 2.5 million tonnes in 2012. The Company’s production activities are concentrated in six main plants in Brazil, Belgium and France. Its worldwide-integrated distribution network is comprised of 18 service centers, 9 transformation facilities, and 22 sales offices including customer support.

The Company produces a broad range of stainless steel products and high value-added products including electrical steel (grain oriented, non-grain oriented and non-grain oriented semi-processed steel), nickel alloys and specialties. The Company sells its products in local markets to a diverse range of customers, including automotive, construction, catering, medicine, oil and gas, aerospace, industrial processes, electronics and electrical engineering.

Note 25 provides an overview of the Company’s principal operating subsidiaries.

##### **Basis of presentation**

The consolidated financial statements have been prepared on a historical cost basis, except for available for sale financial assets, derivative financial instruments and biological assets which are measured at fair value, and inventories, which are measured at the lower of net realizable value or cost. The consolidated financial statements as at and for year ended December 31, 2012 have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union (“IFRS”) and are presented in U.S. dollars with all amounts rounded to the nearest million, except for share and per share data.

Prior to its ownership of ArcelorMittal’s stainless steel and nickel alloys business, the Company did not have any other operations. Consequently, in the context of the listing of the Company’s shares, combined financial statements have been prepared as of and for the year ended December 31, 2010 in accordance with IFRS as adopted in the European Union.

The amounts presented as comparative figures in these consolidated financial statements as of December 31, 2010 and for the year then ended are those which were presented in the combined financial statements of the Company.

##### ***Adoption of new IFRS standards, amendments and interpretations applicable in 2012***

Unless otherwise indicated below, the following new standards, amended standards, or interpretations were adopted by the Company on January 1, 2012 and did not have a material impact on the consolidated financial statements of Aperam.

- Amendments to IFRS 7, “Financial Instruments: Disclosures”
- Amendments to IAS 12, “Income Taxes”

## Aperam

### Notes to Consolidated Financial Statements

(millions of U.S. dollars)

#### ***New IFRS standards and interpretations applicable from 2013 onward***

Unless otherwise indicated below, the Company does not expect the adoption of the following new standards, amended standards, or interpretations to have a significant impact on the consolidated financial statements of Aperam in future periods.

- IFRS 9, "Financial Instruments"

In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9 "Financial Instruments" as the first step in its project to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for classifying and measuring financial instruments, including:

- The replacement of the multiple classification and measurement models in IAS 39, "Financial Instruments: Recognition and Measurement" with a single model that has only two classification categories: amortized cost and fair value;
- The replacement of the requirement to separate embedded derivatives from financial asset hosts with a requirement to classify a hybrid contract in its entirety at either amortized cost or fair value; and
- The replacement of the cost exemption for unquoted equities and derivatives on unquoted equities with guidance on when cost may be an appropriate estimate of fair value.

This standard is effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company is in the process of assessing whether there will be any significant changes to its consolidated financial statements upon adoption.

- Amendments to IAS 1, "Presentation of Financial Statements"

Presentation of items of other comprehensive income (Amendments to IAS 1 – Presentation of Financial Statements), issued on June 16, 2011, introduces changes to the presentation of items of other comprehensive income. The amendments:

- Require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss;
- Do not change the existing option to present profit or loss and other comprehensive income in two statements; and
- Change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles.

These amendments are to be applied for annual periods beginning on or after July 1, 2012, with earlier application permitted.

- IFRS 10, "Consolidated Financial Statements"

IFRS 10 "Consolidated Financial Statements", published by the IASB in May 2011, uses control as the single basis for consolidation, irrespective of the nature of the investee, thus eliminating the risks and rewards approach included in SIC-12. IFRS 10 identifies the following three elements of control:

- Power over the investee;

**Notes to Consolidated Financial Statements**

**(millions of U.S. dollars)**

- Exposure, or rights, to variable returns from involvement with the investee; and
- The ability to use power over the investee to affect the amount of the investor's returns.

The Standard also contains guidance on additional issues that needs to be considered when determining who has control. This standard is effective for annual periods beginning on or after January 1, 2013.

- IFRS 11, "Joint Arrangements"

IFRS 11 "Joint Arrangements" published by the IASB in May 2011, establishes two types of joint arrangements: joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. IFRS 11 provides guidance on determining the type of joint arrangement.

A joint operator recognizes its share of the assets, liabilities, revenues and expenses in accordance with applicable IFRS, while a joint venturer would account for its interest using the equity method of accounting under IAS 28 (revised 2011) "Investments in Associates and Joint Ventures", thus eliminating the option of proportionate consolidation for interests in joint ventures.

This standard is effective for annual periods beginning on or after January 1, 2013.

- IFRS 12, "Disclosure of Interests in Other Entities"

IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure standard. Many of the disclosure requirements were previously included in IAS 27, IAS 28 or IAS 31, whilst others are new. This standard is effective for annual periods beginning on or after January 1, 2013.

- IFRS 13, "Fair Value Measurement"

IFRS 13 "Fair Value Measurement", published by the IASB in May 2011, replaces existing guidance on fair value measurement in different IFRS with a single definition of fair value, a framework for measuring fair value and disclosures about fair value measurements. This standard is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.

- IAS 27, "Separate financial statements"

IAS 27 has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements. Amendments are to be applied for annual periods beginning on or after January 1, 2013.

- IAS 28, "Investments in Associates and Joint Ventures"

IAS 28 has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11. Amendments are to be applied for annual periods beginning on or after January 1, 2013.

- Amendments to IAS 19, "Employee benefits"

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan

**Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a “net-interest” amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

The amendments to IAS 19 require retrospective application. Based on the Company’s preliminary assessment, if the company had applied the amendments to IAS 19 for the year ended December 31, 2012, the net loss for the year ended December 31, 2012 would be increased by 3. As of January 1, 2013 and following the adoption of the amendments of IAS 19, the unrecognized portion of the actuarial losses is recognized in other comprehensive loss for 28 with the corresponding adjustments being recognized in the retirement benefit obligation and income tax liability. These impacts reflect a number of adjustments, including their income tax effects such as:

- the full recognition of actuarial gains through other comprehensive income and decrease in the net pension deficit,
  - the immediate recognition of past service costs in profit or loss and an increase in the net pension deficit, and
  - the reversal of the difference between the gain arising from the expected rate of return on pension plan assets and the discount rate through other comprehensive income.
- IFRIC 20, “Stripping Costs in the Production Phase of a Surface Mine”

IFRIC 20, “Stripping Costs in the Production Phase of a Surface Mine” was issued on October 19, 2011 and will be applicable for years beginning on or after January 1, 2013, with early adoption permitted.

- On December 16, 2011, the IASB published amendments to IAS 32 “Financial Instruments: Presentation” to clarify the application of the offsetting of financial assets and financial liabilities requirement. The IASB also published amendments to IFRS 7 “Financial Instruments: Disclosures” including new disclosures requirements regarding the offsetting of financial assets and financial liabilities. These amendments are effective for annual periods beginning on or after January 1, 2014, and January 1, 2013, respectively.
- Annual Improvements to IFRSs 2009 – 2011 Cycle:

The “Annual Improvements to IFRSs 2009 – 2011 Cycle” issued in May 2012 and applicable for years beginning on or after January 1, 2013 include a number of amendments to various IFRSs:

- Amendments to IAS 1 “Presentation of Financial Statements”:

IAS 1 requires the presentation of an opening statement of financial position when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification. The amendments to IAS 1 clarify that:

- the opening statement of financial position is required only if: a change in accounting policy, a retrospective restatement, or a reclassification has a material effect upon the information;
- except for the disclosures required under IAS 8, notes related to the opening statement of financial position are no longer required.

- Amendments to IAS 16 “Property, Plant and Equipment”:

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

## **Aperam**

### **Notes to Consolidated Financial Statements**

**(millions of U.S. dollars)**

- Amendments to IAS 32 "Financial instruments: Presentation":

IAS 32 is amended to clarify that IAS 12 "Income taxes" applies to the accounting for income taxes relating to:

- o Distributions to holders of an equity instrument; and
- o Transaction costs of an equity transaction.

#### **Basis of consolidation**

The consolidated financial statements include the accounts of the Company, its subsidiaries, and its respective interest in associated companies. Subsidiaries are consolidated from the date of acquisition, which is considered the date the Company obtains control until the date control ceases. Control is defined as the power to govern the financial and operating policies of an entity, so as to obtain benefits derived from its activities. Generally, control is presumed to exist when the Company holds more than half of the voting rights.

Associated companies are those companies over which the Company has the ability to exercise significant influence on the financial and operating policy decisions, which are not operating subsidiaries. Generally, significant influence is presumed to exist when the Company holds more than 20% of the voting rights. In addition, jointly controlled entities are companies over whose activities the Company has joint control under a contractual agreement. The financial statements include the Company's share of the total recognized gains and losses of associates and jointly controlled entities on an equity accounted basis from the date that significant influence commences until the date significant influence ceases, adjusted for any impairment loss. Adjustments to the carrying amount may also be necessary for changes in the Company's proportionate interest in the investee arising from changes in the investee's equity that have not been recognized in the investee's profit or loss. The Company's share of those changes is recognized directly in equity.

Other investments are classified as available for sale and are stated at fair value when their fair value can be reliably measured. When fair value cannot be measured reliably, the investments are carried at cost less impairment.

While there are certain limitations on the Company's operating and financial flexibility arising from the restrictive and financial covenants of the Company's principal credit facilities described in Note 13, there are no significant restrictions resulting from borrowing agreements or regulatory requirements on the ability of consolidated subsidiaries, associates and jointly controlled entities to transfer funds to the parent in the form of cash dividends to pay commitments as they come due.

Intra-company balances and transactions, including income, expenses and dividends, are eliminated in the preparation of the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Company and are presented separately in the statement of operations and within equity in the consolidated statement of financial position.

#### **Reverse acquisition**

The spin-off of the stainless steel and nickel alloys business of ArcelorMittal on January 25, 2011 resulted in the transfer to the Company of the assets and liabilities pertaining to this business.

The transaction has been accounted for in 2011 as a reverse acquisition. The effect of the accounting treatment, as a result of the reverse acquisition, is that even though the consolidated financial statements are issued under the name of Aperam, they represent a continuation of the stainless steel and nickel alloys business of ArcelorMittal.

## **Aperam**

### **Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

#### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### ***Translation of financial statements denominated in foreign currency***

The functional currency of each of the major operating subsidiaries is the local currency. Transactions in currencies other than the functional currency of a subsidiary are recorded at the rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities in currencies other than the functional currency are re-measured at the rates of exchange prevailing at the statement of financial position date and the related transaction gains and losses are reported in the consolidated statement of operations. Non-monetary items that are carried at cost are translated using the rate of exchange prevailing at the date of the transaction. Non-monetary items that are carried at fair value are translated using the exchange rate prevailing when the fair value was determined and the related transaction gains and losses are reported in the consolidated statement of comprehensive income.

Upon consolidation, the results of operations of the Company's subsidiaries and associates whose functional currency is other than the U.S. dollar are translated into the U.S. dollar at the monthly average exchange rates and assets and liabilities are translated at the year-end exchange rates. Translation adjustments are recognized directly in other comprehensive income and are reclassified in income or loss in the statement of operations only upon sale or liquidation of the underlying foreign subsidiary or associate.

Exchange differences arising from the translation of the net investment in foreign subsidiaries at the year-end exchange rate are recorded as part of the shareholders' equity under "Foreign currency translation adjustments". When a foreign entity is sold, such exchange differences are recognized in the consolidated statement of operations as part of the gain or loss on sale.

##### ***Cash and cash equivalents***

Cash and cash equivalents consist of cash and short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less at the time of purchase and are carried at cost plus accrued interest, which approximates fair value.

##### ***Trade accounts receivable***

Trade accounts receivable are initially recorded at their fair value and do not bear interest. The Company maintains an allowance for doubtful accounts at an amount that it considers to be a sufficient estimate of losses resulting from the inability of its customers to make required payments. An allowance is recorded and charged to expense when an account is deemed to be uncollectible. In judging the adequacy of the allowance for doubtful accounts, the Company considers multiple factors including historical bad debt experience, the current economic environment and the aging of the receivables. Recoveries of trade receivables previously reserved in the allowance for doubtful accounts are recorded as gains in the statement of operations.

The Company's policy is to provide for all receivables outstanding over 180 days, because historical experience is such that receivables that are past due beyond 180 days are generally not recoverable. Trade receivables between 60 days and 180 days are provided for based on estimated unrecoverable amounts from the sale of goods and/or services, determined by reference to past default experience.

##### ***Inventories***

Inventories are carried at the lower of cost and net realizable value. Cost is determined using the first-in, first-out ("FIFO") method or average cost method. Costs of production in process and finished goods include the purchase costs of raw materials and conversion costs such as direct labor and an allocation of fixed and variable production overheads. Raw materials and spare parts are valued at cost inclusive of freight and shipping and handling costs. Net realizable value represents the estimated selling price at which the inventories can be realized in the normal course of business after allowing for the cost of conversion from their existing state to a finished condition and for the cost of marketing, selling, and distribution. Costs incurred when production levels are abnormally low are partially capitalized as inventories and partially recorded as a component of cost of sales in the statement of operations.



## **Aperam**

### **Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

#### ***Goodwill and bargain purchase***

The goodwill recorded by the Company includes an allocation of the goodwill arising from the acquisition of Arcelor by Mittal Steel on August 1, 2006. Goodwill arising on acquisitions subsequent to January 1, 2007 is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

Goodwill is allocated to those groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose and in all cases is at the operating segment level which represents the lowest level at which goodwill is monitored for internal management purposes. Goodwill is tested annually at the level of the groups of cash generating units which correspond to operating segments as of November 30 or whenever changes in circumstances indicate that the carrying amount may not be recoverable. Whenever the cash generating units comprising the operating segments are tested for impairment at the same time as goodwill, the cash generating units are tested first and any impairment of the assets is recorded prior to the testing of goodwill. The recoverable amounts of the cash generating units are determined from the higher of fair value less cost to sell or value in use calculations, as described below in the "Impairment of Tangible and Intangible Assets" section. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market rates for investments of similar risk. The growth rates are based on the Company's growth forecasts which are in line with industry trends. Changes in selling prices and direct costs are based on historical experience and expectations of future changes in the market.

Cash flow forecasts are derived from the most recent financial forecasts for the next five years. Beyond the specifically forecasted period, the Company extrapolates cash flows for the remaining years based on an estimated growth rate. This rate does not exceed the average long-term growth rate for the relevant markets. Once recognized, impairment losses recognized for goodwill are not reversed. On disposal of a subsidiary, any residual amount of goodwill is included in the determination of the profit or loss on disposal.

In a business combination in which the fair value of the identifiable net assets acquired exceeds the cost of the acquired business, the Company reassesses the fair value of the assets acquired. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess (bargain purchase) is recognized immediately in the statement of operations.

#### ***Intangible assets***

Intangible assets recorded by the Company include certain intangible assets acquired in connection with the acquisition of Arcelor by Mittal Steel on August 1, 2006. Intangible assets are recognized only when it is probable that the expected future economic benefits attributable to the assets will flow to the Company and the cost can be reliably measured. Intangible assets acquired separately by Aperam are initially recorded at cost and those acquired in a business combination are recorded at fair value. These primarily include the cost of technology and licenses purchased from third parties. Intangible assets are amortized on a straight-line basis over their estimated economic useful lives which typically are not to exceed five years. Amortization is included in the statement of operations as part of depreciation.

#### ***Biological assets***

The Company classifies eucalyptus plantations as biological assets. The purpose of such plantations is to produce charcoal to be used in its production process.

Biological assets are measured at fair value less cost to sell, with any change therein recognized in statement of operations. Costs to sell include all costs that would be necessary to sell the assets, including transportation costs.

## Aperam

### Notes to Consolidated Financial Statements

(millions of U.S. dollars)

#### ***Property, plant and equipment***

Property, plant and equipment is recorded at cost less accumulated depreciation and impairment. Cost includes professional fees and, for assets constructed by the Company, any related works to the extent that these are directly attributable to the acquisition or construction of the asset. Property, plant and equipment except land are depreciated using the straight-line method over the useful lives of the related assets which are presented in the table below. The Company reviews the residual value, the useful lives and the depreciation method of its property, plant and equipment at least annually.

<b>Asset Category</b>	<b>Useful Life Range</b>
Land.....	Not depreciated
Buildings .....	10 to 50 years
Steel plant equipment.....	15 to 30 years
Auxiliary facilities .....	15 to 30 years
Other facilities.....	5 to 20 years

Major improvements, which add to productive capacity or extend the life of an asset, are capitalized, while repairs and maintenance are charged to expense as incurred. Where a tangible fixed asset comprises major components having different useful lives, these components are accounted for as separate items.

Property, plant and equipment under construction are recorded as construction in progress until they are ready for their intended use; thereafter they are transferred to the related category of property, plant and equipment and depreciated over their estimated useful lives. Interest incurred during construction is capitalized. Gains and losses on retirement or disposal of assets are reflected in the statement of operations.

Property, plant and equipment acquired by way of finance leases are stated at an amount equal to the lower of the fair value and the present value of the minimum lease payments at the inception of the lease. Each lease payment is allocated between the finance charges and a reduction of the lease liability. The interest element of the finance cost is charged to the statement of operations over the lease period so as to achieve a constant rate of interest on the remaining balance of the liability.

The residual values and useful lives of property, plant and equipment are reviewed at each reporting date and adjusted if expectations differ from previous estimates. Depreciation methods applied to property, plant and equipment are reviewed at each reporting date and changed if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset.

#### ***Investment in associates and other entities***

Investments in associates, in which the Company has the ability to exercise significant influence, are accounted for under the equity method. The investment is carried at the cost at the date of acquisition, adjusted for the Company's share in undistributed earnings or losses since acquisition, less dividends received and impairment.

