

# Interim Financial Report

Half Year ended June 30, 2013



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# Interim Management Report

## Company Overview

### Overview

Aperam is a leading global stainless and specialty steel producer based on an annual production capacity of 2.5 million tonnes in 2012. Aperam is the largest stainless and specialty steel producer in South America and according to the International Stainless Steel Forum ("ISSF") the second largest producer in Europe. Aperam is also a leading producer of high value-added specialty products, including grain oriented ("GO") and non-grain oriented ("NGO") electrical steels and nickel alloys. Aperam's production capacity is concentrated in six production facilities located in Brazil, Belgium and France. Aperam's distribution network is comprised of 18 Steel Service Centers ("SSCs"), 9 transformation facilities and 22 sales offices. Aperam sells its 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 and gas industries.

At the end of June 2013, Aperam had approximately 9,800 employees. Aperam commits to operate in a responsible way with respect to health, safety and well-being of its employees, contractors and the communities in which it operates. It is also committed to the sustainable management of the environment and of finite resources.

In 2012, Aperam had sales of \$5.3 billion and shipments of 1.68 million tonnes. For the six months ending June 30, 2013, Aperam had sales of \$2.6 billion and shipments of 0.85 million tonnes.

### Contacts

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

The mailing address and telephone number of Aperam's registered office are:  
12C, rue Guillaume Kroll, L-1882 Luxembourg, Grand-Duchy of Luxembourg, tel: +352 27 36 27 00.

To contact Aperam by email, please write to [contact@aperam.com](mailto:contact@aperam.com). Please include your full name, postal address and telephone number.

# Interim Management Report

## Message from the CEO

August 5, 2013

Dear Shareholders,

I am honored to present the 2013 Aperam half year report which reflects our performance for the six months ended June 30, 2013 and the key milestones over this period.

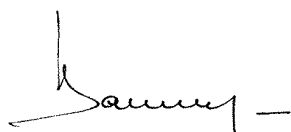
First of all I would like to encourage all our employees to continue focusing on Health and Safety as our top priority. We are taking strong measures to improve our Health and Safety performance and must continue to aspire to have zero accidents and to be a sustainable company in all respects. Not only are our products fully recyclable, but we are also taking actions to go further in ensuring that our activities create lasting benefits for all our stakeholders.

The stainless steel market environment during the first half of the year 2013 has continued to be challenging, primarily as a consequence of the general economic conditions and the nickel price deterioration putting pressure on base prices. The very good performance of our Leadership Journey® initiative<sup>1</sup> and industrial performance enabled the Company to more than offset the deterioration of the market. The Company finished the first six months of the year 2013 with sales at \$2.6 billion and EBITDA at \$146 million compared to sales at \$2.8 billion and EBITDA at \$131 million for the first six months of the year 2012. Despite continuous difficult market conditions, Aperam has been able to maintain its net financial debt at \$841 million compared to \$816 million at the end of December 2012 and further progress on its Leadership Journey® by reaching \$324 million of management gains at the end of June 2013 since the beginning of 2011.

The Leadership Journey® remains at the heart of our efforts to improve the profitability of our operations. Thanks to a persistent focus on fixed and variable cost reductions as well as on increased productivity, we remain on track to achieve \$350 million of management gains by the end of 2013 and \$425 million by the end of 2014. As part of our efforts to become a more resilient company capable of responding to the volatile market environment, our shareholders have approved at our last Annual General Meeting to stop the dividend payment in order to accelerate the net debt reduction with a target of \$650 million by the end of 2014.

For the second half of the year 2013, we expect the market to remain very difficult. However we should continue to benefit from the progress of the Leadership Journey® and our top line strategy.

I am convinced that, under the leadership of our Board of Directors, Aperam will continue its efforts to become a stronger company and be well prepared to capture growth opportunities and create value for its customers and shareholders.



Philippe Darmayan  
Chief Executive Officer

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<sup>1</sup> The Leadership Journey® is an initiative aimed at achieving management gains, fixed and variable cost reductions, and increased productivity over the near and medium term. The Leadership Journey® initiative is described in more detail on page 12 of this report.

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## Business Overview

### History of Aperam

On December 7, 2010, Aperam's Board of Directors 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. ArcelorMittal as Aperam's sole shareholder as of that date also voted to approve the spin-off proposal.

In connection with the spin-off, 78,049,730 of our ordinary shares were allocated on a pro rata basis to ArcelorMittal's shareholders at an exchange ratio of one of Aperam's ordinary shares for every 20 ordinary shares of ArcelorMittal. Aperam's 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 over-the-counter. Since the creation of Aperam, the Company's Significant Shareholder<sup>2</sup> and the Luxembourg State hold 40.8% and 2.5%, respectively, of the issued share capital.

The following discussion and analysis should be read in conjunction with Aperam's annual report for the year ended December 31, 2012 and the condensed consolidated financial statements for the six months ended June 30, 2013 included in this report.

### Competitive Strengths

#### *A leading and geographically well-positioned stainless and specialty steel producer*

Aperam is the largest stainless and specialty steel producer in South America and according to the International Stainless Steel Forum (the "ISSF"), the second largest producer in Europe. Aperam is well-positioned in both developed and emerging markets, with approximately 65% of the sales derived from developed markets and 35% derived from emerging markets.