Any excess of the cost of the acquisition over the Company's share of the net fair value of the identifiable assets, liabilities, and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included in the carrying amount of the investment and is evaluated for impairment as part of the investment.

The Company reviews all of its investments in associates at each reporting date to determine whether there is an indicator that the investment may be impaired. If objective evidence indicates that the investment is impaired, the Company calculates the amount of the impairment of the investments as being the difference between the higher of the fair value less costs to sell or its value in use and its carrying value. The amount of any impairment is included in the overall income from investments in associated companies in the statement of operations.

Investments in other entities, over which the Company and/or its operating subsidiaries do not have the ability to exercise significant influence and have a readily determinable fair value, are accounted for at fair

## **Aperam**

### **Notes to Consolidated Financial Statements**

**(millions of U.S. dollars)**

value with any resulting gain or loss included in equity. To the extent that these investments do not have a readily determinable fair value, they are accounted for under the cost method.

#### ***Deferred employee benefits***

Defined contribution plans are those plans where the Company pays fixed contributions to an external life insurance or pension fund for certain categories of employees. Contributions are paid in return for services rendered by the employees during the period. They are expensed as they are incurred in line with the treatment of wages and salaries. No provisions are established in respect of defined contribution plans, as they do not generate future commitments for the Company.

Defined benefit plans are those plans that provide guaranteed benefits to certain categories of employees, either by way of contractual obligations or through a collective agreement. For defined benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date. Actuarial gains and losses that exceed ten per cent of the greater of the present value of the Company's defined benefit obligation and the fair value of plan assets at the end of the prior year are amortized over the expected average remaining working lives of the participating employees.

The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Voluntary retirement plans primarily correspond to the practical implementation of social plans or are linked to collective agreements signed with certain categories of employees. Early retirement plans are those plans that primarily correspond to terminating an employee's contract before the normal retirement date. Early retirement plans are considered effective when the affected employees have formally been informed and when liabilities have been determined using an appropriate actuarial calculation. Liabilities relating to the early retirement plans are calculated annually on the basis of the effective number of employees likely to take early retirement and are discounted using an interest rate which corresponds to that of highly-rated bonds that have maturity dates similar to the terms of the Company's early retirement obligations. Termination benefits are provided in connection with voluntary separation plans. The Company recognizes a liability and expense when it has a detailed formal plan which is without realistic possibility of withdrawal and the plan has been communicated to employees or their representatives.

Other long-term employee benefits include various plans that depend on the length of service, such as long service and sabbatical awards, disability benefits and long term compensated absences such as sick leave. The amount recognized as a liability is the present value of benefit obligations at the statement of financial position date, and all changes in the provision (including actuarial gains and losses or past service costs) are recognized in the statement of operations.

#### ***Provisions and accruals***

Aperam recognizes provisions for liabilities and probable losses that have been incurred when it has a present legal or constructive obligation as a result of past events and it is probable that the Company will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financing cost. Provisions for onerous contracts are recorded in the statement of operations when it becomes known that the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Provisions for restructuring relate to the estimated costs of initiated reorganizations that have been approved by the Aperam Management Committee, and which involve the realignment of certain parts of the industrial and commercial organization. When such reorganizations require discontinuance and/or closure of lines or activities, the anticipated costs of closure or discontinuance are included in restructuring provisions. A liability is recognized for those costs only when the Company has a detailed formal plan for the restructuring

## **Aperam**

### **Notes to Consolidated Financial Statements**

**(millions of U.S. dollars)**

and has raised a valid expectation with those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

#### ***Environmental costs***

Environmental costs that relate to current operations are expensed or capitalized as appropriate. Environmental costs that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation or cost reduction, are expensed. Liabilities are recorded when environmental assessments and or remedial efforts are probable and the cost can be reasonably estimated based on ongoing engineering studies, discussions with the environmental authorities and other assumptions relevant to the nature and extent of the remediation that may be required. The ultimate cost to the Company is dependent upon factors beyond its control such as the scope and methodology of the remedial action requirements to be established by environmental and public health authorities, new laws or government regulations, rapidly changing technology and the outcome of any potential related litigation. Environmental liabilities are discounted if the aggregate amount of the obligation and the amount and timing of the cash payments are fixed or reliably determinable.

#### ***Income taxes***

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of operations because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted as of the statement of financial position date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the taxable temporary difference arises from the initial recognition of goodwill or if the differences arise from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

During a portion of the periods presented, certain Aperam entities did not file separate income tax returns as these entities were included in a tax consolidation along with other ArcelorMittal entities within the

## Aperam

### Notes to Consolidated Financial Statements

(millions of U.S. dollars)

pertinent tax jurisdiction. The income tax provision included in the combined financial statements was calculated on a separate return basis as if the Company was a separate taxpayer except for tax operating losses surrendered to the lead entity in the tax consolidation and not indemnified for which no benefit has been recorded. See additional discussion in Note 17.

#### **Financial instruments**

##### *Derivative financial instruments*

See critical accounting judgments.

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

Non-derivative financial instruments include cash and cash equivalents, trade and other receivables, investments in equity securities, trade and other payables and debt and other liabilities. These instruments are recognized initially at fair value when the Company becomes a party to the contractual provisions of the instrument. They are derecognized if the Company's contractual rights to the cash flows from the financial instruments expire or if the Company transfers the financial instruments to another party without retaining control or substantially all risks and rewards of the instruments.

The Company classifies its investments in equity securities that have readily determinable fair values as available-for-sale which are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale equity securities are reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a first-in, first-out basis.

Debt and liabilities, other than provisions, are stated at amortized cost. However, loans that are hedged under a fair value hedge are re-measured for the changes in the fair value that are attributable to the risk that is being hedged.

##### *Impairment of financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Estimated future cash flows are determined using various assumptions and techniques, including comparisons to published prices in an active market and discounted cash flow projections using projected growth rates, weighted average cost of capital, and inflation rates. In the case of available-for-sale securities, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognized in the statement of operations is removed from equity and recognized in the statement of operations.

If objective evidence indicates that cost-method investments need to be tested for impairment, calculations are based on information derived from business plans and other information available for estimating their value in use. Any impairment loss is charged to the statement of operations. An impairment loss related to financial assets is reversed if and to the extent there has been a change in the estimates used to determine the recoverable amount. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized. Reversals of impairment are recognized in the statement of operations except for reversals of impairment of available-for-sale equity securities, which are recognized in other comprehensive income.

#### **Emission rights**

The Company's industrial sites which are regulated by the European Directive 2003/87/EC of October 13, 2003 on carbon dioxide emission rights, effective as of January 1, 2005, are located in Belgium and France. The emission rights allocated to the Company on a no-charge basis pursuant to the annual national allocation plan are recorded in the statement of financial position at nil and purchased emission rights

## **Aperam**

### **Notes to Consolidated Financial Statements**

**(millions of U.S. dollars)**

are recorded at cost. If, at the date of the statement of financial position, the Company is short of emission rights, it will record a provision through the statement of operations.

#### ***Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns and other similar allowances.

Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, no longer retains control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### ***Shipping and handling costs***

The Company records amounts billed to a customer in a sale transaction for shipping and handling costs as sales and the related shipping and handling costs incurred as cost of sales.

#### ***Financing costs***

Financing costs include interest income and expense, amortization of discounts or premiums on borrowings, amortization of costs incurred in connection with the arrangement of borrowings, and unrealized gains and losses on foreign exchange and raw material derivative contracts.

#### ***Equity settled share-based payments***

Aperam issues equity-settled share-based payments consisting in restricted share units to key employees of the Company. Prior the spin-off, ArcelorMittal issued equity-settled share-based payments consisting in stock options to certain Aperam employees. Equity-settled share-based payments issued to Aperam employees are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded vesting basis over the vesting period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. For the restricted share units, the fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line method over the vesting period and adjusted for the effect of non market-based vesting conditions.

#### ***Segment reporting***

Operating segments are components of the Company that engage in business activities from which they may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Company), for which discrete financial information is available and whose operating results are evaluated regularly by the Chief Operating Decision Maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance.

In conjunction with the spin-off, Aperam management identified the Chief Executive Officer and Chief Financial Officer of the Company as its CODM, which is the individual or body of individuals responsible for the allocation of resources and assessment of performance of the operating segments. The newly identified CODM began managing the business according to three operating segments: Stainless & Electrical Steel, Alloys & Specialties and Services & Solutions.

These segments include attributable goodwill, intangible assets, property, plant and equipment, and equity method investments. They do not include other investments, other non-current receivables, cash and short-term deposits, short-term investments, tax assets, and other current financial assets. Segment liabilities are also those resulting from the normal activities of the segment, excluding tax liabilities and indebtedness but including post retirement obligations where directly attributable to the segment. Financing items are

## Aperam

### Notes to Consolidated Financial Statements

(millions of U.S. dollars)

managed centrally for the Company as a whole and so are not directly attributable to individual operating segments.

Geographical information is separately disclosed and represents the Company's most significant regional markets. Attributed assets are operational assets employed in each region and include items such as pension balances that are specific to a country. Attributed assets exclude attributed goodwill, deferred tax assets, other investments or other non-current receivables and other non-current financial assets. Attributed liabilities are those arising within each region, excluding indebtedness. Financing items are managed centrally for the Company as a whole and so are not directly attributable to individual geographical areas.

#### ***Critical accounting judgments***

The critical accounting judgments and significant assumptions made by management in the preparation of these financial statements are provided below.

##### *Deferred Tax Assets*

The Company records deferred tax assets and liabilities based on the differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases. Deferred tax assets are also recognized for the estimated future effects of tax losses carried forward. The Company reviews the deferred tax assets in the different jurisdictions in which it operates periodically to assess the possibility of realizing such assets based on projected taxable profit, the expected timing of the reversals of existing temporary differences, the carry forward period of temporary differences and tax losses carried forward and the implementation of tax-planning strategies.

Note 17 describes the total deferred tax assets recognized in the consolidated statements of financial position. As of December 31, 2012, the amount of future income required to recover the Company's deferred tax assets was approximately 866 at certain operating subsidiaries.

##### *Deferred Employee Benefits*

The Company's operating subsidiaries have different types of pension plans for their employees. Also, some of the operating subsidiaries offer other post-employment benefits. The expense associated with these pension plans and post-employment benefits, as well as the carrying amount of the related liability/asset on the statement of financial position is based on a number of assumptions and factors such as discount rates, expected rate of compensation increase, expected return on plan assets, mortality rates and retirement rates.

- Discount rates. The discount rate is based on several high quality corporate bond indexes in the appropriate jurisdictions (rated AA or higher by a recognized rating agency). Nominal interest rates vary worldwide due to exchange rates and local inflation rates.
- Rate of compensation increase. The rate of compensation increase reflects actual experience and the Company's long-term outlook, including contractually agreed upon wage rate increases for represented hourly employees.
- Expected return on plan assets. The expected return on plan assets is derived from detailed periodic studies, which include a review of asset allocation strategies, anticipated long-term performance of individual asset classes, risks (standard deviations), and correlations of returns among the asset classes that comprise the plans' asset mix.
- Mortality and retirement rates. Mortality and retirement rates are based on actual and projected plan experience.

In accordance with IFRS, actuarial gains or losses resulting from experience and changes in assumptions are recognized in the Company's statement of operations only if the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of the defined benefit obligation at that date and 10% of the fair value of any plan asset at that date. The fraction exceeding 10% is then recognized over the expected average remaining working lives of the employees participating in the plans.

## Aperam

### Notes to Consolidated Financial Statements

(millions of U.S. dollars)

Note 21 details the net liabilities of pension plans and other post-employment benefits including a sensitivity analysis illustrating the effects of changes in assumptions.

#### *Legal, Environmental and Other Contingencies*

The Company may be involved in litigation, arbitration or other legal proceedings. Most of these claims involve highly complex issues, actual damages and other matters. Often these issues are subject to substantial uncertainties and, therefore, the probability of loss and an estimation of damages are difficult to ascertain. These assessments can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions. The Company's assessments are based on estimates and assumptions that have been deemed reasonable by management. The Company recognizes a liability for contingencies when it is more likely than not that the Company will sustain a loss and the amount can be estimated.

The Company is subject to changing and increasingly stringent environmental laws and regulations concerning air emissions, water discharges and waste disposal, as well as certain remediation activities that involve the clean-up of soil and groundwater. The Company recognizes a liability for environmental remediation when it is more likely than not that such remediation will be required and the amount can be estimated.

The estimates of loss contingencies for environmental matters and other contingencies are based on various judgments and assumptions including the likelihood, nature, magnitude and timing of assessment, remediation and/or monitoring activities and the probable cost of these activities. In some cases, judgments and assumptions are made relating to the obligation or willingness and ability of third parties to bear a proportionate or allocated share of cost of these activities, including third parties who sold assets to the Company or purchased assets from the Company subject to environmental liabilities. The Company also considers, among other things, the activity to date at particular sites, information obtained through consultation with applicable regulatory authorities and third-party consultants and contractors and its historical experience with other circumstances judged to be comparable. Due to the numerous variables associated with these judgments and assumptions, and the effects of changes in governmental regulation and environmental technologies, both the precision and reliability of the resulting estimates of the related contingencies are subject to substantial uncertainties. As estimated costs to remediate change, the Company will reduce or increase the recorded liabilities through credits or charges in the statement of operations. The Company does not expect these environmental issues to affect the utilization of its plants, now or in the future.

#### *Impairment of Tangible and Intangible Assets*

##### *Tangible and Intangible Assets*

At each reporting date, the Company reviews whether there is any indication that the carrying amounts of its tangible and intangible assets (excluding goodwill) may not be recoverable through continuing use. If any such indication exists, the recoverable amount of the asset is reviewed in order to determine the amount of the impairment, if any. The recoverable amount is the higher of its net selling price (fair value reduced by selling costs) and its value in use.

In assessing its value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. The cash generating unit is the smallest identifiable group of assets corresponding to operating units that generate cash inflows. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, an impairment loss is recognized. An impairment loss is recognized as an expense immediately as part of operating income in the statement of operations.

In the case of permanently idled assets, the impairment is measured at the individual asset level on the basis of salvage value. Otherwise, it is not possible to estimate the recoverable amount of the individual asset because the cash flows are not independent from that of the cash generating unit to which it belongs. Accordingly, the Company's assets are measured for impairment at the cash generating unit level. In certain instances, the cash generating unit is an integrated manufacturing facility which may also be an operating



## Aperam

### Notes to Consolidated Financial Statements

(millions of U.S. dollars)

subsidiary. Furthermore, a manufacturing facility may be operated together with another facility with neither facility generating cash flows that are largely independent from the cash flows of the other. In this instance, the two facilities are combined for purposes of testing for impairment. As of December 31, 2012, the Company had determined it has six cash generating units.

An impairment loss recognized in prior years is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. However, the increased carrying amount of an asset due to a reversal of an impairment loss will not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately as part of operating income in the statement of operations.

#### *Goodwill*

With respect to goodwill, the recoverable amounts of the groups of cash generating units are determined from the higher of its net selling price (fair value reduced by selling costs) or its value in use calculations, as described above. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market rates for investments of similar risk. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on historical experience and expectations of future changes in the market.

Cash flow forecasts are derived from the most recent financial budgets for the next five years. Beyond the specifically forecasted period, the Company extrapolates cash flows for the remaining years based on an estimated growth rate. This rate does not exceed the average long-term growth rate for the relevant markets. Once recognized, impairment losses recognized for goodwill are not reversed.

#### *Derivative financial instruments*

The Company enters into derivative financial instruments principally to manage its exposure to fluctuation in exchange rates and prices of raw materials and energy. Derivative financial instruments are classified as current assets or liabilities based on their maturity dates and are accounted for at trade date. Embedded derivatives are separated from the host contract and accounted for separately if required by IAS 39, "Financial Instruments: Recognition and Measurement". The Company measures all derivative financial instruments based on fair values derived from market prices of the instruments or from option pricing models, as appropriate. See Note 14 for analysis of the Company's sensitivity to changes in certain of these inputs. Gains or losses arising from changes in the fair value of derivatives are recognized in the statement of operations, except for derivatives that are highly effective and qualify for cash flow hedge accounting.

The effective portion of changes in the fair value of a derivative that is designated and that qualifies as a cash flow hedge are recorded in other comprehensive income. Amounts deferred in other comprehensive income are recorded in the statement of operations in the periods when the hedged item is recognized in the statement of operations and within the same line item. Any ineffective portion of changes in the fair value of the derivative is recognized directly in the statement of operations.

The Company formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When a hedging instrument is sold, terminated, expires or is exercised the cumulated unrealized gain or loss on the hedging instrument is maintained in equity until the forecasted transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealized gain or loss, which had been recognized in equity, is reported immediately in the statement of operations.

For instruments not accounted for as cash flow hedges, gains or losses arising from changes in fair value of derivatives and gains or losses realized upon settlement of derivatives are recognized in the statement of operations.

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

### Use of estimates

The preparation of financial statements in conformity with IFRS recognition and measurement principles and, in particular, making the aforementioned critical accounting judgments require the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on an ongoing basis using currently available information. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates.

### NOTE 3: TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable and allowance for doubtful accounts are as follows:

	December 31,		
	2012	2011	2010 Combined
Gross amount .....	344	405	420
Allowance for doubtful accounts .....	(14)	(14)	(15)
Total .....	330	391	405

See Note 12 for information regarding trade accounts receivable from related parties.

Before accepting any new customer, the Company requests a credit limit authorization from credit insurance companies or uses an internally developed credit scoring system to assess the potential customer's credit quality and to define credit limits by customer. For all significant customers, the credit terms must be approved by relevant credit committees. Limits and scoring attributed to customers are reviewed periodically. There are no customers who represent more than 10% of the total balance of trade accounts receivable.

Included in the Company's trade accounts receivable balance are debtors with a carrying amount of 275, 331 and 377 as of December 31, 2012, 2011 and 2010, respectively, which were not past due at the reporting date.

The amount of receivables pledged as collateral was 98, 83 and nil as of December 31, 2012, 2011 and 2010, respectively. Pledges mainly aim at securing the borrowing base revolving credit facility entered into by the Company as described in Note 13.

### Exposure to credit risk by operating segment

The maximum exposure to credit risk for trade accounts receivable by operating segment is:

	December 31,		
	2012	2011	2010 Combined
Stainless & Electrical Steel .....	155	171	191
Alloys & Specialties .....	28	47	42
Services & Solutions .....	146	172	172
Others .....	1	1	—
Total .....	330	391	405

**Aperam**

**Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

*Exposure to credit risk by geography*

The maximum exposure to credit risk for trade accounts receivable by geographical area is:

	December 31,		
	2012	2011	2010 Combined
Europe .....	188	245	254
North America .....	22	27	22
South America .....	117	115	126
Asia .....	3	4	3
Total .....	330	391	405

*Aging of trade accounts receivable*

The aging of trade accounts receivable is as follows:

	December 31,					
	2012		2011		2010 Combined	
	Gross	Allowance	Gross	Allowance	Gross	Allowance
Not past due .....	275	—	331	(1)	377	(1)
Past due 0-30 days .....	43	—	51	—	24	—
Past due 31-60 days .....	5	—	7	—	2	—
Past due 61-90 days .....	2	—	1	—	1	—
Past due 91-180 days .....	5	(1)	1	—	3	(1)
More than 180 days .....	14	(13)	14	(13)	13	(13)
Total .....	344	(14)	405	(14)	420	(15)

The movement in the allowance for doubtful accounts in respect of trade accounts receivable during the year is as follows:

Balance as of December 31, 2009 Combined	Additions	Deductions/Releases	Other Movements (primarily exchange rate changes)	Balance as of December 31, 2010 Combined
25	3	(13)	—	15
Balance as of December 31, 2010 Combined	Additions	Deductions/Releases	Other Movements (primarily exchange rate changes)	Balance as of December 31, 2011
15	5	(5)	(1)	14
Balance as of December 31, 2011	Additions	Deductions/Releases	Other Movements (primarily exchange rate changes)	Balance as of December 31, 2012
14	4	(4)	—	14

The Company has established sales without recourse of trade accounts receivable program with financial institutions, referred to as True Sales of Receivables ("TSR"). The amount of the Aperam facility available for the Company represented €250 million, €200 million and €250 million as of December 31, 2012, 2011 and 2010, respectively. Through the TSR program, certain operating subsidiaries of Aperam surrender control, risks and the benefits associated with the accounts receivable sold. Therefore, the amount of receivables sold is recorded as a sale of financial assets and the balances are removed from the statement of financial position at the moment of the sale. The amounts of receivables sold under the TSR program and derecognized in accordance with IAS 39 for the years ended December 31, 2012, 2011 and 2010 were

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

\$1.7 billion, \$1.7 billion and \$1.7 billion, respectively. Expenses incurred under the TSR program (reflecting the discount granted to the acquirers of the accounts receivable) are recognized in the consolidated statement of operations as financing costs and amounted to 10, 19 and 11 in 2012, 2011 and 2010, respectively.

### NOTE 4: INVENTORIES

Inventory, net of allowance for slow-moving inventory, excess of cost over net realizable value and obsolescence of 124, 139, and 140 as of December 31, 2012, 2011 and 2010, respectively, is comprised of the following (there are no inventories which are carried at fair value less cost to sell):

	December 31,		
	2012	2011	2010 Combined
Finished products .....	524	505	543
Production in process .....	399	435	620
Raw materials .....	158	182	193
Manufacturing supplies, spare parts and other .....	146	140	140
Total .....	1,227	1,262	1,496

The amount of inventory pledged as collateral was 748, 639 and 27 as of December 31, 2012, 2011 and 2010, respectively. Pledges mainly aim at securing the borrowing base revolving credit facility entered into by the Company as described in Note 13.

The movement in the allowance for obsolescence is as follows:

Balance as of December 31, 2009 Combined	Additions	Deductions/Releases	Other Movements (primarily exchange rate changes)	Balance as of December 31, 2010 Combined
149	79	(80)	(8)	140
Balance as of December 31, 2010 Combined	Additions	Deductions/Releases	Other Movements (primarily exchange rate changes)	Balance as of December 31, 2011
140	63	(56)	(8)	139
Balance as of December 31, 2011	Additions	Deductions/Releases	Other Movements (primarily exchange rate changes)	Balance as of December 31, 2012
139	47	(64)	2	124

The amount of write-down of inventories to net realizable value recognized as an expense was 47, 63 and 79 in 2012, 2011 and 2010, respectively, and was reduced by 64, 56 and 80 in 2012, 2011 and 2010, respectively, due to normal inventory consumption.

### NOTE 5: PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	December 31,		
	2012	2011	2010 Combined
Amounts receivable under cash pooling arrangements with ArcelorMittal .....	—	—	646
Value-added tax (VAT) and other amount receivable from tax authorities .....	66	76	114
Income tax receivable .....	14	12	10
Other .....	54	57	56
Total .....	134	145	826

**Aperam**

**Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

**NOTE 6: GOODWILL AND INTANGIBLE ASSETS**

Goodwill and intangible assets consist of the following:

	Goodwill on acquisition	Customer relationships, trade marks & technology	Concessions, patents and licenses	Total
<b>Cost</b>				
At December 31, 2009 (Combined).....	852	283	101	1,236
Acquisitions.....	—	—	2	2
Foreign exchange differences .....	(27)	(4)	—	(31)
Transfers and other movements.....	—	1	1	2
At December 31, 2010 (Combined).....	825	280	104	1,209
<b>Accumulated amortization and impairment losses</b>				
At December 31, 2009 (Combined).....	—	105	86	191
Disposals .....	—	—	1	1
Amortization charge.....	—	24	5	29
Foreign exchange differences .....	—	(2)	1	(1)
At December 31, 2010 (Combined).....	—	127	93	220
<b>Carrying amount</b>				
At December 31, 2010 (Combined).....	825	153	11	989
<b>Cost</b>				
At December 31, 2010 (Combined).....	825	280	104	1,209
Acquisitions.....	—	—	3	3
Foreign exchange differences .....	(59)	(19)	(10)	(88)
Transfers and other movements.....	—	(1)	16	15
At December 31, 2011.....	766	260	113	1,139
<b>Accumulated amortization and impairment losses</b>				
At December 31, 2010 (Combined).....	—	127	93	220
Amortization charge.....	—	26	7	33
Impairment.....	—	3	—	3
Foreign exchange differences .....	—	(10)	(11)	(21)
At December 31, 2011.....	—	146	89	235
<b>Carrying amount</b>				
At December 31, 2011.....	766	114	24	904
<b>Cost</b>				
At December 31, 2011.....	766	260	113	1,139
Acquisitions.....	—	—	6	6
Disposals .....	—	—	(2)	(2)
Foreign exchange differences .....	(22)	(6)	(5)	(33)
Transfers and other movements.....	—	—	5	5
At December 31, 2012.....	744	254	117	1,115
<b>Accumulated amortization and impairment losses</b>				
At December 31, 2011.....	—	146	89	235
Disposals .....	—	—	(2)	(2)
Amortization charge.....	—	23	7	30
Foreign exchange differences .....	—	(3)	(4)	(7)
At December 31, 2012.....	—	166	90	256
<b>Carrying amount</b>				
At December 31, 2012.....	744	88	27	859

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

As a result of the acquisition of Arcelor by Mittal Steel on August 1, 2006, associated goodwill, intangible assets, and certain fair value adjustments were recorded.

The Company identified three operating segments. As a result, goodwill acquired in business combinations was allocated to these operating segments based on the relative fair values of the operating segments. Goodwill is allocated as follows to each of the Company's operating segments:

	Net value December 31, 2011	Foreign exchange differences	Net value December 31, 2012
Stainless & Electrical Steel	654	(24)	630
Alloys & Specialties	26	1	27
Services & Solutions	86	1	87
<b>TOTAL</b>	<b>766</b>	<b>(22)</b>	<b>744</b>

Goodwill is reviewed at the Group of cash-generating unit ("GCGU") level for impairment annually or whenever changes in circumstances indicate that its carrying amount may not be recoverable. For 2012, goodwill was tested at the GCGU level for impairment as of November 30. The GCGU is at the operating segment level of Aperam. The recoverable amounts of the GCGUs are determined based on their value in use. The Company determined to calculate value in use for purposes of its impairment testing and, accordingly, did not determine the fair value of the GCGUs as the carrying value of the GCGUs was lower than their value in use. The key assumptions for the value in use calculations are primarily the pre-tax discount rates, the terminal growth rate and the expected changes to raw material margin, shipments and added costs during the period. The impairment tests did not result in impairment for any periods presented in these consolidated financial statements.

The value in use of the GCGUs was determined by estimating cash flows for a period of five years, giving due consideration to the cyclical nature of the industry in which each GCGU operates. Assumptions for raw material margin and shipments were based on historical experience and expectations of future changes in the market. Cash flow forecasts were derived from the most recent financial plans approved by management.

Beyond the specifically forecasted period of five years, the Company extrapolated cash flows for the remaining years based on an estimated constant growth rate of 2%. This rate did not exceed the average long-term growth rate for the relevant markets.

When estimating shipments for purposes of the 2012 impairment test, the Company used a growth rate of 1% in Europe and 3% in South America over the next 5 years. Those estimates were determined on the basis of the analysis of the markets where the Company is active in as well as on the basis of projections provided by external sources.

When estimating raw material margin for purposes of the 2012 impairment test, the Company used a stable ratio of raw material margin compared to sales over the next 5 years.

The nickel price estimate for the next 5 years was determined on the basis of forecasts published by the Metal Bulletin.

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

Management estimated discount rates using pre-tax rates that reflected current market rates for investments of similar risk. The discount rate for the GCGUs was estimated from the weighted average cost of capital of producers which operate a portfolio of assets similar to those of the Company's assets.

	<b>Stainless &amp; Electrical Steel</b>	<b>Alloys &amp; Specialties</b>	<b>Services &amp; Solutions</b>
GCGU weighted average pre-tax discount rate used in 2010 (in %)	13.0	12.6	13.3
GCGU weighted average pre-tax discount rate used in 2011 (in %)	13.1	11.4	13.3
GCGU weighted average pre-tax discount rate used in 2012 (in %)	13.6	16.5	14.9

When estimating GCGU's average selling price for the purpose of 2012 impairment test, the Company used a range ("Stainless Base Price 304 Germany") of assumptions between €1,176 per ton in 2013 to a maximum of €1,183 per ton in 2015.

The results of the goodwill impairment test as of November 30, 2010, 2011 and 2012 for each GCGU did not result in an impairment of goodwill as the value in use exceeded the carrying value of the GCGU.

In validating the value in use determined for the GCGU, key assumptions used in the discounted cash-flow model (such as discount rates, raw material margins, shipments and terminal growth rate) were sensitized to test the resilience of value in use. Management believes that reasonably possible changes in key assumptions would cause an impairment loss to be recognized in respect of Stainless & Electrical Steel and Services & Solutions operating segments.

	<b>Stainless &amp; Electrical Steel</b>	<b>Services &amp; solutions</b>
Recoverable amount	3,616	474
Carrying amount	3,412	451
Excess of recoverable amount over carrying amount	204	23

The following changes in key assumptions in projected cash flows in every year of the initial five-year period, assuming unchanged values for the other assumptions, would cause the recoverable amount to equal the respective carrying value;

	<b>Stainless &amp; Electrical Steel</b>	<b>Services &amp; solutions</b>
Increase in pre-tax discount rate (change in basis points)	68 bps	70 bps
Decrease in terminal growth rate used for the years beyond the five-year plan (change in basis points)	65 bps	62 bps
Decrease in shipments (change in %)	2.3 %	1.5 %
Decrease in raw material margin (change in %)	2.3 %	1.5 %
Increase in added costs (change in %)	1.6 %	0.9 %

In addition, the Company analyzed the sensitivity of the estimated recoverable amounts to the reasonable expected changes in assumptions, assuming unchanged values for the other assumptions:

- For the Stainless & Electrical Steel GCGU, reasonable expected changes in excess of the changes outlined above in relation to shipments, raw material margin and fixed costs would result in a directly proportional decrease in the GCGU's recoverable amount. Reasonable expected changes comprising of a 100 basis point increase in the pre-tax discount rate or a 100 basis point decrease in the terminal growth rate would result in decreases in the GCGU's recoverable amount of 292 or 303 respectively.

- For the Services & Solutions GCGU, reasonable expected changes in excess of the changes outlined above in relation to shipments, raw material margin and fixed costs would result in a directly proportional decrease in the GCGU's recoverable amount. Reasonable expected changes comprising of a

## **Aperam**

### **Notes to Consolidated Financial Statements**

**(millions of U.S. dollars)**

100 basis point increase in the pre-tax discount rate or a 100 basis point decrease in the terminal growth rate would result in decreases in the GCGU's recoverable amount of 32 or 35 respectively.

The analysis did not result in other scenarios whereby a reasonable possible change in the aforementioned key assumptions would result in a recoverable amount for the GCGU which is inferior to the carrying value.

#### ***Research and development costs***

Research and development costs not meeting the criteria for capitalization are expensed and included in selling, general and administrative expenses within the consolidated statement of operations. These costs amounted to 20, 18 and 21 in the years ended December 31, 2012, 2011 and 2010, respectively. There were no research and development costs capitalized during any of the periods presented.



# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

### NOTE 7: BIOLOGICAL ASSETS

Biological assets movements are summarized as follows:

Balance at January 1, 2010 (Combined).....	—
Additions.....	—
Change in fair value.....	—
Harvested trees.....	—
Foreign exchange differences .....	—
At December 31, 2010 (Combined).....	<u>—</u>
Balance at January 1, 2011.....	—
Full consolidation of Aperam BioEnergia (note 9).....	157
Additions.....	7
Change in fair value.....	37
Harvested trees.....	(26)
Foreign exchange differences .....	(30)
At December 31, 2011.....	<u>145</u>
Balance at January 1, 2012.....	145
Additions.....	14
Change in fair value.....	30
Harvested trees.....	(43)
Foreign exchange differences .....	(11)
At December 31, 2012.....	<u>135</u>

#### *Forest reserves*

The total area of 126 thousand hectares is composed of eucalyptus forest reserves in Brazil. These areas are managed by Aperam BioEnergia that provides planting, lumber harvesting and coal production services.

#### *Biological assets*

The Company's biological assets comprise the cultivation and planting of eucalyptus forests in order to supply raw materials for the production of charcoal. As of December 31, 2012, the Company had 22,234 hectares of planted areas at harvest point, not considering the permanent preservation areas and legal reserve to be maintained to comply with the Brazilian environmental law.

The Company recognizes its biological assets at fair value in accordance with the following assumptions:

- i) Eucalyptus forests are recorded at historical cost through their sixth year, based on the Management's understanding that during this period the historical cost of biological assets approximates their fair values. The cutting plan of the forests maintained by the Company varies between 6 and 7 years;
- ii) After the sixth year, eucalyptus forests are measured at fair value, which reflects the sales price of the agricultural produce less costs required to make a product saleable or consumable;
- iii) The prices of biological assets, denominated in BRL/cubic meter, are obtained through market price surveys.

**Aperam**

**Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

**NOTE 8: PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are summarized as follows:

	<b>Machinery and equipment</b>	<b>Land, buildings and improvements</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost</b>				
At December 31, 2009 (Combined) .....	2,957	992	93	4,042
Additions .....	30	2	76	108
Foreign exchange differences .....	(110)	(34)	(1)	(145)
Disposals .....	—	(10)	—	(10)
Other movements .....	52	7	(51)	8
At December 31, 2010 (Combined) .....	2,929	957	117	4,003
<b>Accumulated depreciation and impairment</b>				
At December 31, 2009 (Combined) .....	756	93	—	849
Depreciation charge for the year .....	215	49	—	264
Impairment .....	24	—	—	24
Disposals .....	—	(2)	—	(2)
Foreign exchange differences .....	(46)	(7)	—	(53)
Other movements .....	4	—	—	4
At December 31, 2010 (Combined) .....	953	133	—	1,086
<b>Carrying amount</b>				
At December 31, 2010 (Combined) .....	1,976	824	117	2,917
<b>Cost</b>				
At December 31, 2010 (Combined) .....	2,929	957	117	4,003
Full consolidation of Aperam BioEnergia (note 9) .....	54	9	15	78
Additions .....	32	2	121	155
Foreign exchange differences .....	(173)	(61)	(17)	(251)
Disposals .....	(35)	(2)	—	(37)
Other movements .....	57	25	(72)	10
At December 31, 2011 .....	2,864	930	164	3,958
<b>Accumulated depreciation and impairment</b>				
At December 31, 2010 (Combined) .....	953	133	—	1,086
Full consolidation of Aperam BioEnergia (note 9) .....	27	4	—	31
Depreciation charge for the year .....	215	51	—	266
Impairment .....	1	—	—	1
Disposals .....	(19)	—	—	(19)
Foreign exchange differences .....	(55)	(11)	—	(66)
Other movements .....	(2)	2	—	—
At December 31, 2011 .....	1,120	179	—	1,299
<b>Carrying amount</b>				
At December 31, 2011 .....	1,744	751	164	2,659
<b>Cost</b>				
At December 31, 2011 .....	2,864	930	164	3,958
Additions .....	25	2	120	147
Foreign exchange differences .....	(34)	(17)	(1)	(52)
Disposals .....	(145)	(22)	—	(167)
Other movements .....	177	52	(212)	17
At December 31, 2012 .....	2,887	945	71	3,903
<b>Accumulated depreciation and impairment</b>				
At December 31, 2011 .....	1,120	179	—	1,299
Depreciation charge for the year .....	208	45	—	253
Impairment .....	23	4	—	27
Disposals .....	(142)	(10)	—	(152)
Foreign exchange differences .....	1	(2)	—	(1)
Other movements .....	(3)	6	—	3
At December 31, 2012 .....	1,207	222	—	1,429
<b>Carrying amount</b>				
At December 31, 2012 .....	1,680	723	71	2,474

## **Aperam**

### **Notes to Consolidated Financial Statements**

**(millions of U.S. dollars)**

Other movements represent mostly transfers between the categories and changes in the consolidation scope.