In South America, the Company is the only producer of flat stainless steel with fully integrated production and distribution facilities, and its position in South America has contributed to its global leadership in the stainless and electrical steel industry. Aperam is well equipped to continue to serve the growing South American market as a result of its modern production and distribution facilities, and its position as the sole flat stainless steel producer in Brazil and South America provides the Company with a key competitive advantage. Management expects to leverage these facilities going forward in order to capitalize on expected increases in demand for stainless and specialty steels in South America in the near-term.

Aperam also has a strong presence in the European stainless steel market. This position is primarily due to the Company's large industrial footprint, developed sales and distribution network and highly skilled employees. The Company's modern production facilities in Belgium and France are strategically located close to its major customers and have consistently maintained high performance standards through the optimization of production volumes, inventory and costs. The Company also has a highly integrated and technically advanced distribution network that is effective at maintaining direct contact with end-users through strong sales and marketing capabilities.

#### *A competitive industrial platform*

Aperam's modern production facilities allow the Company to support its customers' stainless and specialty steel requirements with a high level of operational efficiency. In Europe, the Company benefits from high quality and cost efficient plants with the largest and most recent electric arc furnace meltshop (Châtelet), the largest hot rolling mill (Châtelet) and one of the largest cold rolling mills (Genk). In Brazil, the Company operates a fully integrated production facility using charcoal produced by Aperam BioEnergia.

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<sup>2</sup> For a definition of "Significant Shareholder", please refer to page 53 of Aperam's annual report for the year ended December 31, 2012.

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Aperam continues to improve the competitiveness of its industrial base through restructurings and investments launched under the Leadership Journey® program, which is described in more details below. The Company has invested and will continue to invest in its modern and cost-efficient production facilities, and management believes that the Company is therefore well positioned to benefit from the long-term growth potential of the stainless and specialty steel industry.

### *A global integrated distribution network with close proximity to a well-diversified customer base*

Aperam has one of the largest integrated stainless and specialty steel sales, distribution and steel services networks in the world, with a total of 18 Steel Service Centers ("SSCs"), 9 transformation facilities and 22 sales offices. The Company is the only producer of flat stainless and electrical steel in South America with fully integrated production and distribution facilities, and has a highly integrated distribution network in Europe. The Company's distribution channels are strategically located in areas of high demand and close to many end-users. The Company works continuously to further develop its distribution network through internal development, partnerships and targeted acquisitions. Aperam normally expands its global distribution network either in response to an identified market opportunity or in response to the express business needs of major customers. The Company's global distribution network enables to tailor its products to address specific customer needs, thereby facilitating the maintenance of market share and the capture of growth opportunities. The Company's customer base, comprising a number of blue chip clients is well diversified.

### *A diversified product offering with a leading position in nickel alloys, supported by leading research and development capabilities*

Aperam offers a wide range of products, including high margin value-added niche products to a diversified customer base in both emerging and developed markets. The Company's products are mainly sold to end-users in the automotive, building and construction, catering and appliance, energy and chemicals, and transportation industries, while electrical steel products are primarily sold to customers in the electric motors, generators and transformers industries. The Company is the fourth largest global producer of nickel alloys, which are sold to customers in the aerospace, automotive, electronics, petrochemical, and oil & gas industries. Aperam's diverse product offering, sold to a wide range of customers across numerous industries, allows the Company to enjoy greater stability and to mitigate some of the risks and cyclicity inherent in certain markets. In addition, Aperam's leading position in nickel alloys, which is a particularly high margin value-added niche product, helps the Company to maintain and improve its margins and profitability.

Aperam's research and development activities are closely aligned with our 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 research and development departments interact closely with the Company's operating segments and partner with industrial end-users and leading research organizations in order to remain at the forefront of product development. The research and development capabilities have contributed to both the Company's leadership in the industry and its development of longstanding and recognizable brands. Aperam concentrates a significant portion of its research and development budget on high margin value-added niche products, such as nickel alloys.

### *Resilient profitability, efficient cash flow management and a solid financial structure*

Despite challenging market conditions, Aperam generated positive EBITDA in 2012 while several of our competitors generated negative EBITDA. The Company's profitability is supported by its implementation of the Leadership Journey®, which has contributed at the end of June 2013 to approximately \$324 million to EBITDA since the beginning of 2011. In addition, the Company has been able to generate positive cash-flow from operations over the past three years. Furthermore, Aperam has one of the strongest balance sheets among its European competitors. As of June 30, 2013, the Company had a net financial debt of \$841 million.

### *Strong management team and motivated workforce*

Aperam benefits from the experience and industry know-how of its senior management team. The team is led by the Chief Executive Officer, Mr. Philippe Darmayan. Mr. Darmayan had been a member of ArcelorMittal's management team since 2002 and brings with him more than 30 years of experience in leading industrial groups in Europe. He is supported by the other members of the Company's senior management team, including Mr. Julien Onillon, the Chief Financial Officer, who previously served as the head of global steel research at HSBC until 2005 when he joined Mittal Steel as the head of investor relations. The collective industry knowledge and leadership of Aperam's senior management team and their record of accomplishment in responding to challenging economic



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conditions is a key asset to Aperam's business. The Company has also introduced various initiatives to improve the dedication and motivation of its work force, including development programs, employee self-evaluations, monthly career committee meetings to evaluate opportunities for managers and performance-based bonuses. Greater accountability improves motivation, and the Company's approach to human resources has contributed to the dedication and motivation of its workforce.

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

Aperam understand its responsibility to future generations and local communities. In addition to Aperam BioEnergia enabling the use of sustainable biomass technology, the Company has created environmentally sustainable production solutions while still meeting the stainless and specialty steel demands of its customers. With a strong focus on health and safety, which remains the Company's top priority, the "lost time injury frequency rate", a key indicator of the success of the health and safety procedures measured by the time lost due to injuries per 1,000,000 worked hours, was 1.3 for the six months ended June 2013.

## Strategy

The key components of Aperam's strategy include (i) improving operational efficiency and increasing EBITDA through The Leadership Journey® and (ii) driving value through its value strategy, which includes: leveraging the Company's unique stainless steel product portfolio; driving additional value through the Services & Steel Solutions segment; and growing the Alloys & Specialties segment.

### *Improving operational efficiency and increasing EBITDA through the Leadership Journey®*

The Leadership Journey® is an initiative aimed at achieving management gains, fixed and variable cost reductions, and increased productivity over the near and medium term.

The Leadership Journey® is composed of a number of initiatives which can be broadly characterized as restructuring projects, investment projects and performance projects. Restructuring projects under the Leadership Journey® have traditionally focused on the closure of non-competitive capacities and the reduction of fixed costs through process simplification. Investment projects have focused on cost-cutting through improvement of the Company's industrial footprint. Performance projects have typically entailed detailed action plans to streamline Aperam's sourcing functions, reduce costs in areas such as IT, and generally reducing our sales, administrative & general costs.

As at December 31, 2012, the Company had achieved approximately \$276 million of management gains and profit enhancements under the Leadership Journey®, and the goal is to achieve an additional \$150 million in gains and profit enhancements over the two-year period ending December 31, 2014. The Leadership Journey® continued to progress over the first half of 2013 and has contributed a total of approximately \$324 million to EBITDA since the beginning of 2011. In order to achieve the goals under the Leadership Journey® the Company will continue the optimization and rationalization of its production facilities in Europe, the exchange of best practices between European and Brazilian facilities to increase its global industrial performance, new sourcing initiatives, yield and quality improvements, organizational simplifications, increased use of biomass and further product development.

### *Leveraging Aperam's unique stainless steel product portfolio*

Aperam intends to continue to support the development of its wide range of products, with a focus on high margin value-added niche products. Because of the specialized nature of these products, the Company is able to earn higher margins, typically attracting prices which are more than \$500 per ton higher than its other more commoditized products. In order to grow its sales of high margin value-added niche products, the Company is increasing the proportion of its research & development expenditure which is dedicated to developing new solutions for customers with specialty steel requirements, while focusing its marketing and advertising efforts on promoting these products more widely in the market. In this respect, a Chief Commercial and Sourcing Officer was appointed in May 2012 in order to promote a market-driven approach, one which is more focused on offering customers global solutions while aligning their needs with the Company's supply negotiation and procurement processes, and the development of these value-added products. Recent high-margin value-added niche product developments include initiatives in the field of sustainability, such as the development of selective catalytic reduction systems, evaporators in desalination installations, and fuel cell stacks. Government-sponsored and private sector sustainability initiatives across the globe are expected to drive greater stainless steel demand and create new opportunities for Aperam, and the Company intends to focus an increasing proportion of its marketing expenditure on advertising its expertise and product offering

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in this area. The goal is to increase sales of high-margin value-added niche products by between 5% and 10% over the near term.

### *Driving additional value through the Services & Solutions segment*

In a volatile environment, the development of the Services & Solutions segment and the provision of better services to Aperam's customers are key for achieving financial and operational excellence. Over the last three years, the Services & Solutions segment has generated on average more than \$50 per tonne of EBITDA by providing additional value-added services to the clients, such as cutting, polishing, brushing, forming, welding, pickling, annealing or packaging. The further development of the Services & Solutions segment is expected to drive additional value creation while serving Aperam's customers more effectively. As part of this strategy, Aperam has recently invested \$35 million as part of the Leadership Journey to create a new service center in the Sao Paulo region of Brazil to better serve customers in the Brazilian market. In particular, the facility's optimized footprint and its location close to high-consumption areas in the Brazilian market are expected to play a role in developing Aperam's operational capabilities and grow the Services & Solutions segment.

### *Growing the Alloys & Specialties segment*

The Alloys & Specialties segment specializes in the design, production and transformation of various nickel alloys and certain specific stainless steels. These products are intended for high-end applications or addressing very specific customer requirements across a broad range of industries, including the aerospace, automotive, electronics, petrochemical, oil and gas and other industries. In 2011 and 2012, the Alloys & Specialties segment achieved EBITDA margins that were higher than before the economic crisis in 2008. The Alloys & Specialties segment has significant growth potential which could be captured with new investments. As part of this strategy, Aperam recently invested \$28 million at the Imphy plant in France to increase revenue and improve competitiveness, as part of the Leadership Journey®. The investment includes a new induction furnace, a secondary metallurgy equipment and an electro slag re-melting furnace. Induction furnace and remelting furnaces are running in industrial conditions. Final tests with secondary metallurgy will be completed in the third quarter of the year 2013. A second vacuum remelting furnace project has been launched in the third quarter of the year 2012 with first heats expected in the third quarter of the year 2013.