In 2012, 2011 and 2010, various idle assets were written down to their salvage value as a decision was made to cease all future use. Accordingly, an impairment loss of 27, 1 and 24 was recognized as an expense as part of operating result in the consolidated statement of operations for the years ended December 31, 2012, 2011 and 2010, respectively. The carrying amount of these assets was nil at December 31, 2012, 2011 and 2010. The impairment loss of 27 recorded in 2012 consisted primarily of damaged assets in the accidental fire that occurred in Aperam Stainless France's Gueugnon plant for 14, and in idle assets at Aperam Stainless Belgium and Aperam South America for 7 and 6, respectively. The impairment loss of 1 and 24 recorded in 2011 and 2010, respectively, consisted primarily of Company's facilities in Aperam Stainless France. Aperam Stainless France, Aperam South America and Aperam Stainless Belgium are included in the Stainless & Electrical Steel segment. As of December 31, 2012, 2011 and 2010, temporarily idle assets included in the Stainless & Electrical Steel segment were 25, 18 and 28, respectively. There were no temporarily idle assets included in the other segments as of any of the periods presented.

During the year ended December 31, 2012 and in conjunction with its testing of goodwill for impairment, the Company analyzed the recoverable amount of its property, plant and equipment. Property, plant and equipment were tested at the Cash Generating Unit ("CGU") level. In certain instances, the CGU is an integrated manufacturing facility which may also be an operating subsidiary. Furthermore, a manufacturing facility may be operated together with another facility, with neither facility generating cash flows that are largely independent from the cash flows in the other. In this instance, the two facilities are combined for purposes of testing for impairment. As of December 31, 2012, the Company had determined it has six CGUs. The recoverable amounts of the CGUs are determined based on value in use calculation and follow similar assumptions as those used for the test on impairment for goodwill.

The Company estimated discount rates using pre-tax rates that reflect current market rates for investments of similar risk. The rate for each CGU was estimated from the weighted average cost of capital of producers which operate a portfolio of assets similar to those of Aperam's assets. Aside from the impairments described above where a decision was made to cease all future use, no impairment of property, plant and equipment was recorded for any of the years ended December 31, 2012, 2011 and 2010.

The carrying amount of property, plant and equipment includes 18, 20 and 25 of finance leases as of December 31, 2012, 2011 and 2010, respectively. The carrying amount of these finance leases is included in machinery and equipment.

These finance lease arrangements are mainly related to equipment in Brazil for a carrying amount of 5 and which can be purchased at the end of the remaining leasing period of 1 year for an amount of 4 and to equipment related to the scrap and slab yard in Belgium for a carrying amount of 13 which can be purchased for their book value at the end of the remaining leasing period.

No property, plant and equipment was pledged in 2012, 2011 and 2010.

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

### NOTE 9: INVESTMENTS IN ASSOCIATES

The Company had the following investments in associates:

Investee	Location	Ownership % at December 31, 2012	Net asset value at December 31, 2012	Net asset value at December 31, 2011	Net asset value at December 31, 2010 Combined
BlueSky Amercoeur <sup>(6)</sup> .....	Belgium	18.5%	2	2	—
ArcelorMittal BioEnergia <sup>(7)</sup> .....	Brazil	—	—	—	152
Total .....			<u>2</u>	<u>2</u>	<u>152</u>

<sup>(1)</sup> Aperam with five other electricity intensive users in Belgium has developed a solution with Electrabel to cover part of their energy supply within the BlueSky consortium. On November 4, 2011, the consortium members incorporated Blue Sky Amercoeur as a cooperative company under Belgian law.

<sup>(2)</sup> On November 1, 2010, the Company and ArcelorMittal Brasil signed a letter of intent under which the parties agreed to distribute to ArcelorMittal Brasil the assets and liabilities of ArcelorMittal BioEnergia related to the operations supporting ArcelorMittal Brasil in exchange for shares of ArcelorMittal BioEnergia held by ArcelorMittal Brasil. On July 1, 2011, this transaction was completed and Aperam BioEnergia (previously ArcelorMittal BioEnergia) became a wholly-owned consolidated subsidiary of the Company.

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

### NOTE 10: OTHER INVESTMENTS

The Company holds the following other investments:

	Location	Ownership % at December 31, 2012	Fair value December 31,		
			2012	2011	2010 Combined
Available-for-sale securities (at fair value)					
General Moly Inc.....	U.S.	9.04%	33	26	54
Gerdau S.A. ....	Brazil	0.53%	80	70	123
Investments accounted for at cost					
Exeltium S.A.S.....	France	2.05%	5	—	—
Other .....			2	2	4
Total .....			120	98	181

The change in fair value of available-for-sale securities for the period was recorded directly in equity (other comprehensive income) as an unrealized gain or loss, net of income tax, of 18, (59) and (9) for the years ended December 31, 2012, 2011 and 2010, respectively.

On December 30, 2010, Gerdau, the controlling shareholder of Aços Villares, in which Aperam, through its subsidiary Aperam South America, held a 4.41% stake, completed a squeeze-out for the remaining non-controlling interest and absorbed its subsidiary. The revaluation reserve relating to Aços Villares amounting to 120 was recycled to the statement of operations in 2010.

On February 20, 2012, the Company acquired 35,818 shares in Exeltium S.A.S. from ArcelorMittal, representing a 2.05% stake, for an amount of 5, recorded at cost. Exeltium is a consortium bringing together a number of "electro-intensive" European industrials to secure electricity supply of industrial sites in France.

On September 28, 2012, shares of the Company's investment in Gerdau, were pledged as security for the new 50 secured bank loan described in note 13.

### NOTE 11: OTHER ASSETS

Other assets consisted of the following:

	December 31,		
	2012	2011	2010 Combined
Cash guarantees and deposits .....	56	48	48
Tax indemnification from ArcelorMittal Bioflorestas.....	18	22	—
Long-term receivables from sale of tangible assets.....	7	9	—
Long-term VAT receivables .....	21	9	7
Other financial assets .....	11	11	11
Total .....	113	99	66

**Aperam**

**Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

**NOTE 12: BALANCES AND TRANSACTIONS WITH RELATED PARTIES**

Transactions with related parties, including associates of the Company, were as follows:

		Year Ended December 31,			December 31,		
		2010			2010		
Transactions	Category	2012	2011	Combined	2012	2011	Combined
		Sales			Included in Trade accounts receivable		
ArcelorMittal Group.....	Other	150	180	194	8	17	23
Total.....		150	180	194	8	17	23

		Year Ended December 31,			December 31,		
		2010			2010		
Transactions	Category	2012	2011	Combined	2012	2011	Combined
		Purchases of raw material & others			Included in Trade accounts payable		
ArcelorMittal Group.....	Other	139	269	1,165	18	28	179
BlueSky Amercoeur (note 9) .....	Associate	18	—	—	3	—	—
Total.....		157	269	1,165	21	28	179

The table above includes purchases of raw materials and energy from related parties as follows:

	Year Ended December 31,		
	2010		
	2012	2011	Combined
Raw materials .....	41	214	889
Energy supply contracts .....	81	10	172

As detailed in the table below, the costs primarily associated with certain corporate functions performed by ArcelorMittal amounted to nil, nil and 11 for the years ended December 31, 2012, 2011 and 2010, respectively. These amounts include nil, nil and 3 attributable to key management personnel (see Note 24).

	Year Ended December 31,		
	2010		
	2012	2011	Combined
Finance .....	—	—	4
Board of Directors/General management.....	—	—	3
Information Technology .....	—	—	1
Internal assurance .....	—	—	1
Corporate Communication.....	—	—	1
Human Resources .....	—	—	1
<b>Total .....</b>	<b>—</b>	<b>—</b>	<b>11</b>

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

Transactions with related parties also include the following:

	December 31,		
	2012	2011	2010 Combined
Tax indemnification from ArcelorMittal Bioflorestas—current and non current (note 11) .....	21	27	—
Prepaid expenses and other current assets .....	5	4	—
Receivables from cash pooling arrangements (note 5) .....	—	—	646
Payables from cash pooling arrangements .....	—	—	538
Derivative financial instruments—assets (note 14) .....	—	4	22
Derivative financial instruments—liabilities (note 14) .....	3	6	9
Short term debt (note 13) .....	—	—	300
Long term debt (note 13) .....	—	—	812
Cash and cash equivalents (*) .....	—	133	—
Accrued interest payable to ArcelorMittal subsidiaries .....	—	—	8
Amounts payable to ArcelorMittal subsidiaries for research and development services .....	—	—	5
Selling, General and administrative .....	11	11	—
Interest expense .....	—	22	100
Interest income .....	—	1	1

(\*) Since March 2012, Aperam had no longer cash pooling transaction with ArcelorMittal.

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated in consolidation and are not disclosed in this note.

Refer to Note 24 for disclosure of transactions with key management personnel.

The above mentioned transactions between Aperam and the respective entities were conducted on an arm's length basis.

### NOTE 13: SHORT-TERM AND LONG-TERM DEBT

Short-term debt, including the current portion of long-term debt, consisted of the following:

	December 31,		
	2012	2011	2010 Combined
Short-term bank loans and other credit facilities .....	407	498	563
Current portion of long-term debt .....	19	35	332
Lease obligations .....	9	5	5
<b>Total .....</b>	<b>435</b>	<b>538</b>	<b>900</b>

#### *800 secured borrowing base revolving credit facility*

On March 16, 2011, the Company entered into an 800 secured borrowing base revolving credit facility with a group of lenders. The facility is structured as a 3-year revolving credit facility. It is used for liquidity and working capital purposes including the repayment of part of the financing provided by ArcelorMittal.

As of December 31, 2012, 325 was outstanding under this facility.

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

Long-term debt is comprised of the following as of December 31:

	Year of maturity	Type of Interest	Interest rate <sup>(1)</sup>	2012	2011	2010 Combined
250 unsecured bonds	2016	Fixed	7.375%	247	246	—
250 unsecured bonds	2018	Fixed	7.750%	246	245	—
Loans in Brazil Fixed/Floating	2014-2021	Fixed/Floating	2.50%-8.70%	67	89	133
50 secured bank loan	2014	Floating	3.46%	49	—	—
€17 million loan	2013	Floating	—	—	23	—
Other loans	2014-2015	Fixed	5.01%-13.25%	6	4	—
Loans from governmental institutions	—	Nil	—	—	—	6
900 credit facility	—	Fixed	—	—	—	777
€200 million loan	—	Floating	—	—	—	267
€100 million credit facility	—	Floating	—	—	—	27
ArcelorMittal Treasury Loans	—	Floating	—	—	—	33
<b>Total</b>				<b>615</b>	<b>607</b>	<b>1,243</b>
Less current portion of long-term debt				19	35	332
Total long-term debt (excluding lease obligations)				596	572	911
Lease obligations <sup>(2)</sup>				11	15	21
<b>Total long-term debt, net of current portion</b>				<b>607</b>	<b>587</b>	<b>932</b>

(1) Rates applicable to balances outstanding at December 31, 2012.

(2) Net of current portion of 9, 5 and 5 on December 31, 2012, 2011 and 2010, respectively.

### 50 secured bank loan

On September 28, 2012, the Company signed a 2-year 50 secured bank loan which bear interest at a rate of US\$ Libor plus 310 basis point per annum. As at December 31, 2012, shares of the Company's investment in Gerdau, representing a carrying value of 80, were pledged as security.

### €17 million loan

On September 27, 2011, Aperam signed a €17 million bilateral credit facility agreement. The facility is due on September 2013 and has therefore been reclassified into short term debt as at December 31, 2012.

### Unsecured Bonds

On March 30, 2011, the Company issued 500 principal amount of unsecured fixed rated bonds in two tranches, in a private placement in the international capital markets. The first tranche of 250 bears interest at 7.375% and is due April 1, 2016 and the second tranche of 250 bears interest at 7.75% and is due April 1, 2018. Interests are payable semi-annually on April 1 and October 1 of each year commencing on October 1, 2011.

The net proceeds of this offering have been used to repay part of outstanding amounts under the company's 900 bridge loan facility with ArcelorMittal.

### 900 credit facility, €200 million loan, €100 million credit facility and ArcelorMittal Treasury loans

On January 25, 2011, as part of the spin-off, the outstanding amounts under the following loan agreements with ArcelorMittal have been assigned to Aperam: 900 credit facility (777), €200 million loan (267), €100 million credit facility (27) and ArcelorMittal Treasury loans of PLN 100 million (33). As part of the spin-off, these facilities have been replaced by a 900 364-days bridge loan from ArcelorMittal. This 900 bridge loan with ArcelorMittal was reimbursed with the proceeds of the 500 unsecured bonds described above and 400 drawn from the 800 secured borrowing base revolving credit facility.



**Aperam**

**Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

Scheduled maturities of long-term debt including lease obligations are as follows:

	December 31, 2012
2013.....	28
2014.....	75
2015.....	17
2016.....	257
2017.....	9
Subsequent years.....	249
Total.....	<u>635</u>

The following table presents the structure of the Company's debt and cash in original currencies:

		In USD equivalent as of December 31, 2012				
	Total USD	EUR	USD	BRL	Other	
Short-term debt and current portion of long-term debt .....	435	29	340	64	2	
Long-term debt .....	607	13	562	30	2	
Cash .....	226	134	21	62	9	

		In USD equivalent as of December 31, 2011			
	Total USD	EUR	USD	BRL	Other
Short-term debt and current portion of long-term debt.....	538	9	483	41	5
Long-term debt .....	587	23	518	32	14
Cash .....	247	156	42	49	—

		In USD equivalent as of December 31, 2010 Combined				
	Total USD	EUR	USD	BRL	Other	
Short-term debt and current portion of long-term debt .....	900	800	30	29	41	
Long-term debt .....	932	15	817	64	36	
Cash .....	120	38	51	28	3	

As a part of the Company's overall risk and cash management strategies, several loan agreements have been swapped from their original currencies to other foreign currencies.

At the reporting date the carrying amount and fair value of the Company's interest-bearing financial instruments was:

	December 31,					
	2012		2011		2010 Combined	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Instruments payable bearing interest at fixed rates .....	527	482	525	447	789	1,014
Instruments payable bearing interest at variable rates.....	108	103	102	101	480	504

Notes to Consolidated Financial Statements

(millions of U.S. dollars)

**NOTE 14: FINANCIAL INSTRUMENTS AND CREDIT RISK**

The Company utilizes financial derivative instruments to manage its exposure to fluctuations in exchange rates, commodity prices, and energy arising from operating, financing and investment activities.

***Fair values versus carrying amounts***

The estimated fair values of certain financial instruments have been determined using available market information or other valuation methodologies that require considerable judgment in interpreting market data and developing estimates.

Cash and cash equivalents, restricted cash, short term investments and trade receivables are included in the "Loans and receivables" category, which is measured at amortized cost. Prepaid expenses and other current assets include derivative instruments of 5, 4 and 22 as of December 31, 2012, 2011 and 2010, respectively. These derivatives instruments are classified as "Financial assets at fair value through profit or loss". Other investments are classified as "Available-for-sale" with gains or losses arising from changes in fair value recognized in other comprehensive income. Other assets are classified as "Financial assets at fair value through profit or loss".

Except for derivative financial instruments, which are classified as "Financial liabilities at fair value through profit or loss", financial liabilities are classified as "Financial liabilities measured at amortized cost". Accrued expenses and other liabilities include derivative financial instruments amounting to (8), (6) and (9) as of December 31, 2012, 2011 and 2010, respectively. Other long-term obligations include derivative financial instruments amounting to nil, (2) and nil as of December 31, 2012, 2011 and 2010, respectively.

Net gains and losses recognized in the statement of operations on derivative instruments amounted to (15), (11) and 30 for the years ended December 31, 2012, 2011 and 2010, respectively, of which:

- Unrealized gains (losses), which are included in financial income and expense, which were 3, (7) and 2 (see Note 16) for the years ended December 31, 2012, 2011 and 2010, respectively;
- Realized gains (losses) which were (18), (4) and 28 for the years ended December 31, 2012, 2011 and 2010, respectively.

The Company's short and long-term debt consists of debt instruments which bear interest at fixed rates and variable rates tied to market indicators. The fair value of fixed rate debt is based on estimated future cash flows, which are discounted using current market rates for debt with similar remaining maturities and credit spreads. See Note 13 for disclosures of the carrying amount and fair value of the Company's variable rate debt.

The following table summarizes the bases used to measure certain assets and liabilities at their fair value as of December 31, 2012. Assets and liabilities carried at fair value have been classified into three levels based upon a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The levels are as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Significant inputs other than within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: Inputs for the assets or liabilities that are not based on observable market data and require management assumptions or inputs from unobservable markets. The Company did not have any assets or liabilities classified as Level 3.