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### Key factors affecting results of operations

The following major factors could cause actual results to differ materially from those discussed in the forward-looking statements included throughout this interim financial report.

- 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.

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## Market environment

Aperam's 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, Aperam's results of operations are affected by certain factors specific to itself, including several initiatives introduced in response to the challenging economic environment. These factors are described in greater detail below.

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 Prices" below.

Global demand for stainless steel flat products grew at an average rate of approximately 7% per annum from 2000 to 2007, which was followed by a period of decline at an average rate of approximately 7% per annum from 2007 to 2009. Demand subsequently increased to an average growth rate of approximately 3% per annum from 2010 to 2012. In the first half of 2013, demand for stainless steel flat products declined by 1% compared to the first half of 2012. This decline was primarily driven by a decrease in demand in Western Europe and North America whereas demand continued to grow in China and India.

Structural overcapacity in the sector has in the past affected, and in the future is expected to continue to affect, the stainless steel industry. Global sector utilization rates have declined significantly in recent years, from approximately 88% in 2006 to 62% in 2009 based on management estimates. Over the period between 2010 and 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 as compared to 2006 rates for the foreseeable future. In particular, structural overcapacity over this period has been influenced by demand for global stainless steel products. Since 2007, the decline and reduced growth rate of demand for global stainless steel flat products, coupled with global capacity additions, contributed to this significant increase in global overcapacity. Although the industry has not overproduced compared to demand, structural overcapacity is expected to continue to affect the industry.

## Competition

At the end of the first half of 2013, there were six stainless steel flat producers with annual slab production capacity in excess of 2.0 million tonnes per year, accounting for approximately half of the global capacity, based on management estimates. These producers are Outokumpu (including Inoxum, the former stainless steel unit of ThyssenKrupp), Acerinox, Taiyuan Iron & Steel ("TISCO"), Yieh United Steel ("YUSCO"), Pohang Iron and Steel Company ("POSCO") and Aperam.

In Europe, Aperam competes primarily with Outokumpu, Acerinox and, to a growing extent, importers. In South America, Aperam faces competition primarily from imports from Asia and, to a lesser extent, North America. Nickel alloys are a niche market in which the Company's main competitors are Outokumpu VDM, Carpenter Technologies, Special Metals, Hitachi and Haynes.

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.

## Major anti-dumping developments in Brazil

On March 7, 2012, Brazil's Trade Defense Department ("Decom"), an investigative body under the Brazilian Ministry of Development, Industry and Foreign Trade, opened an anti-dumping investigation against imported welded austenitic stainless pipes from China and Taiwan. Furthermore, on April 13, 2012, Decom officially launched an anti-dumping investigation on flat stainless steel products (austenitic stainless steel grade 304 and ferritic stainless steel grade 430). As a result, the imports from China, Germany, South Korea, Finland, Taiwan and Vietnam are now being investigated. In addition to the above, on April 17, 2012, Decom officially launched an anti-dumping investigation on flat non-grain oriented products. Imports from South Korea, China and Taiwan are now being investigated. The

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outcome of these anti-dumping initiatives is expected in the second half of 2013. On September 25, 2012, the Brazilian government implemented an increase of import duties for stainless steel flat products in Brazil from 14% to 25% for a period of twelve months. On July 17, 2013, Brazil's foreign trade chamber, Camex, approved anti-dumping charges on imports of non-oriented-grain ("NOG") electrical flat steel from China, Taiwan and South Korea.

### Stainless steel prices

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. 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", Aperam 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. By contrast, when nickel prices are rising, purchasers tend to acquire larger quantities of stainless steel in order to avoid having to buy at higher prices.

In 2012, the volatility of nickel prices reduced considerably from previous years. In the first half of 2012, nickel prices increased 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 declining to approximately \$17,000 per tonne at the end of 2012. During the first half of 2013, nickel prices rebounded to a maximum of approximately \$18,500 per tonne in early February before declining to approximately \$13,600 at the end of June 2013. The negative nickel price evolution during the first half of 2013 was primarily driven by concerns about the growth rates of the major world economies which negatively impacted nickel demand and resulted in a growing oversupply of nickel-units on a world wide basis. Moreover, increased nickel pig iron production from China resulted in lower demand for imported nickel units.