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

	Level 1	Level 2	Total
<b>Assets at fair value:</b>			
Available-for-sale financial assets .....	113	—	113
Derivative financial assets .....	—	5	5
Total assets at fair value .....	<u>113</u>	<u>5</u>	<u>118</u>
<b>Liabilities at fair value</b>			
Derivative financial liabilities .....	—	8	8
Total liabilities at fair value .....	<u>—</u>	<u>8</u>	<u>8</u>

Available-for-sale financial assets classified as Level 1 refer to listed securities quoted in active markets. The total fair value is either the price of the most recent trade at the time of the market close or the official close price as defined by the exchange on which the asset is most actively traded on the last trading day of the period, multiplied by the number of units held without consideration of transaction costs.

Derivative financial assets and liabilities classified as Level 2 refer to instruments to hedge fluctuations in interest rates, foreign exchange rates, commodity prices (base metals), and energy. The total fair value is based on the price a dealer would pay or receive for the security or similar securities, adjusted for any terms specific to that asset or liability. Market inputs are obtained from well established and recognized vendors of market data (Bloomberg and Reuters) and the fair value is calculated using standard industry models based on significant observable market inputs such as foreign exchange rates, commodity prices, swap rates, and interest rates.

### Portfolio of Derivatives

The Company's portfolio of derivatives consists of transactions with Aperam Treasury (ArcelorMittal Treasury until January 25, 2011), which in turn enters into offsetting positions with counterparties external to Aperam. Aperam manages the counterparty risk associated with its instruments by centralizing its commitments and by applying procedures which specify, for each type of transaction exposure limits based on the risk characteristics of the counterparty.

The portfolio associated with derivative financial instruments as of December 31, 2012 is as follows:

	Assets		Liabilities	
	Notional Amount	Fair Value	Notional Amount	Fair Value
<b>Foreign exchange rate instruments</b>				
Forward purchase contracts .....	14	—	19	—
Forward sale contracts .....	87	—	28	—
Total foreign exchange rate instruments .....		<u>—</u>		<u>—</u>
<b>Raw materials (base metal), energy</b>				
Term contracts sales metals .....	33	1	8	—
Term contracts purchases metals .....	71	4	115	(8)
Total raw materials (base metal), energy .....		<u>5</u>		<u>(8)</u>
Total .....		<u>5</u>		<u>(8)</u>

## Aperam

### Notes to Consolidated Financial Statements

(millions of U.S. dollars)

The portfolio associated with derivative financial instruments as of December 31, 2011 is as follows:

	Assets		Liabilities	
	Notional Amount	Fair Value	Notional Amount	Fair Value
<b>Foreign exchange rate instruments</b>				
Forward purchase contracts .....	4	—	4	—
Forward sale contracts.....	1	—	30	(2)
Total foreign exchange rate instruments .....		—		(2)
<b>Raw materials (base metal)</b>				
Term contracts sales.....	6	1	10	—
Term contracts purchases .....	77	3	67	(6)
Total raw materials (base metal).....		4		(6)
Total .....		4		(8)

The portfolio associated with derivative financial instruments as of December 31, 2010 is as follows:

	Assets		Liabilities	
	Notional Amount	Fair Value	Notional Amount	Fair Value
<b>Foreign exchange rate instruments</b>				
Forward purchase contracts .....	168	5	176	(3)
Forward sale contracts.....	147	3	117	(4)
Total foreign exchange rate instruments .....		8		(7)
<b>Raw materials (base metal)</b>				
Term contracts sales.....	2	—	28	(2)
Term contracts purchases .....	136	14	14	—
Total raw materials (base metal).....		14		(2)
Total .....		22		(9)

#### Exchange rate risk

The Company is exposed to fluctuations in foreign exchange rates due to a substantial portion of the Company's assets, liabilities, sales and earnings being denominated in currencies other than the U.S. dollar (its presentation currency). These currency fluctuations, especially the fluctuation of the value of the U.S. dollar relative to the Euro, Brazilian real, as well as fluctuations in the other countries' currencies in which the Company has significant operations and/or sales, could have a material impact on its results of operations.

Following its Treasury and Financial Risk Management Policy, the Company hedges its net exposure to exchange rates through spot and derivative transactions.

#### Liquidity Risk

The Company's principal sources of liquidity are cash generated from its operations, bank credit lines and various working capital credit lines at its operating subsidiaries. The levels of cash, credit lines and debt are closely monitored and appropriate actions are taken in order to manage the maturity profile and currency mix.

**Aperam**

**Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

December 31, 2012						
	Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 Years	2-5 Years	More than 5 Years
<b>Non-derivative financial liabilities</b>						
Debt over 100.....	(818)	(991)	(366)	(37)	(332)	(256)
Trade and other payables.....	(950)	(950)	(950)	—	—	—
Other non-derivative financial liabilities.....	(224)	(241)	(120)	(79)	(40)	(2)
Total.....	<u>(1,992)</u>	<u>(2,182)</u>	<u>(1,436)</u>	<u>(116)</u>	<u>(372)</u>	<u>(258)</u>
<b>Derivative financial liabilities</b>						
Foreign exchange contracts.....	—	—	—	—	—	—
Other commodities contracts.....	(8)	(8)	(8)	—	—	—
Total.....	<u>(8)</u>	<u>(8)</u>	<u>(8)</u>	<u>—</u>	<u>—</u>	<u>—</u>
December 31, 2011						
	Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 Years	2-5 Years	More than 5 Years
<b>Non-derivative financial liabilities</b>						
Debt over 100.....	(891)	(1,091)	(442)	(37)	(353)	(259)
Trade and other payables.....	(846)	(846)	(846)	—	—	—
Other non-derivative financial liabilities.....	(234)	(247)	(144)	(64)	(35)	(4)
Total.....	<u>(1,971)</u>	<u>(2,184)</u>	<u>(1,432)</u>	<u>(101)</u>	<u>(388)</u>	<u>(263)</u>
<b>Derivative financial liabilities</b>						
Foreign exchange contracts.....	(2)	(2)	(1)	(1)	—	—
Other commodities contracts.....	(6)	(6)	(5)	(1)	—	—
Total.....	<u>(8)</u>	<u>(8)</u>	<u>(6)</u>	<u>(2)</u>	<u>—</u>	<u>—</u>
December 31, 2010						
	Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 Years	2-5 Years	More than 5 Years
<b>Non-derivative financial liabilities</b>						
Debt over 100.....	(1,044)	(1,447)	(335)	(78)	(586)	(448)
Trade and other payables.....	(942)	(942)	(942)	—	—	—
Other non-derivative financial liabilities.....	(788)	(825)	(649)	(74)	(90)	(12)
Total.....	<u>(2,774)</u>	<u>(3,214)</u>	<u>(1,926)</u>	<u>(152)</u>	<u>(676)</u>	<u>(460)</u>
<b>Derivative financial liabilities</b>						
Foreign exchange contracts.....	(7)	(7)	(6)	(1)	—	—
Other commodities contracts.....	(2)	(2)	(2)	—	—	—
Total.....	<u>(9)</u>	<u>(9)</u>	<u>(8)</u>	<u>(1)</u>	<u>—</u>	<u>—</u>

**Cash flow hedges**

The following table presents the periods in which cash flows hedges are expected to mature:

December 31, 2012					
(outflows)/inflows					
Carrying amount	3 months and less	3-6 months	6-12 months	1-2 years	More than 2 years
Commodities.....	4	2	1	1	—
Total.....	<u>4</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>—</u>

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

The following table presents the periods in which cash flows hedges are expected to impact the statement of operations:

	December 31, 2012					
		(expense)/income				
	Carrying amount	3 months and less	3-6 months	6-12 months	1-2 years	More than 2 years
Commodities.....	4	2	1	1	—	—
Total .....	4	2	1	1	—	—

### Raw materials and energy

The Company utilizes derivative instruments such as forwards, swaps and options to manage its exposure to commodity and energy prices both through the purchase of commodities and energy and through sales contracts.

Fair values of raw material and energy instruments are as follows:

	At December 31,		
	2012	2011	2010 Combined
Base metals .....	(3)	(2)	12
Total .....	(3)	(2)	12
Assets associated with raw material and energy .....	5	4	14
Liabilities associated with raw material and energy .....	(8)	(6)	(2)
Total .....	(3)	(2)	12

The Company consumes large amounts of commodities (mainly nickel), the price of which is related to the London Metals Exchange price index and energy (the prices of which are related to the New York Mercantile Exchange index, the Intercontinental Exchange index and the Powernext index). The Company is exposed to price volatility in respect of its purchases in the spot market and under its long-term supply contracts.

### Sensitivity analysis

#### Foreign currency sensitivity

The following table details the Company's sensitivity as it relates to derivative financial instruments to a 10% variation of the U.S. dollar against the other currencies to which the Company is exposed. The sensitivity analysis does not include non-derivative foreign currency-denominated monetary items. A positive number indicates an increase in statement of operations where a negative number indicates a decrease in statement of operations and other equity.

	December 31, 2012	December 31, 2011	December 31, 2010 Combined
10% appreciation in U.S. dollar .....	2	(2)	7
10% depreciation in U.S. dollar .....	(2)	2	(7)

**Aperam**

**Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

*Cash flow sensitivity analysis for variable rate instruments*

The following table details the Company's sensitivity to a change of 100 basis points ("bp") variation in interest rates. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

December 31, 2012			
	Rate Instrument	Interest Rate Swaps/Forward Rate Agreements	Cash Flow Sensitivity (net)
100 bp increase .....	(4)	—	(4)
100 bp decrease .....	4	—	4

December 31, 2011			
	Rate Instrument	Interest Rate Swaps/Forward Rate Agreements	Cash Flow Sensitivity (net)
100 bp increase .....	(4)	—	(4)
100 bp decrease .....	4	—	4

December 31, 2010 (Combined)			
	Rate Instrument	Interest Rate Swaps/Forward Rate Agreements	Cash Flow Sensitivity (net)
100 bp increase .....	(9)	—	(9)
100 bp decrease .....	9	—	9

*Base metals*

The following table details the Company's sensitivity to a 10% variation in the prices of base metals. The sensitivity analysis includes un-matured base metal derivative instruments.

	December 31, 2012		December 31, 2011		December 31, 2010 Combined	
	Income	Other Equity Cash Flow Hedging Reserves	Income	Other Equity Cash Flow Hedging Reserves	Income	Other Equity Cash Flow Hedging Reserves
+10% in prices Base Metals .....	9	5	7	6	6	7
-10% in prices Base Metals .....	(9)	(5)	(7)	(6)	(6)	(7)

## **Aperam**

### **Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

#### **NOTE 15: EQUITY**

On September 9, 2010, the Company's subscribed share capital was fixed in the sum of \$40,000 represented by 4,000 shares without par value.

On December 6, 2010, the Company's subscribed share capital was converted from USD into EUR (€31,000). The Company's authorized share capital, including the issued capital, was increased to €450,031,000 represented by 85,854,303 shares without nominal value.

On January 25, 2011, the Company allotted the 78,045,730 newly issued shares without par value as fully paid up to the shareholders of ArcelorMittal S.A. in proportion of their holding of ArcelorMittal S.A. shares based on the exchange ratio set out in the spin-off proposal.

#### ***Capital transactions with ArcelorMittal***

There were no capital transactions with ArcelorMittal in 2012.

Capital transactions with ArcelorMittal amounted to 33 in 2011 and mainly included the reversal of amounts payables related to allocations of expenses from ArcelorMittal.

Capital transactions with ArcelorMittal amounted to 55 in 2010 and mainly included the contribution by ArcelorMittal of 98 with respect to the capital increase of 73 in Aperam Stainless Services & Solutions Tubes Europe and 25 in Aperam Stainless Services & Solutions Precision.

The change in ArcelorMittal's net investment in the consolidated statements of cash flows amounted to nil in 2012 and 2011.

The change in ArcelorMittal's net investment in the combined statements of cash flows amounted to 98 in 2010 and included the cash inflow of 73 and 25 on the capital increase of Aperam Stainless Services & Solutions Tubes Europe and Aperam Stainless Services & Solutions Precision as mentioned above.

#### ***Dividends***

Certain entities within the scope of the Company's consolidated financial statements historically owned by ArcelorMittal entities which are not in the scope of the Company's consolidated financial statements paid dividends between January 1, 2010 and December 31, 2011. These dividend payments have been maintained in the consolidated financial statements and treated as distributions by the Company.

On January 21, 2011, the Company announced that subject to legal and regulatory requirements being met, Aperam's dividend payment of \$0.75 per share will be applicable after the spin-off. As at December 31, 2011, dividend payments of 14, 16, 13 and 16 (\$0.1875 per share per quarter) were made on March 30, 2011, June 14, 2011, September 12, 2011 and December 12, 2011, respectively.

On May 8, 2012, the annual general meeting approved the dividend payment at \$0.75 per share. As at December 31, 2012, quarterly dividend payments of 15, 14, 15 and 15 (\$0.1875 per share per quarter) were made on March 13, 2012, June 14, 2012, September 10, 2012 and December 10, 2012.

On February 4, 2013, the Company announced that the Board of Directors will submit to a shareholder's vote, at the next annual general meeting, a proposal to stop the dividend payment.

#### ***Stock Option Plans***

For historical reasons, certain of the Company's employees participate in stock-based compensation plans sponsored by ArcelorMittal. These plans provide employees with stock or options to purchase stock in ArcelorMittal. Given that the Company's employees directly benefit from participation in these plans, the expense incurred by ArcelorMittal for options granted to its employees has been reflected in the Company's consolidated statements of operations as selling, general and administrative. The compensation expense



## Aperam

### Notes to Consolidated Financial Statements

(millions of U.S. dollars)

recognized for stock option plans was 1, 3 and 4 for each of the years ended December 31, 2012, 2011 and 2010, respectively.

During the year 2010 and 2011, certain employees were transferred from ArcelorMittal to the Company. These beneficiaries increased the number of options outstanding.

The fair values for options and other share-based compensation is recorded as an expense in the consolidated statement of operations over the relevant vesting or service periods, adjusted to reflect actual and expected levels of vesting. The fair value of each option grant to purchase ArcelorMittal common shares was estimated on the date of grant using the Black-Scholes option pricing model.

For the years ended December 31, 2012, 2011 and 2010, the amount of outstanding options was 661,909, 843,681 and 896,079 respectively. The amount of exercisable options was 605,942, 684,604 and 523,805 respectively for the years ended December 31, 2012, 2011 and 2010.

Exercise prices of ArcelorMittal stock options vary from \$27.31 to \$78.44. Weighted average contractual life of the options varies from 0.5 to 7.6 years.

#### *Share Unit Plan*

On July 12, 2011, the ordinary general meeting of shareholders approved an equity-based incentive plan to key employees of Aperam. The plan comprises a Restricted Share Unit Plan ("RSU Plan") and a Performance Share Unit Plan ("PSU Plan") designed to incentivize the targeted employees, to improve the long-term performance of the Company and to retain key employees. Both the RSU Plan and the PSU Plan are intended to promote the alignment of interests between the company's shareholders and eligible employees by allowing them to participate in the success of the Company.

The aim of the RSU Plan is to provide a retention incentive to eligible employees. RSUs shall vest in full on the three year anniversary of the date on which the award was granted contingent upon the continued active employment of the employee within the Group. The RSUs are an integral part of the Company's remuneration framework in which it serves the specific objective of medium-term and long-term retention.

The maximum number of RSUs and PSUs available for grant during any given year is subject to the prior approval of the Company's shareholders at the annual general meeting.

For the period from the July 12, 2011 general shareholders' meeting to the annual general meeting of shareholders held on May 8, 2012, a maximum of 70,000 RSUs and 20,000 PSUs might be allocated to qualifying employees under the RSU Plan and the PSU Plan, respectively. In November 2011, a total of 59,750 shares under the RSU Plan were granted to a total of 28 employees. In March 2012, a total of 14,250 PSU were granted to senior management of the Company.

For the period from the May 8, 2012 general shareholders' meeting to the annual general meeting of shareholders to be held in May 2013, a maximum of 70,000 RSUs and 20,000 PSUs may be allocated to qualifying employees under the RSU Plan and the PSU Plan, respectively. At the date of this report, no RSUs and PSUs have been granted to senior management of the Company.

The fair value of the shares allocated to the beneficiaries is recorded as an expense in the consolidated statements of operations over the relevant vesting or service periods. The compensation expense recognized for the restricted stock units was below 1 and below 1 for the year ended December 31, 2012 and 2011, respectively.

**Aperam**

**Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

**NOTE 16: FINANCIAL INCOME AND EXPENSE**

Financial income and expense recognized in the years ended December 31, 2012, 2011 and 2010 is as follows:

	2012	2011	2010 Combined
<b>Recognized in the statement of operations</b>			
Interest income .....	3	3	9
Interest expense .....	(76)	(73)	(116)
Result on disposal of financial assets .....	—	(1)	120
Unrealized gains (losses) on derivative instruments .....	3	(7)	2
Impairment of financial assets .....	—	(1)	—
Net foreign exchange result .....	(5)	(30)	6
Others .....	7	(45)	(21)
<b>Total interest expense and other net financing costs .....</b>	<b>(71)</b>	<b>(157)</b>	<b>(9)</b>
<b>Recognized in the statement of comprehensive income (Company share)</b>			
Net change in fair value of available-for-sale financial assets .....	18	(59)	(9)
Effective portion of changes in fair value of cash flow hedge .....	—	(9)	5
Foreign currency translation differences for foreign operations .....	(103)	(281)	(78)
<b>Total .....</b>	<b>(85)</b>	<b>(349)</b>	<b>(82)</b>

The result on disposal of financial assets of 120 in 2010 includes the exchange of 217,837,295 Aços Villares shares into 9,076,554 Gerdau shares on December 30, 2010.

Others include mainly financing costs.

Unrealized gains and losses on derivative instruments are mainly related to the fair value adjustments of raw material financial instruments hedging the purchases of nickel and do not qualifying for hedge accounting.