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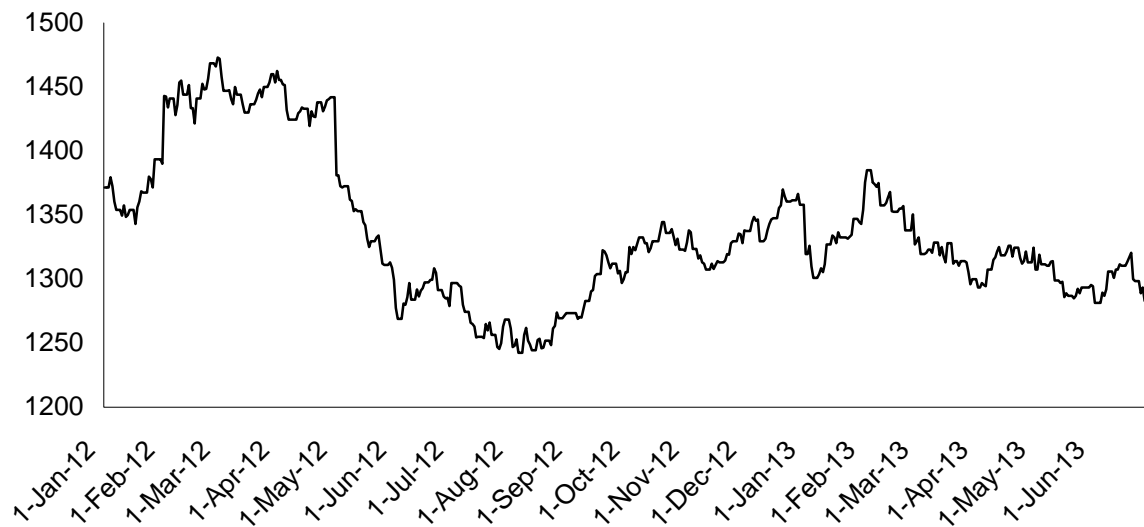
The charts hereafter show the price of nickel on the LME and the European base price for CR304 stainless steel for the period from January 1, 2012 to June 30, 2013:

**Nickel - LME (\$/tonne)**



**Stainless Steel/CR304 2B 2mm**

**Coil Base/Northern Europe Domestic Delivered (\$/tonne)**



In the first half of 2012, base prices increased to approximately \$1,460 per tonne at the end of March before decreasing to approximately \$1,300 per tonne at the end of June. During the second half of 2012 base prices continued to decrease until September to approximately \$1,250 per tonne, before increasing to approximately \$1,350 per tonne at the end of 2012. The base price continued to increase until early February 2013, at which point they again began falling as a consequence of the decline in nickel prices. By the end of June 2013, the base price had decreased to approximately \$1,290 per tonne as a consequence of the continuous decrease of nickel prices.

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## Current and anticipated trends in stainless steel demand

Global demand for stainless steel flat products is expected to increase by approximately 4% per annum until 2017, according to management estimates, with growth of approximately 1% and 3% expected for Europe and South America, respectively.

## 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.

## Leadership Journey®

The Leadership Journey® is an initiative aimed at achieving management gains, fixed and variable cost reductions, and increased productivity over the near and medium term. The Leadership Journey® is composed of a number of initiatives which can be broadly characterized as restructuring projects, investment projects and performance projects. Restructuring projects under the Leadership Journey® have traditionally focused on the closure of non-competitive capacities and the reduction of fixed costs through process simplification. Investment projects have focused on cost-cutting through improvement of our industrial footprint. Performance projects have typically entailed detailed action plans to streamline our sourcing functions, reduce costs in areas such as IT, and generally reducing our sales, administrative and general costs.

As at December 31, 2012, the Company had achieved approximately \$276 million of management gains and profit enhancements under the Leadership Journey®, and the goal is to achieve an additional \$150 million in gains and profit enhancements over the two-year period ending December 31, 2014. The Leadership Journey® continued to progress over the first half of 2013 and has contributed a total of approximately \$324 million to EBITDA since the beginning of 2011.

Some of our key on-going projects under the Leadership Journey® include the continued optimization and rationalization of our production facilities in Europe, the exchange of best practices between our European and Brazilian facilities to increase our global industrial performance, new sourcing initiatives, yield and quality improvements, organizational simplifications, increased use of biomass and further product development. As part of this strategy, Aperam recently invested \$28 million at the Imphy plant in France to increase revenue and improve competitiveness, as part of the Leadership Journey®. The investment includes a new induction furnace, a secondary metallurgy equipment and an electro slag re-melting furnace. Induction furnace and remelting furnaces are running in industrial conditions. Final tests with secondary metallurgy will be completed in the third quarter of 2013. A second vacuum remelting furnace project has been launched in the third quarter of 2012 with first heats expected in the third quarter of 2013. Another recent Leadership Journey® initiative is the development of our Service & Solutions segment through the Campinas project (Brazil, Sao Paulo region), which commenced operations early 2013. Through an investment of \$35 million, the aim of this project is to create a new service center allowing us to better serve customers in the Brazilian market. In particular, the facility's optimized footprint and the its location close to high-consumption areas in the Brazilian market is expected to play a role in developing our operational capabilities and grow the segment.

## Impact of exchange rate movements

The section below described the evolution of the currencies of the major jurisdictions where Aperam operates (mainly Euro and Brazilian real).

In 2012, the U.S. dollar depreciated against the Euro 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

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again significantly until the end of the year 2012. At the end of the first half of 2013, the U.S. dollar against the Euro remained stable compared to the end of 2012.

Although there was a depreciation of the U.S. dollar against the Brazilian real in the first quarter of 2012, the U.S. dollar appreciated significantly against the Brazilian real in the second quarter of 2012 and remained stable for the remaining of the year 2012. In the first quarter of 2013, the U.S. dollar reasonably depreciated against the Brazilian real and strongly appreciated in the second quarter of 2013.

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.

### Operating results

Aperam reports its operations in three segments: Stainless & Electrical Steel, Services & Solutions and Alloys & Specialties.

### Key Indicators

The key performance indicators that Aperam's management uses to analyze operations are sales, average steel selling prices, steel shipments and operating result. Management's analysis of liquidity and capital resources is driven by operating cash flows.

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Six months ended June 30, 2013 as compared to six months ended June 30, 2012

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

Sales decreased by 4.5% to \$2,635 million for the six months ended June 30, 2013 from \$2,760 million for the six months ended June 30, 2012. The decrease in sales was due to the combined effect of lower average steel selling price, which decreased to \$2,963 per tonne for the six months ended June 30, 2013 from \$3,058 per tonne for the six months ended June 30, 2012, and a decline in steel shipments, which decreased to approximately 851 thousand tonnes for the six months ended June 30, 2013 from 866 thousand tonnes for the six months ended June 30, 2012.

The following table provides a summary of sales at Aperam by reportable segment for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012:

Reportable Segment	Sales for the Six Months Ended June 30, <sup>(1)</sup>		Steel Shipments for the Six Months Ended June 30, <sup>(2)</sup>		Average Selling Price for the Six Months Ended June 30,		Changes in		
	2013	2012	2013	2012	2013	2012	Sales	Steel Shipments	Average Steel Selling Price
	<i>(in millions of U.S. dollars)</i>		<i>(in thousands of tonnes)</i>		<i>(in U.S. dollars/tonne)</i>		<i>(%)</i>		
Stainless & Electrical Steel <sup>(3)</sup> ..	2,085	2,230	817	841	2,450	2,553	(6.5)	(2.9)	(4.0)
Services & Solutions.....	1,138	1,143	345	338	3,130	3,229	(0.4)	2.1	(3.1)
Alloys & Specialties .....	333	350	20	20	16,601	17,124	(4.9)	—	(3.1)

Notes:

- (1) Amounts are shown prior to intra-group eliminations. For additional information, see Note 7 to the Condensed Consolidated Financial Statements.
- (2) Stainless & Electrical Steel shipment amounts are shown prior to intersegment shipments of 331 thousand tonnes and 333 thousand tonnes in the six months ended June 30, 2013 and 2012, respectively.
- (3) Includes shipments of special carbon steel from the Company's Timóteo production facility.

#### Stainless & Electrical Steel

Sales in the Stainless & Electrical Steel segment decreased by 6.5% to \$2,085 million for the six months ended June 30, 2013 from \$2,230 million for the six months ended June 30, 2012, mainly as a result of a combination of lower shipment volumes and decreased average steel selling price. The average steel selling price for the Stainless & Electrical Steel segment decreased by 4.0%, to \$2,450 per tonne for the six months ended June 30, 2013 from \$2,553 per tonne for the six months ended June 30, 2012 due to lower nickel prices. Sales to external customers in the Stainless & Electrical Steel segment were \$1,201 million for the six months ended June 30, 2013, representing 45.6% of total sales, a decrease of 8.0% as compared to sales to external customers of \$1,305 million for the six months ended June 30, 2012, or 47.3% of total sales. Steel shipments for this segment (including intersegment shipments) decreased to 817 thousand tonnes for the six months ended June 30, 2013 (of which 300 thousand tonnes were attributable to our operations in South America and 517 thousand tonnes were attributable to our operations in Europe) from 841 thousand tonnes for the six months ended June 30, 2012 (of which 315 thousand tonnes were attributable to our operations in South America and 526 thousand tonnes were attributable to our operations in Europe), which represented a decrease of 2.9%. Lower shipments were due to the general economic conditions and production stoppages in South America during the first quarter of 2013.



## Interim Management Report

### Services & Solutions

Sales in the Services & Solutions segment decreased by 0.4% to \$1,138 million for the six months ended June 30, 2013 from \$1,143 million for the six months ended June 30, 2012. The decrease was due to lower average stainless steel selling price due to a lower nickel price level in the first half of 2013 compared to the first half of 2012, which was partially offset by an increase in shipment volumes. The average steel selling price for the Services & Solutions segment decreased by 3.1%, to \$3,130 per tonne for the six months ended June 30, 2013 from \$3,229 per tonne for the six months ended June 30, 2012. Sales to external customers in the Services & Solutions segment were \$1,101 million for the six months ended June 30, 2013, representing 41.8% of total sales, a decrease of 0.4% as compared to sales of \$1,105 million for the six months ended June 30, 2012, or 40.0% of total sales. Steel shipments for this segment increased to 345 thousand tonnes for the six months ended June 30, 2013 from 338 thousand tonnes for the six months ended June 30, 2012, which represented an increase of 2.1%.

### Alloys & Specialties

Sales in the Alloys & Specialties segment decreased by 4.9% to \$333 million for the six months ended June 30, 2013 from \$350 million for the six months ended June 30, 2012. The decrease was primarily due to lower average steel selling price. The average steel selling price for the Alloys & Specialties segment decreased by 3.1%, to \$16,601 per tonne for the six months ended June 30, 2013 from \$17,124 per tonne for the six months ended June 30, 2012 due to lower nickel prices and a deterioration of our product mix. Sales to external customers in the Alloys & Specialties segment were \$330 million for the six months ended June 30, 2013, representing 12.5% of total sales, a decrease of 5.2% as compared to sales to external customers of \$348 million for the six months ended June 30, 2012, or 12.6% of total sales. Steel shipments for this segment were 20 thousand tonnes for the six months ended June 30, 2013, in line with the 20 thousand tonnes for the six months ended June 30, 2012.