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

### NOTE 17: INCOME TAX

#### *Income tax benefit*

The breakdown of the income tax benefit for each of the years ended December 31, 2012, 2011 and 2010, respectively, is summarized as follows:

	Year ended December 31,		
	2012	2011	2010 Combined
Total current income tax expense .....	11	7	13
Total deferred tax benefit.....	(75)	(55)	(16)
Total income tax benefit .....	(64)	(48)	(3)

The following table reconciles the income tax benefit to the statutory tax expense (benefit) as calculated:

	Year ended December 31,		
	2012	2011	2010 Combined
<b>Net (loss) income</b> .....	(108)	(60)	104
Non-controlling interest.....	—	1	1
Income tax benefit .....	(64)	(48)	(3)
<b>(Loss) income before tax:</b> .....	<b>(172)</b>	<b>(107)</b>	<b>102</b>
Tax (benefit) expense at domestic rates applicable to countries where (loss) income was generated .....	(80)	(62)	32
Tax exempt revenues .....	—	(3)	(5)
Net change in measurement of deferred tax assets.....	121	40	(31)
Tax deductible write-down on shares.....	(109)	—	—
Deductible interest on net equity .....	—	(1)	—
Non-deductible stock option charge .....	—	1	1
Other permanent difference.....	4	(23)	—
<b>Income tax benefit</b> .....	<b>(64)</b>	<b>(48)</b>	<b>(3)</b>

The weighted average statutory tax (benefit) expense was (80), (62) and 32 in 2012, 2011 and 2010 respectively. The increase of the tax benefit from 2010 to 2011 and from 2011 to 2012 was mainly due to negative result in Belgium, Brazil, France and distribution entities in countries with high tax rate.

Tax exempt revenues mainly relate to tax exempt results from companies held by Luxembourg entities and Aperam South America for nil, (1) and (1) in 2012, 2011 and 2010, respectively and tax exempt dividends in Aperam South America for nil, (1) and (3) in 2012, 2011 and 2010.

Net change in measurement of deferred tax assets of 121 in 2012 mainly relates to tax expense of 109 due to unrecognized deferred tax assets on write-down of the value of shares of a consolidated subsidiary in Luxembourg and not capitalization of tax losses for 6 in Brazil, partly offset by recognition of deferred tax assets on previous tax losses in Czech Republic for 2. Further change relates to limitation of interest deduction for 3 in France due to the new legislation.

Net change in measurement of deferred tax assets of 40 in 2011 mainly relates to de-recognition of deferred tax assets for previous tax losses for 5, de-recognition of deferred tax assets for other temporary differences for 5 and non capitalization of 2011 losses for 6 in Brazil, de-recognition of deferred tax assets on previous tax losses in France for 8 and interest expense recapture in Luxembourg Tax Consolidation for 9.

Net change in measurement of deferred tax assets of (31) in 2010 relates to previously unrecognized deferred tax assets on non-operating losses recognized by Aperam South America of (27) and utilization of previously unrecognized tax losses by Aperam Stainless Services & Solutions Luxembourg (2) and Aperam Stainless Services & Solutions Iberica (2).

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

Other permanent difference in 2012 consists of a reduced taxation on the financing activity, transfer pricing adjustment in Brazil, effect of foreign currency translation and equity method benefits, taxation on dividends and adjustments for tax deductible and non deductible items.

Other permanent difference in 2011 consists of a reduced taxation on certain activities, effect of foreign currency translation and equity method benefits, taxation on dividends and adjustments for tax deductible and non deductible items.

The net deferred tax benefit recorded directly to equity was 15, 40 and 34 as of December 31, 2012, 2011 and 2010, respectively. There was no current tax booked directly in equity in 2012, 2011 and 2010.

The amount of (17) and 21 recognized in capital employed in 2011 and 2010, respectively, relates primarily to the capital transactions described in Note 15.

### Income tax recognized directly in equity

	December 31,		
	2012	2011	2010 Combined
<b>Deferred tax</b>			
Recognized in other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities.....	(6)	16	28
Unrealized gain (loss) on derivatives financial instruments .....	—	5	(3)
Foreign currency translation adjustments .....	21	36	(12)
Recognized in capital employed.....	—	(17)	21
	<u>15</u>	<u>40</u>	<u>34</u>

The origin of deferred tax assets and liabilities is as follows:

	Assets			Liabilities			Net		
	December 31,			December 31,			December 31,		
	2010			2010			2010		
	2012	2011	Combined	2012	2011	Combined	2012	2011	Combined
Intangible assets.....	16	69	136	(17)	(21)	(27)	(1)	48	109
Property, plant and equipment.....	5	4	6	(343)	(377)	(410)	(338)	(373)	(404)
Biological assets.....	—	—	—	(46)	(50)	—	(46)	(50)	—
Inventories.....	28	30	33	(7)	(6)	(3)	21	24	30
Available-for-sale financial assets	7	13	—	—	—	—	7	13	—
Financial instruments.....	4	7	2	(5)	(3)	(6)	(1)	4	(4)
Other assets .....	17	16	14	(4)	(4)	(2)	13	12	12
Provisions .....	54	60	79	(62)	(60)	(86)	(8)	—	(7)
Other liabilities .....	40	15	40	(5)	(5)	—	35	10	40
Tax losses carried forward.....	462	380	282	—	—	—	462	380	282
Tax credits .....	9	8	9	—	—	—	9	8	9
Deferred tax assets/(liabilities).....	<u>642</u>	<u>602</u>	<u>601</u>	<u>(489)</u>	<u>(526)</u>	<u>(534)</u>	<u>153</u>	<u>76</u>	<u>67</u>
Deferred tax assets .....							289	249	183
Deferred tax liabilities .....							(136)	(173)	(116)

Deferred tax assets not recognized by the Company as of December 31, 2012 were as follows:

	Gross amount	Total deferred tax assets	Recognized deferred tax assets	Unrecognized deferred tax assets
Tax losses carried forward .....	1,856	604	462	142
Tax credits and other tax benefits .....	53	19	9	10
Other temporary differences.....	503	171	171	—
Total .....		<u>794</u>	<u>642</u>	<u>152</u>

**Aperam**

**Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

Deferred tax assets not recognized by the Company as of December 31, 2011 were as follows:

	<b>Gross amount</b>	<b>Total deferred tax assets</b>	<b>Recognized deferred tax assets</b>	<b>Unrecognized deferred tax assets</b>
Tax losses carried forward .....	1,230	411	380	31
Tax credits and other tax benefits .....	51	18	8	10
Other temporary differences .....	631	214	214	—
Total .....		<u>643</u>	<u>602</u>	<u>41</u>

Deferred tax assets not recognized by the Company as of December 31, 2010 were as follows:

	<b>Gross amount</b>	<b>Total deferred tax assets</b>	<b>Recognized deferred tax assets</b>	<b>Unrecognized deferred tax assets</b>
Tax losses carried forward .....	886	296	282	14
Tax credits and other tax benefits .....	38	13	9	4
Other temporary differences .....	913	310	310	—
Total .....		<u>619</u>	<u>601</u>	<u>18</u>

The Company has unrecognized deferred tax assets relating to tax loss carry forwards, tax credits and other tax benefits amounting to 152, 41 and 18 as of December 31, 2012, 2011 and 2010, respectively. As of December 31, 2012, the deferred tax assets not recognized relate to tax loss carry forwards attributable to subsidiaries located in Luxembourg (112), Brazil (14), France (8), Spain (5), Czech Republic (1), Poland (1) and Italy (1) with different statutory tax rates. Therefore, the amount of the total deferred tax assets is the aggregate amount of the various deferred tax assets recognized and unrecognized at the various subsidiaries and not the result of a computation with a blended rate. Unrecognized tax losses have no expiration date in Brazil, France, Italy and Luxembourg and an expiration date of 18 years in Spain, 5 years in Czech Republic and Poland. The utilization of tax loss carry forwards is restricted to the taxable income of the subsidiary.

At December 31, 2012, based upon the level of historical taxable income and projections for future taxable income over the periods in which the deductible temporary differences are anticipated to reverse, management believes it is probable that the Company will realize the benefits of an amount of deferred tax assets recognized for 289. The amount of future taxable income required to be generated by the Company's operating subsidiaries to utilize the total deferred tax assets is approximately 866. Historically, the Company has been able to generate taxable income in sufficient amounts to permit it to utilize tax benefits associated with net operating loss carry forwards and other deferred tax assets that have been recognized in its consolidated financial statements. However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of taxable income are revised.

The Company has not recorded any deferred income tax liabilities on the undistributed earnings of its foreign subsidiaries for income tax due if these earnings would be distributed. Investments in the Company's subsidiaries are not expected to reverse in the foreseeable future and therefore dividends, withholding taxes and/or capital gains triggering income taxes are not anticipated. The aggregate amount of deferred tax liabilities relating to investments in subsidiaries, branches and associates, and investments that is not recognized due to the fact that its undistributed earnings are permanently reinvested amounts to is nil.

## Aperam

### Notes to Consolidated Financial Statements

(millions of U.S. dollars)

#### *Tax loss carry forwards*

At December 31, 2012, the Company had total estimated net tax loss carry forwards of 1,856.

Such amount includes net operating losses of 19, 9 and 4 related to Aperam Stainless Services & Solutions Iberica S.L. in Spain, Aperam Stainless Services & Solutions Tubes Czech Republic s.r.o. in Czech Republic and Aperam Stainless Services & Solutions Poland z.o.o. in Poland which expire as follows:

<u>Year expiring</u>	<u>Amount</u>
2013 .....	5
2014 .....	7
2015 .....	—
2016 .....	—
2017 .....	1
2018–2031 .....	19
Total .....	<u>32</u>

The remaining tax loss carry forwards of 1,824 are indefinite and attributable to the Company's operations in Belgium, Brazil, France, Germany, Italy and Luxembourg.

Tax loss carry forwards are denominated in the currency of the countries in which the respective subsidiaries are located and operate. Fluctuations in currency exchange rates could reduce the U.S. dollar equivalent value of these tax loss carry forwards in future years.

**Aperam**

**Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

**NOTE 18: PROVISIONS**

The movements by provision were as follows:

	Balance at December 31, 2009 Combined	Additions	Deductions— Payments and other releases	Effects of Foreign Exchange and other movements	Balance at December 31, 2010 Combined
Environmental (note 22) .....	43	1	(4)	(2)	38
Restructuring .....	5	—	(3)	(1)	1
Litigation (note 22) .....	49	8	(9)	46	94
Voluntary separation plans .....	58	13	(15)	(44)	12
Other .....	20	10	(11)	(2)	17
	<u>175</u>	<u>32</u>	<u>(42)</u>	<u>(3)</u>	<u>162</u>
Short-term provisions .....	39				39
Long-term provisions .....	136				123
	<u>175</u>				<u>162</u>
	Balance at December 31, 2010 Combined	Additions	Deductions— Payments and other releases	Effects of Foreign Exchange and other movements	Balance at December 31, 2011
Environmental (note 22) .....	38	3	(6)	(1)	34
Restructuring .....	1	—	(1)	—	—
Litigation (note 22) .....	94	9	(49)	—	54
Voluntary separation plans .....	12	40	(31)	(1)	20
Other .....	17	14	(11)	(7)	13
	<u>162</u>	<u>66</u>	<u>(98)</u>	<u>(9)</u>	<u>121</u>
Short-term provisions .....	39				41
Long-term provisions .....	123				80
	<u>162</u>				<u>121</u>
	Balance at December 31, 2011	Additions	Deductions— Payments and other releases	Effects of Foreign Exchange and other movements	Balance at December 31, 2012
Environmental (note 22) .....	34	4	(12)	1	27
Litigation (note 22) .....	54	15	(9)	(3)	57
Voluntary separation plans .....	20	6	(14)	(1)	11
Other .....	13	13	(13)	—	13
	<u>121</u>	<u>38</u>	<u>(48)</u>	<u>(3)</u>	<u>108</u>
Short-term provisions .....	41				33
Long-term provisions .....	80				75
	<u>121</u>				<u>108</u>

There are uncertainties regarding the timing and amount of the provisions above. Changes in underlying facts and circumstances for each provision could result in differences in the amounts above and the actual outflows. Due to the uncertainties regarding the timing of the provisions or the short period of their expected use, they are presented on a non-discounted basis.

As of December 31, 2012, the outstanding provision for voluntary separation plans relates to plans primarily in France which are expected to be settled in a period of one to two years.

Provisions for litigation related to probable losses that have been incurred due to a present legal or constructive obligation are expected to be settled in a period of one to four years.

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

Environmental provisions are related to probable environmental assessments and/or remedial efforts and are expected to be used for up to 20 years.

Other includes provisions for technical warranties, guarantees as well as other disputes.

### NOTE 19: ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses were comprised of the following as of:

	December 31,		
	2012	2011	2010 Combined
Accrued payroll and employee related expenses.....	158	153	162
VAT and other amounts due to public authorities.....	34	45	58
Cash collected from sold trade receivables.....	32	26	42
Payable from acquisition of intangible & tangible assets.....	22	20	16
Accrued interests.....	14	13	9
Revaluation of derivative instruments.....	8	6	9
Unearned revenue and accrued payables.....	7	4	6
Dividends payable to ArcelorMittal and non-controlling interests.....	—	—	2
Other creditors .....	22	42	122
<b>Total .....</b>	<b>297</b>	<b>309</b>	<b>426</b>

### NOTE 20: COMMITMENTS

The Company's commitments consist of three main categories:

- various purchase and capital expenditure commitments,
- pledges, guarantees and other collateral instruments given to secure financial debt and credit lines,
- non-cancellable operating leases.

#### *Commitments given*

	December 31,		
	2012	2011	2010 Combined
Purchase commitments .....	1,879	1,686	1,376
Guarantees, pledges and other collateral.....	1,124	879	130
Operating leases.....	29	24	19
Other commitments .....	—	2	10
<b>Total .....</b>	<b>3,032</b>	<b>2,591</b>	<b>1,535</b>

#### *Purchase commitments*

Purchase commitments consist of the major agreements for procuring nickel, iron ore and pellets. The Company also entered into agreements for industrial gas and mill rolls.



## Aperam

### Notes to Consolidated Financial Statements

(millions of U.S. dollars)

#### *Guarantees, pledges and other collateral*

Guarantees consist of guarantees of financial loans and credit lines first demand and documentary guarantees.

Pledges mainly relate to inventory and trade receivable pledged to secure the borrowing base revolving credit facility (see Notes 3, 4 and 13).

Other collateral include documentary credits, letters of credit and sureties.

#### ***Operating leases***

Commitments for operating leases primarily related to one contract for land in Belgium. This lease expires in 2064. Future payments required under operating leases that have initial or remaining non-cancellable terms as of December 31, 2012 according to maturity periods are as follows:

Less than 1 year .....	4
1-3 years.....	5
4-5 years.....	4
More than 5 years.....	16
<b>Total .....</b>	<b><u>29</u></b>

#### **NOTE 21: DEFERRED EMPLOYEE BENEFITS**

The Company's operating subsidiaries have different types of pension plans for its employees. Also, some of the operating subsidiaries offer other post-employment benefits, principally retirement indemnities. Limited health care benefits are also offered to some employees in Belgium. The expense associated with these pension plans and employee benefits, as well as the carrying amount of the related liability/asset on the statements of financial position are based on a number of assumptions and factors such as the discount rate, expected compensation increases, expected return on plan assets and market value of the underlying assets. Actual results that differ from these assumptions are accumulated and amortized over future periods and, therefore, will affect the statement of operations and the recorded obligation in future periods. The total accumulated unrecognized actuarial losses amounted to 31 for pensions and 1 for other post retirement benefits as of December 31, 2012.

#### ***Pension Plans***

A summary of the significant defined benefit pension plans is as follows:

##### *Brazil*

The primary defined benefit plans, financed through trust funds, have been closed to new entrants. Brazilian entities have all established defined contribution plans that are financed by employer and employee contributions.

##### *Europe*

Certain European operating subsidiaries maintain primarily unfunded defined benefit pension plans for a certain number of employees. Benefits are based on such employees' length of service and applicable pension table under the terms of individual agreements. Some of these unfunded plans have been closed to new entrants and replaced by defined contribution pension plans for active members financed by employer and employee contributions.

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

### Plan Assets

The weighted-average asset allocations by asset category in Brazil were as follows:

	December 31		
	2012	2011	2010 Combined
Equity Securities .....	6%	6%	7%
Fixed Income (including cash) .....	93%	90%	92%
Real Estate .....	1%	1%	1%
Other .....	—	3%	—
<b>Total .....</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The assets related to the funded defined benefit pension plans in Europe represented 1, 1 and 1 as of December 31, 2012, 2011 and 2010, respectively, and were invested in guaranteed insurance contracts.

These assets do not include any direct investment in Aperam or in property or other assets occupied or used by Aperam. This does not exclude Aperam shares included in mutual fund investments. The invested assets produced an actual return of 7, 21 and 14 in 2012, 2011 and 2010, respectively.

The Remuneration Committee of the Board of Directors for the respective operating subsidiaries has general supervisory authority over the respective trust funds. This committee has established the following asset allocation targets. These targets are considered benchmarks and are not mandatory.

	BRAZIL	EUROPE
Equity Securities .....	5%	—
Fixed Income (including cash) .....	94%	—
Real Estate .....	1%	—
Other .....	—	100%
<b>Total .....</b>	<b>100%</b>	<b>100%</b>

**Aperam**

**Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

The following tables detail the reconciliation of defined benefit obligation, plan assets and statement of financial position.

	<b>Year Ended December 31, 2012</b>		
	<b>TOTAL</b>	<b>BRAZIL</b>	<b>EUROPE</b>
<b>Change in benefit obligation</b>			
Benefit obligation at beginning of the period .....	198	116	82
Service cost .....	—	—	—
Interest cost .....	14	10	4
Curtailments & settlements .....	(24)	(24)	—
Actuarial loss .....	62	34	28
Benefits paid .....	(13)	(8)	(5)
Foreign currency exchange rate differences and other movements .....	9	7	2
Benefit obligation at end of the period .....	<u>246</u>	<u>135</u>	<u>111</u>
<b>Change in plan assets</b>			
Fair value of plan assets at beginning of the period .....	192	191	1
Expected return on plan assets .....	18	18	—
Actuarial loss .....	(11)	(11)	—
Settlements .....	(28)	(28)	—
Benefits paid .....	(8)	(8)	—
Foreign currency exchange rate differences and other movements .....	3	3	—
Fair value of plan assets at end of the period .....	<u>166</u>	<u>165</u>	<u>1</u>
Present value of wholly or partly funded obligation .....	(136)	(135)	(1)
Fair value of plan assets .....	166	165	1
Net present value of wholly or partly funded obligation .....	30	30	—
Present value of unfunded obligation .....	(110)	—	(110)
Unrecognized net actuarial loss .....	31	—	31
Prepaid due to unrecoverable surpluses .....	(30)	(30)	—
<b>Recognized liabilities</b> .....	<u>(79)</u>	<u>—</u>	<u>(79)</u>

	<b>Year Ended December 31, 2011</b>		
	<b>TOTAL</b>	<b>BRAZIL</b>	<b>EUROPE</b>
<b>Change in benefit obligation</b>			
Benefit obligation at beginning of the period .....	188	103	85
Service cost .....	1	1	—
Interest cost .....	17	12	5
Actuarial loss .....	8	6	2
Benefits paid .....	(16)	(10)	(6)
Foreign currency exchange rate differences and other movements .....	—	4	(4)
Benefit obligation at end of the period .....	<u>198</u>	<u>116</u>	<u>82</u>
<b>Change in plan assets</b>			
Fair value of plan assets at beginning of the period .....	188	187	1
Expected return on plan assets .....	20	20	—
Actuarial gain .....	1	1	—
Benefits paid .....	(10)	(10)	—
Foreign currency exchange rate differences and other movements .....	(7)	(7)	—
Fair value of plan assets at end of the period .....	<u>192</u>	<u>191</u>	<u>1</u>
Present value of wholly or partly funded obligation .....	(117)	(116)	(1)
Fair value of plan assets .....	192	191	1
Net present value of wholly or partly funded obligation .....	75	75	—
Present value of unfunded obligation .....	(81)	—	(81)
Unrecognized net actuarial (gain) loss .....	(4)	(6)	2
Prepaid due to unrecoverable surpluses .....	(69)	(69)	—
<b>Recognized liabilities</b> .....	<u>(79)</u>	<u>—</u>	<u>(79)</u>

**Aperam**

**Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

	Year Ended December 31, 2010		
	Combined		
	TOTAL	BRAZIL	EUROPE
<b>Change in benefit obligation</b>			
Benefit obligation at beginning of the period .....	185	90	95
Service cost .....	1	1	—
Interest cost .....	14	10	4
Actuarial gain .....	(6)	(4)	(2)
Benefits paid .....	(12)	(7)	(5)
Foreign currency exchange rate differences and other movements .....	6	13	(7)
Benefit obligation at end of the period .....	188	103	85
<b>Change in plan assets</b>			
Fair value of plan assets at beginning of the period .....	163	162	1
Expected return on plan assets .....	18	18	—
Actuarial loss .....	(4)	(4)	—
Benefits paid .....	(7)	(7)	—
Foreign currency exchange rate differences and other movements .....	18	18	—
Fair value of plan assets at end of the period .....	188	187	1
Present value of wholly or partly funded obligation .....	(104)	(103)	(1)
Fair value of plan assets .....	188	187	1
Net present value of wholly or partly funded obligation .....	84	84	—
Present value of unfunded obligation .....	(84)	—	(84)
Unrecognized net actuarial (gain) loss .....	(12)	(13)	1
Prepaid due to unrecoverable surpluses .....	(71)	(71)	—
<b>Recognized liabilities</b> .....	(83)	—	(83)

**Asset Ceiling**

In accordance with IFRS, assets recognized for a defined benefit plan are limited to the present value of any economic benefit available in the form of refunds from the plan or reductions in future contributions to the plan. The amount not recognized in the fair value of plan assets due to the asset ceiling was 30, 69 and 71 at December 31, 2012, 2011 and 2010, respectively.

The following tables detail the components of net periodic pension cost:

	Year Ended December 31, 2012		
	TOTAL	BRAZIL	EUROPE
<b>Net periodic pension cost</b>			
Service cost .....	—	—	—
Interest cost .....	14	10	4
Expected return on plan assets .....	(18)	(18)	—
Charges due to unrecoverable surpluses .....	(33)	(33)	—
Curtailments & settlements .....	4	4	—
Amortization of unrecognized actuarial loss .....	37	37	—
Total .....	4	—	4

	Year Ended December 31, 2011		
	TOTAL	BRAZIL	EUROPE
<b>Net periodic pension cost</b>			
Service cost .....	1	1	—
Interest cost .....	17	12	5
Expected return on plan assets .....	(20)	(20)	—
Charges due to unrecoverable surpluses .....	7	7	—
Total .....	5	—	5

Aperam

Notes to Consolidated Financial Statements

(millions of U.S. dollars)

	Year Ended December 31, 2010		
	Combined		
	TOTAL	BRAZIL	EUROPE
<b>Net periodic pension cost</b>			
Service cost .....	1	1	—
Interest cost .....	14	10	4
Expected return on plan assets .....	(18)	(18)	—
Charges due to unrecoverable surpluses .....	9	9	—
Amortization of unrecognized actuarial gain .....	(2)	(2)	—
Total .....	<u>4</u>	<u>—</u>	<u>4</u>

**Other post-employment benefits**

The Company's principal operating subsidiaries provide Other Post-Employment Benefits ("OPEB"), including life insurance benefits, to retirees.

Summary of changes in the other post employment benefit obligation and the change in plan assets:

	Year Ended December 31, 2012		
	TOTAL	BRAZIL	EUROPE
<b>Change in post-employment benefit obligation</b>			
Benefit obligation at beginning of period .....	59	3	56
Service cost .....	2	—	2
Interest cost .....	3	—	3
Actuarial loss (gain) .....	10	(1)	11
Benefits paid .....	(3)	—	(3)
Plan amendments .....	—	—	—
<b>Benefits obligation at end of period .....</b>	<b>71</b>	<b>2</b>	<b>69</b>
Fair value of assets .....	—	—	—
Present value of funded obligation .....	—	—	—
Fair value of plan assets .....	—	—	—
Net present value of funded obligation .....	—	—	—
Present value of unfunded obligation .....	(71)	(2)	(69)
Unrecognized net actuarial loss .....	1	—	1
Unrecognized past service cost (non vested benefits) .....	10	—	10
<b>Net amount recognized .....</b>	<b>(60)</b>	<b>(2)</b>	<b>(58)</b>

	Year Ended December 31, 2011		
	TOTAL	BRAZIL	EUROPE
<b>Change in post-employment benefit obligation</b>			
Benefit obligation at beginning of period .....	66	4	62
Service cost .....	2	—	2
Interest cost .....	3	—	3
Actuarial gain .....	(5)	—	(5)
Benefits paid .....	(4)	(1)	(3)
Plan amendments .....	1	—	1
Curtailments & settlements .....	(4)	—	(4)
<b>Benefits obligation at end of period .....</b>	<b>59</b>	<b>3</b>	<b>56</b>
Fair value of assets .....	—	—	—
Present value of funded obligation .....	—	—	—
Fair value of plan assets .....	—	—	—
Net present value of funded obligation .....	—	—	—
Present value of unfunded obligation .....	(59)	(3)	(56)
Unrecognized net actuarial gain .....	(8)	—	(8)
Unrecognized past service cost (non vested benefits) .....	10	—	10
<b>Recognized liabilities .....</b>	<b>(57)</b>	<b>(3)</b>	<b>(54)</b>

**Aperam**

**Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

	Year Ended December 31, 2010		
	Combined		
	<u>TOTAL</u>	<u>BRAZIL</u>	<u>EUROPE</u>
<b>Change in post-employment benefit obligation</b>			
Benefit obligation at beginning of period .....	59	5	54
Service cost .....	2	—	2
Interest cost .....	3	—	3
Actuarial gain .....	(1)	—	(1)
Benefits paid .....	(6)	(1)	(5)
Plan amendments .....	13	—	13
Foreign currency exchange rate changes and other movements .....	(4)	—	(4)
<b>Benefits obligation at end of period .....</b>	<b>66</b>	<b>4</b>	<b>62</b>
Fair value of assets .....	—	—	—
Present value of funded obligation .....	—	—	—
Fair value of plan assets .....	—	—	—
Net present value of funded obligation .....	—	—	—
Present value of unfunded obligation .....	(66)	(4)	(62)
Unrecognized net actuarial (gain) loss .....	(5)	1	(6)
Unrecognized past service cost (non vested benefits) .....	13	—	13
<b>Recognized liabilities .....</b>	<b>(58)</b>	<b>(3)</b>	<b>(55)</b>

The following tables detail the components of net periodic other post-employment cost:

	Year Ended December 31, 2012		
	<u>TOTAL</u>	<u>BRAZIL</u>	<u>EUROPE</u>
<b>Components of net periodic OPEB benefit</b>			
Service cost .....	2	—	2
Interest cost .....	3	—	3
Amortization of unrecognized actuarial loss (gain) .....	1	(1)	2
<b>Total .....</b>	<b>6</b>	<b>(1)</b>	<b>7</b>

	Year Ended December 31, 2011		
	<u>TOTAL</u>	<u>BRAZIL</u>	<u>EUROPE</u>
<b>Components of net periodic OPEB benefit</b>			
Service cost .....	2	—	2
Interest cost .....	3	—	3
Curtailments and settlements .....	(3)	—	(3)
Amortization of unrecognized actuarial loss .....	1	—	1
<b>Total .....</b>	<b>3</b>	<b>—</b>	<b>3</b>

	Year Ended December 31, 2010		
	Combined		
	<u>TOTAL</u>	<u>BRAZIL</u>	<u>EUROPE</u>
<b>Components of net periodic OPEB benefit</b>			
Service cost .....	2	—	2
Interest cost .....	3	—	3
Curtailments and settlements .....	—	—	—
Amortization of unrecognized actuarial loss .....	1	—	1
<b>Total .....</b>	<b>6</b>	<b>—</b>	<b>6</b>

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

### Weighted-average assumptions used to determine benefit obligations:

	Pension Plans			Other Post-employment Benefits		
	December 31,			December 31,		
	2012	2011	2010 Combined	2012	2011	2010 Combined
Discount rate .....	3.00% - 8.99%	4.75% - 10.46%	4.75% - 10.77%	3.00% - 8.99%	4.75% - 10.46%	4.75% - 10.77%
Rate of compensation increase .....	2% - 6.95%	2% - 6.55%	2% - 6.32%	3.25% - 6.95%	3.25% - 6.55%	3.08% - 6.32%
Expected long-term rate of return on plan assets .....	4% - 10.54%	4% - 10.91%	4% - 10.52%	N/A	5.00%	5.00%

### Cash Contributions

In 2013, the Company expects its cash contributions to amount to 6 for pension plans, 3 for other post employment benefits plans and 10 for the defined contribution plans. Cash contributions to the defined contribution plans, sponsored by the Company, were 10, 11 and 10 in 2012, 2011 and 2010, respectively.

### Statement of Financial Position

Together with plans and obligations that do not constitute pension or other post-employment benefits, the total deferred employee benefits are as follows:

	December 31,		
	2012	2011	2010 Combined
Pension plan benefits .....	79	79	83
Other post-employment benefits .....	60	57	58
Early retirement benefits .....	29	37	40
Other long-term employee benefits .....	1	1	—
Total .....	169	174	181

### Sensitivity analysis

The following information illustrates the sensitivity to a change in certain assumptions related to the Company's operating subsidiaries' pension plans (as of December 31, 2012, the defined benefit obligation ("DBO") for pension plans was 246):

Change in assumption	Effect on 2013 Pre-Tax Pension Expense (sum of service cost and interest cost)	Effect of December 31, 2012 DBO
100 basis point decrease in discount rate .....	1	36
100 basis point increase in discount rate .....	(1)	(31)
100 basis point decrease in rate of compensation .....	(1)	(3)
100 basis point increase in rate of compensation .....	1	3
100 basis point decrease in expected return on plan assets .....	(2)	—
100 basis point increase in expected return on plan assets .....	2	—

The following table illustrates the sensitivity to a change in the discount rate assumption related to the Company's operating subsidiaries' OPEB plans (as of December 31, 2012 the DBO for post-employment benefit plans was 71):

**Aperam**

**Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

	Effect on 2013 Pre-Tax OPEB Expense (sum of Service cost and interest cost)	Effect of December 31, 2012 DBO
<b>Change in assumption</b>		
100 basis point decrease in discount rate .....	—	6
100 basis point increase in discount rate.....	—	(5)

The above sensitivities reflect the effect of changing one assumption at a time. Actual economic factors and conditions often affect multiple assumptions simultaneously, and the effects of changes in key assumptions are not necessarily linear.

***Experience adjustments***

The five-year history of the present value of the defined benefit obligations, the fair value of the plan assets and the surplus or the deficit in the pension plans is as follows:

	At December 31,				
	2012	2011	2010 Combined	2009 Combined	2008 Combined
Present value of the defined benefit obligations .....	246	198	188	185	144
Fair value of the plan assets .....	166	192	188	163	98
Deficit.....	(80)	(6)	—	(22)	(46)
Experience adjustments: (increase)/decrease plan liabilities ..	5	(2)	7	(2)	(7)
Experience adjustments: increase/(decrease) plan assets.....	(11)	1	(4)	10	(7)

This table illustrates the present value of the defined benefit obligations, the fair value of the plan assets and the surplus or the deficit for the OPEB plans:

	At December 31,				
	2012	2011	2010 Combined	2009 Combined	2008 Combined
Present value of the defined benefit obligations.....	71	59	66	59	60
Fair value of the plan assets.....	—	—	—	—	—
Deficit.....	(71)	(59)	(66)	(59)	(60)
Experience adjustments: (increase)/decrease plan liabilities..	—	5	2	1	1
Experience adjustments: increase/(decrease) plan assets.....	—	—	—	—	—



**Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

**NOTE 22: CONTINGENCIES**

The Company is involved in litigation, arbitration or other legal proceedings. Provisions related to legal and arbitral proceedings are recorded in accordance with the principles described in Note 2 to the consolidated financial statements.

Most of these claims involve highly complex issues, actual damages and other matters. Often these issues are subject to substantial uncertainties and, therefore, the probability of loss and an estimation of damages are difficult to ascertain. Consequently, for certain of these claims, the Company is unable to make a reasonable estimate of the expected financial effect that will result from ultimate resolution of the proceeding. In those cases, the Company has disclosed information with respect to the nature of the contingency. The Company has not accrued a reserve for the potential outcome of these cases.

In the cases in which quantifiable fines and penalties have been assessed, the Company has indicated the amount of such fine or penalty, or the amount of provision accrued, which is the estimate of the probable loss.

In a limited number of ongoing cases, the Company is able to make a reasonable estimate of the expected loss or range of possible loss and has accrued a provision for such loss, but management believes that publication of this information on a case-by-case basis would seriously prejudice its position in the ongoing legal proceedings or in any related settlement discussions. Accordingly, in these cases, the Company has disclosed information with respect to the nature of the contingency, but has not disclosed its estimate of the range of potential loss.

These assessments can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions. The Company's assessments are based on estimates and assumptions that have been deemed reasonable by management. Management believes that the aggregate provisions recorded for these matters are adequate based upon currently available information. However, given the inherent uncertainties related to these cases and in estimating contingent liabilities, the Company could, in the future, incur judgments that have a material adverse effect on its results of operations in any particular period.

In addition, in the normal course of business, the Company and its operating subsidiaries may be subject to audits by the tax authorities in the countries in which they operate. Those audits could result in additional tax liabilities and payments, including penalties for late payment and interest.

**Environmental Liabilities**

The Company is subject to a broad range of environmental laws and regulations. As of December 31, 2012, the Company had established reserves of 27 for environmental and remedial activities and liabilities.

***Belgium***

In Belgium, there is an environmental provision of 13, of which the most significant elements are legal obligations linked to soil treatment and removal of slag and fines.

***France***

In France, there is an environmental provision of 14, which relates to the demolition and clean-up of the Company's Ardoise facility after operations ceased at the site.

***Brazil***

In Brazil, violation of an environmental regulation may result in fines, imprisonment, interruption of the Company's activities, cancellation of tax incentives and credit lines with governmental financial entities and dissolution of the corporate entity, in addition to the obligation to repair or to indemnify for damages caused to the environment and third parties.

## **Aperam**

### **Notes to Consolidated Financial Statements**

**(millions of U.S. dollars)**

Therefore, changes in environmental laws or regulations, or in the interpretation thereof, or in the administrative procedures and policies adopted under current environmental laws and regulations, could require the Company to invest in additional resources in environmental compliance and the renewal of its licenses, and could therefore adversely affect it. Additionally, non-compliance with or violation of any such laws and regulations could result in the revocation of the Company's licenses and suspension of its activities or in its responsibility for environmental remediation costs, which could be substantial. The Company cannot assure that its expenses relating to compliance with applicable environmental regulations will not be significant or that it will be able to renew its licenses in a timely manner, or at all. Moreover, under certain circumstances the Company's corporate shareholder structure could be disregarded in order to enable claimants to recover for environmental claims against it.