### Operating (Loss) Income

Operating loss for the six months ended June 30, 2013 was \$6 million, compared to an operating loss of \$30 million for the six months ended June 30, 2012. The lower operating loss was the result of the very good performance of the Leadership Journey® and industrial performance that have more than offset the deterioration of the market. Average steel selling prices during the six months ended June 30, 2013 were indeed lower compared to the six months ended June 30, 2012, mainly due to a lower nickel price level.

The following table summarizes the operating (loss) income and the operating margin of the three reportable segments for the six months ended June 30, 2013 as compared with the six months ended June 30, 2012:

Operating Segment	Operating Income/(Loss) for the Six Months Ended June 30,		Operating Margin for the Six Months Ended June 30,	
	2013	2012 <sup>(1)</sup>	2013	2012 <sup>(1)</sup>
	(in millions of U.S. dollars)		(%)	
Stainless & Electrical Steel .....	(1)	(63)	(0.0)	(2.8)
Services & Solutions .....	(14)	1	(1.2)	0.1
Alloys & Specialties .....	21	24	6.3	6.9
Total <sup>(2)</sup> .....	(6)	(30)	(0.2)	(1.1)

(1) Figures for the six months ended June 30, 2012 have been restated due to change in accounting principle of defined benefit plans and other long term employee benefits, and adoption of revised IAS 19 standard.

(2) Amounts shown include eliminations of \$(12) million and \$8 million for the six months ended June 30, 2013 and 2012, 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.

# Interim Management Report

## *Stainless & Electrical Steel*

The operating loss for the Stainless & Electrical Steel segment was \$1 million for the six months ended June 30, 2013 (of which operating loss of \$10 million was attributable to our operations in Europe and \$9 million operating income was attributable to our operations in South America), compared to operating loss of \$63 million for the six months ended June 30, 2012 (of which operating losses of \$9 million and \$54 million were attributable to our operations in South America and Europe, respectively). The operating result for the six months ended June 30, 2013 increased compared to the six months ended June 30, 2012 in the Stainless & Electrical Steel segment mainly as a result of Aperam's value strategy and the continuing progress of the Leadership Journey®. During the second quarter of 2013, USD 8 million income of insurance indemnification was recognized in relation to the capital expenditures linked to the rebuilding of the new annealing and pickling line in Gueugnon, France.

## *Services & Solutions*

The operating loss for the Services & Solutions segment was \$14 million for the six months ended June 30, 2013 compared to operating income of \$1 million for the six months ended June 30, 2012. This decrease primarily resulted from the negative stock effect created by the nickel price decline. Such temporary stock effect results from the difference of raw material prices between the time we acquire such materials and the date of sale to customers following processing. In addition, USD 7 million of restructuring provision and USD 3 million of impairment loss on tangible assets have been recorded in relation to Firminy (Aperam Stainless Services & Solutions Precision) upcoming closure during the second quarter of 2013.

## *Alloys & Specialties*

The operating income for the Alloys & Specialties segment was \$21 million for the six months ended June 30, 2013, compared to operating income of \$24 million for the six months ended June 30, 2012. This decrease of USD 3 million was primarily due to an impairment loss on tangible assets booked during the first quarter of 2013.

## **Income from Other Investments**

There was no income from other investments for the six months ended June 30, 2013. We recorded an income from other investments of \$1 million for the six months ended June 30, 2012 that was attributable to dividends received from a minority stake we hold in Gerdau, a Brazilian steelmaker.

## **Interest Income**

Interest income was \$2 million for the six months ended June 30, 2013, compared to \$1 million recorded for the six months ended June 30, 2012.

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

Interest expense and other net financing costs include interest expense, net foreign exchange and derivative results and other net financing costs. Interest expense and other net financing costs increased to \$67 million for the six months ended June 30, 2013, compared to \$46 million for the six months ended June 30, 2012.

Excluding foreign exchange and derivative result described below, interest expense and other financing costs for the six months ended June 30, 2013 were \$59 million, primarily related to financing costs of \$42 million, compared to interest expense and other financing costs of \$37 million for the six months ended June 30, 2012, primarily related to financing costs of \$38 million. Financing costs relate to interests and other expenses related to the service of debt and other financing facilities.

Realized and unrealized foreign exchange and derivative losses were \$8 million for the six months ended June 30, 2013, compared to realized and unrealized foreign exchange and derivative losses of \$9 million for the six months ended June 30, 2012. Foreign exchange results primarily relate to the accounting revaluation of U.S. dollar denominated external debt held in subsidiaries and results on derivatives primarily relate to results on financial

## Interim Management Report

instruments we entered into to hedge our exposure to nickel prices which do not qualify for hedge accounting treatment under IAS 39.

### **Income Tax Benefit**

We recorded an income tax benefit of \$32 million for the six months ended June 30, 2013, compared to an income tax benefit of \$34 million for the six months ended June 30, 2012. The income tax benefit was primarily due to negative operational results in several countries.