#### **Tax Claims**

The Company is party to various tax claims, the most significant of which are set out below. As of December 31, 2012, the Company has established reserves in the aggregate of approximately 16 for those of the claims as to which the criteria for provisioning were met.

- In March 2012, the Company received two tax assessments regarding PIS and COFINS (social contributions on revenue) related to importation of services (freight, logistics and commercial representation services) made by the Company in 2007. The total amount claimed is 10. In June 2012, the Company obtained a partial favorable decision from the first administrative instance. The case is pending at the second administrative instance.
- On December 27, 2011, Aperam South America received a tax assessment from the State of Minas Gerais regarding VAT tax credit ("ICMS") used by the Company related to the purchasing of scraps from a supplier which the State considered as not being authorized to issue invoices with VAT. The total amount claimed is 9. The case is in first administrative instance where the Company presented its defense.
- On December 16, 2011, Aperam Services and Solutions Brazil has been assessed by the Tax authorities aiming at collecting 38 (including interest on late payments and penalties) related to VAT ("ICMS"). Tax authorities claimed that the Company has not collected to the State of Sao Paulo the ICMS imposed on importation of products performed by a trading company located in the State of Espirito Santo and disregarded the ICMS credit recognized by the Company at the time of acquisition of the goods from the trading company. After several unfavorable decisions, the Company presented an appeal to the Special Court in the second administrative instance.
- In December 2011, the Federal Revenue issued four tax assessments against Aperam South America for a total amount of 28 considering that the Company did not pay several social contributions due on payments made to employees under the Profit Sharing Program. These cases are at the first administrative instance where the Company presented its defense.
- On May 26, 2011, Aperam South America received a tax assessment from the Federal Revenue Service for a total amount of 20 related to sales by Aperam South America to Acesita Imports & Exports (Madeira Island). The tax authorities require that the profits of Acesita Imports & Exports be added to Aperam South America's tax basis. In November 2011 and on July 4, 2012, the Company obtained a partial favorable decision by the Administrative Court and it presented its appeal for the remaining amount in dispute.
- On March 29, 2011, Aperam South America received a tax assessment related to drawback tax benefit. Federal revenue states that the Company did not respect the conditions to use the benefit and demand to pay taxes related to importation and fees. The total amount claimed is 10. The Company presented its appeal at the first administrative level.
- On December 2, 2010, Aperam South America received a tax assessment in the total amount of 35. The Minas Gerais State Revenue claims that the Company should have paid VAT ("ICMS") related to the distribution of electric power between 2005 and 2009. The Company believes that this charge should not prevail since the distribution of electrical power should not be considered as a good or transportation and therefore it should not be subject to VAT ("ICMS"). On May 5,

## **Aperam**

### **Notes to Consolidated Financial Statements**

**(millions of U.S. dollars)**

2011 the Company received a partial favorable decision. Minas Gerais State Revenue concluded that the Company has to pay ICMS but stated that the amount for late payments and penalties was wrong. In March 2012, the Company has brought the case before the judicial court that confirmed the favorable decision obtained by the administrative court; nevertheless the procedure is still pending before the court of Appeal where the Company presented its defense.

- On December 5, 2007, the Federal Revenue Service challenged IPI tax credits (Tax on Industrialized Products similar to Federal VAT) registered by Aperam South America from January 2003 to December 2006 related to the acquisition of certain materials. The claim alleges that the products acquired are either not related to the final product or not integrally consumed during operations. In December 2010, there was a partial favorable decision and the Company filed an appeal in February 2011 at the second administrative level for the remaining non favorable part of the decision obtained at the first administrative level. The amount in dispute is approximately 7.
- In June 2007, the Company was assessed for payment of social contributions on some payments made to employees related to bonus granted by collective work agreement. The total amount asked by the Federal Union is 10. The first administrative instance's decision was favorable to the Company, but it still need to be confirmed by the second administrative instance.
- On December 21, 2005, Aperam South America has been assessed by the Federal Revenue Service in relation to its calculation of social contributions on revenue (PIS and COFINS) due to (i) unconditional discounts given to clients, (ii) the value of tax incentives granted by federal legislation (specifically, credits to be offset with IPI) and (iii) revenues derived from exchange rate variations. The amount in dispute is approximately 34 and the Company obtained a partial favorable decision from the Special Court in the second administrative instance but presented a special motion regarding the pending unfavorable decision.
- On December 21, 2005, the Brazilian Federal Revenue Service assessed Aperam South America for taxes related to intra-group credit transactions. The amount in dispute of 6 is currently on appeal before the Federal Administrative Council of Appeals.
- On March 15 and March 18, 2005, Aperam South America has been assessed by the INSS (the Brazilian Social Securities Institute) for the non-collection of certain payroll taxes between 1999 and 2004 related to the special retirement of employees exposed to unhealthy working conditions. The amount in dispute comprising six cases is 29 as of December 31, 2012. The Company has received a partial unfavorable decision by the second administrative instance.
- On October 13, 1998, the Federal Revenue Service filed a tax foreclosure action against the Company in relation to the alleged underpayment of payroll taxes in the period of January 1987 to July 1997. After the Company initially prevailed in the Federal Court, the Brazilian Federal Revenue Service filed an appeal with the Federal Court of Appeals. The amount in dispute is approximately 6.
- In November 1995, the Company was assessed for unauthorized compensation of losses and negative basis of social contribution between 1989 and 1994. The total amount claimed is 11. After unfavorable decision in the first and second judicial instances, the Company is waiting for the final decision of the superior courts.

#### **Labor and Other Claims**

The Company is presently involved in a number of labor disputes, the most significant of which are set out below. As of December 31, 2012, the Company has established reserves in the aggregate of approximately 41 for those of the claims as to which the criteria for provisioning were met.

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

### Brazil

- On April 1, 2004, a sanctioning administrative process with the Central Bank was brought against Aperam South America based on alleged irregular exchange operations utilized by it in the purchase and sale of treasury bills. On March 22, 2007, Aperam South America has been assessed with a fine of 10 plus interest. The Company brought the case before the judicial court in 2012.

### NOTE 23: SEGMENT AND GEOGRAPHIC INFORMATION

Aperam reports its operations in three segments: Stainless & Electrical Steel, Services & Solutions and Alloys & Specialties. Refer to Note 2 for the policy about segment reporting.

- Stainless & Electrical Steel operates upstream and downstream facilities located in France and Belgium as well as an integrated plant in Brazil. Aperam is the only integrated producer of flat stainless and silicon steel in South America;
- Alloys & Specialties is specialized in the design, production and transformation of nickel and cobalt alloys and certain specific stainless steels. Its facilities are mainly located in France with ownership interests in China and central India;
- Services & Solutions represents the trading and distribution arm of Aperam. It also provides value-added and customized steel solutions through further steel processing to meet specific customer requirements including stainless precision strips and welded tubes.

The following table summarizes certain financial data relating to Aperam's operations in its different reportable segments.

	Stainless & Electrical Steel	Services & Solutions	Alloys & Specialties	Others/ Eliminations (*)	Total
<b>Year ended December 31, 2012</b>					
Sales to external customers ...	2,496	2,103	655	7	5,261
Intersegment sales(**) .....	1,684	70	4	(1,758)	—
Operating income (loss).....	(150)	(8)	50	2	(106)
Depreciation .....	241	29	6	17	293
Impairment .....	27	—	—	—	27
Capital expenditures .....	91	31	23	16	161
<b>Year ended December 31, 2011</b>					
Sales to external customers ...	3,126	2,505	712	2	6,345
Intersegment sales(**) .....	1,942	98	9	(2,049)	—
Operating income (loss).....	(39)	(18)	64	38	45
Depreciation .....	259	30	6	12	307
Impairment .....	1	3	—	—	4
Capital expenditures .....	110	20	12	16	158
<b>Year ended December 31, 2010 (Combined)</b>					
Sales to external customers ...	2,862	2,220	522	—	5,604
Intersegment sales(**) .....	1,569	107	7	(1,683)	—
Operating income (loss).....	8	53	36	(4)	93
Depreciation .....	258	30	5	—	293
Impairment .....	23	—	1	—	24
Capital expenditures .....	81	15	5	—	101

(\*) Others/Eliminations includes all other operations than mentioned above, together with inter-segment elimination, and/or non-operational items which are not segmented.

(\*\*) Transactions between segments are conducted on the same basis of accounting as transactions with third parties.

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

The below table presents the reconciliation of segment assets to total assets as required by IFRS 8.

	Year Ended December 31,		
	2012	2011	2010 Combined
Assets allocated to segments .....	5,160	5,507	6,138
Cash and cash equivalents .....	226	247	120
Amounts receivable under cash pooling arrangements with ArcelorMittal .....	—	—	646
Other investments .....	120	98	181
Deferred tax assets .....	289	249	183
Other unallocated assets .....	114	100	67
<b>Total assets .....</b>	<b>5,909</b>	<b>6,201</b>	<b>7,335</b>

The reconciliation from operating (loss) income to net (loss) income is as follows:

	Year Ended December 31,		
	2012	2011	2010 Combined
Operating (loss) income .....	(106)	45	93
Income from other investments .....	2	2	9
Interest income .....	3	3	9
Interest expense and other net financing costs .....	(71)	(157)	(9)
(Loss) income before taxes .....	(172)	(107)	102
Income tax benefit .....	64	48	3
Net (loss) income (including non-controlling interests) .....	(108)	(59)	105

### Geographical information

Sales (by destination)

	Year Ended December 31,		
	2012	2011	2010 Combined
<b>Americas</b>			
Brazil .....	1,158	1,335	1,287
United States .....	294	341	244
Argentina .....	104	130	107
Others .....	94	130	155
<b>Total Americas .....</b>	<b>1,650</b>	<b>1,936</b>	<b>1,793</b>
<b>Europe</b>			
Germany .....	1,108	1,313	1,143
Italy .....	493	592	576
France .....	439	581	444
Belgium .....	189	209	172
Poland .....	138	151	126
Netherlands .....	134	149	150
United Kingdom .....	114	123	133
Spain .....	91	131	133
Others .....	543	660	558
<b>Total Europe .....</b>	<b>3,249</b>	<b>3,909</b>	<b>3,435</b>
<b>Asia &amp; Africa</b>			
South Korea .....	101	80	80
China .....	61	105	62
Taiwan .....	28	52	15
India .....	27	43	39
Thailand .....	27	54	46
United Arab Emirates .....	23	25	18
Others .....	95	141	116
<b>Total Asia &amp; Africa .....</b>	<b>362</b>	<b>500</b>	<b>376</b>
<b>Total .....</b>	<b>5,261</b>	<b>6,345</b>	<b>5,604</b>

**Aperam**

**Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

*Non-current assets(\*) per significant country*

	As of December 31,		
	2012	2011	2010 Combined
<b>Americas</b>			
Brazil .....	1,029	1,199	1,283
Others .....	23	28	28
Total Americas .....	<u>1,052</u>	<u>1,227</u>	<u>1,311</u>
<b>Europe</b>			
Belgium .....	925	973	1,104
France .....	541	503	545
Germany .....	22	23	22
Italy .....	20	23	25
Czech Republic .....	20	21	23
Poland .....	20	19	24
Others .....	19	25	20
Total Europe .....	<u>1,567</u>	<u>1,587</u>	<u>1,763</u>
<b>Asia &amp; Africa</b>			
India .....	8	8	—
China .....	5	6	6
Others .....	1	2	2
Total Africa & Asia .....	<u>14</u>	<u>16</u>	<u>8</u>
Unallocated assets .....	<u>1,359</u>	<u>1,326</u>	<u>1,406</u>
Total .....	<u>3,992</u>	<u>4,156</u>	<u>4,488</u>

(\*) Non-current assets do not include goodwill (as it is not allocated to the geographic regions), deferred tax assets, other investments or receivables and other non-current financial assets. Such assets are presented under the caption "Unallocated assets".

**NOTE 24: EMPLOYEES AND KEY MANAGEMENT PERSONNEL**

The total annual compensation of Aperam's employees paid in 2012, 2011 and 2010 was as follows:

	Year Ended December 31,		
	2012	2011	2010 Combined
<b>Employee Information</b>			
Wages and salaries .....	608	654	607
Pension cost .....	7	17	19
Other staff costs .....	73	90	83
Total .....	<u>688</u>	<u>761</u>	<u>709</u>

As of December 31, 2012, 2011 and 2010, Aperam employed approximately 9,815, 10,533 and 9,904 persons, respectively.

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

The total annual compensation of Aperam's key management personnel, including its Board of Directors, paid in 2012 was as follows:

	Year Ended December 31, 2012	Year Ended December 31, 2011
Base salary and/or directors fees .....	3	3
Short-term performance-related bonus <sup>(1)</sup> .....	—	1
Post-employments benefits <sup>(1)</sup> .....	—	—
Share based compensation <sup>(1)</sup> .....	—	—

<sup>(1)</sup>Short-term performance related bonus for the year ended December 31, 2012 , post-employments benefits and share based compensation for the years ended December 31, 2012 and December 31, 2011 respectively were below 1.

In addition to the information in the table above, as disclosed in Notes 1 and 12, costs associated with certain corporate functions provided by ArcelorMittal have been allocated to the Company in 2010. The total annual compensation, including base salary and/or director fees, short-term performance-related bonuses, post-employment benefits and share based compensations of ArcelorMittal's key management personnel, including its Board of Directors, allocated to the Company based on sales, amounted to 3 for the year ended December 31, 2010.

As of December 31, 2012 and 2011, the Company did not have any outstanding loans or advances to members of Aperam's Board of Directors or key management personnel and had not given any guarantees for the benefit of any member of Aperam's Board of Directors or key management personnel.

As of December 31, 2010, the Company did not have any outstanding loans or advances to members of ArcelorMittal's Board of Directors or key management personnel and had not given any guarantees for the benefit of any member of ArcelorMittal's Board of Directors or key management personnel.

# Aperam

## Notes to Consolidated Financial Statements

(millions of U.S. dollars)

### NOTE 25: LIST OF SIGNIFICANT SUBSIDIARIES AT DECEMBER 31, 2012

The following table provides an overview of the Company's principal operating subsidiaries, all of which are integrated in full consolidation by the Company, according to the principles defined in Note 1, and meet the following criteria:

- Contribution to the Group total property, plant and equipment in excess of 5; or
- Contribution to the Group revenue in excess of 40.

Name of subsidiary	Country of incorporation	% Interest
<b>Stainless &amp; Electrical Steel</b>		
Aperam Stainless Belgium	Belgium	100%
Aperam South America	Brazil	100%
Aperam Stainless Europe	France	100%
Aperam Stainless France	France	100%
Aperam Recyco	France	100%
<b>Alloys &amp; Specialties</b>		
Aperam Alloys Imphy	France	100%
Innovative Clad Solutions Private	India	78.3%
<b>Services &amp; Solutions</b>		
Aperam Stainless Services & Solutions Argentina	Argentina	100%
Aperam Stainless Services & Solutions Brazil	Brazil	100%
Aperam Stainless Services & Solutions Tubes Brazil	Brazil	100%
Aperam Stainless Services & Solutions Tubes Czech Republic	Czech Republic	100%
Aperam Stainless Services & Solutions France	France	100%
Aperam Stainless Services & Solutions Precision	France	100%
Aperam Stainless Services & Solutions Tubes Europe	France	100%
Aperam Stainless Services & Solutions Germany	Germany	100%
Aperam Stainless Services & Solutions Italy	Italy	100%
Aperam Stainless Services & Solutions Luxembourg	Luxembourg	100%
Aperam Stainless Services & Solutions Poland	Poland	100%
Aperam Stainless Services & Solutions Iberica	Spain	100%
Aperam Paslanmaz Celik	Turkey	100%
Aperam Stainless Services & Solutions Tubes Uruguay	Uruguay	100%
Aperam Stainless Services & Solutions USA	USA	100%
<b>Other</b>		
Aperam BioEnergia	Brazil	100%



**Aperam**

**Notes to Consolidated Financial Statements**

(millions of U.S. dollars)

**NOTE 26: AUDITORS' FEES AND SERVICES**

The following table summarizes the aggregate amounts paid to the Company's auditors:

	Year Ended December 31,		
	2012	2011	2010 <sup>(1)</sup>
Audit fees.....	2.9	3.1	4.3
Audit-related fees .....	0.2	0.3	0.1
Tax fees .....	0.5	0.4	0.3
Total.....	<u>3.6</u>	<u>3.8</u>	<u>4.7</u>

<sup>(1)</sup> Audit fees of 4.3 in 2010 included 2.4 related to the review of the historical combined financial statements prepared for the spin-off of the Stainless steel business of ArcelorMittal.

Audit-related fees consist principally of issuances of certifications related to the covenant compliance required by lenders of the borrowing base revolving credit facility. Tax fees consist principally of tax planning services and tax compliance services.

#### **NOTE 27: SUBSEQUENT EVENTS**

On February 4, 2013, Aperam announced that it obtained an in-principle refinancing commitment to extend a portion of 600 of its current secured borrowing base revolving credit facility from March 2014 to March 2015.

On February 7, 2013, a fire occurred at Firminy plant (France) of Aperam Stainless Services & Solutions Precision. It caused partial damage to the rolling mill ZR 1000 resulting in an immediate shutdown of this equipment. Other activities of the plant are still operating normally. No injuries were reported as a result of the incident. Once detailed assessments of the damage and required repairs have been carried out, the potential loss of sales and estimate of the duration of ZR 1000 non availability will be determined. Continuity of the deliveries to customers will be eased by Aperam Stainless Precision plant at Pont-de-Roide (France).

On February 20, 2013, Aperam, Ilta Inox S.p.A. and Marcegaglia S.p.A. announced that they have signed a memorandum of understanding to create an Italian Joint Venture aimed at participating in the sale process of the stainless steel producer Acciai Speciali Terni S.p.A, currently being divested by Outokumpu Oyj.