### **Net Loss Attributable to Equity Holders of the Parent**

Our net result was a loss of \$39 million for the six months ended June 30, 2013, compared to a loss of \$40 million for the six months ended June 30, 2012.

# Interim Management Report

## Liquidity

### *Liquidity and Capital Resources*

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., the parent company of the Group, 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.

Aperam's cash and cash equivalents amounted to \$233 million as of June 30, 2013 compared to cash and cash equivalents of \$226 as of December 31, 2012. Additionally, the Company had committed credit lines with banks of \$420 million under its senior credit facility.

Total debt, which includes long-term debt and short-term debt, was \$1,084 million as of June 30, 2013 and total debt was \$1,042 as of December 31, 2012. Net debt (defined as long-term and short-term debt less cash, cash equivalents and restricted cash) was \$841 million as of June 30, 2013, compared to \$816 million at December 31, 2012. Gearing (defined as net debt divided by total equity) was 29% as of June 30, 2013 compared to 26% as of December 31, 2012.

As of June 30, 2013, the Company had drawn \$380 million of the Borrowing Base Facility, leaving a committed credit line of \$420 million under the facility subject to eligible collateral being available. In addition, as of June 30, 2013, Aperam had \$138 million of debt outstanding at the subsidiary level, of which the Company had granted security over \$27 million of indebtedness. As of December 31, 2012, the Company had drawn \$325 million of the Borrowing Base Facility, leaving a committed credit line of \$475 million under the facility subject to eligible collateral being available. In addition, as of December 31, 2012, the Company had \$151 million of debt outstanding at the subsidiary level, of which the Company had granted security over \$37 million of indebtedness.

As of June 30, 2013, the Company had total liquidity of \$653 million, consisting of cash and cash equivalents (including short term investments) of \$233 million and committed credit lines (subject to availability of eligible collateral) of \$420 million. 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 (subject to availability of eligible collateral) of \$475 million.

These facilities, which include debt held at the subsidiary level, 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 the Company's future requirements.

## Financing

### *Borrowing Base Facility*

On March 15, 2011, Aperam entered into a \$800 million secured borrowing base revolving credit facility (the "Borrowing Base Facility").

The purpose of the Borrowing Base Facility is to finance the working capital requirements of the Company. On March 15, 2013, the Company amended the Borrowing Base Facility to extend the maturity of \$600 million of the Borrowing Base Facility from March 2014 to March 2015. The Borrowing Base Facility may be repaid and re-drawn from time to time until its final maturity. As of June 30, 2013, the Company had drawn \$380 million of the Borrowing Base Facility, leaving a committed credit line of \$420 million under the facility subject to eligible collateral being available.

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 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.,

## Interim Management Report

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 June 30, 2013, these financial covenants were fully met.

### *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<sup>3/8</sup>% notes due 2016 and \$250 million aggregate principal amount of its 7<sup>3/4</sup>% 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, accounted for as a secured bank loan, was fully drawn on October 3, 2012. As of June 30, 2013, the Company had \$50 million principal amount outstanding under the facility.

On September 27, 2011, the Company entered into a EUR 17.5 million unsecured loan agreement. The purpose of the loan is to finance general corporate purposes, as well as the repayment of existing indebtedness. As of June 30, 2013, the Company had \$23 million principal amount outstanding under the loan.

### *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 June 30, 2013 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 the Company sold under the TSR program and derecognized in accordance with IAS 39 for the year ended December 31, 2012 was \$1.7 billion, and was \$0.8 billion for the six months ended June 30,

## Interim Management Report

2013. 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 amounted to \$10 million in the year ended December 31, 2012, and \$6 million for the six months ended June 30, 2013.

As of June 30, 2013, the Company had \$281 million outstanding under the TSR program.

### Equity

Equity attributable to the equity holders of the parent decreased by \$227 million to \$2,931 million at June 30, 2013, as compared to \$3,158 million at December 31, 2012, primarily due to foreign currency translation differences of \$143 million, net loss of the period of \$39 million, change in reserves for available for sale securities and unrealized result on derivative financial instruments of \$33 million and \$13 million, respectively, and change in recognized actuarial gains of \$1 million.

### Sources and Uses of Cash

<b>Summary of Cash Flows</b>	
<b>Six months ended June 30,</b>	
<b>2013</b>	<b>2012</b>
<i>(in millions of U.S. dollars)</i>	

Net cash provided by operating activities	44	107
Net cash used in investing activities	(74)	(87)
Net cash provided by (used in) financing activities	50	(31)

#### *Net cash Provided by Operating Activities*

Net cash provided by operating activities decreased to \$44 million for the six months ended June 30, 2013, compared to \$107 million for the six months ended June 30, 2012. The decrease was due to working capital requirements and lower utilization of TSR programs. Working capital (defined for purposes of the condensed consolidated financial statements as consisting of inventories plus trade accounts receivable less trade accounts payable) for the six months ended June 30, 2013, decreased by \$3 million from December 31, 2012 when it decreased by \$39 million for the six months ended June 30, 2012 since December 31, 2011 due to a lower utilization of TSR programs.

#### *Net cash Used in Investing Activities*

Net cash used in investing activities amounted to \$74 million for the six months ended June 30, 2013, compared to \$87 million for the six months ended June 30, 2012. The net cash used in investing activities for the six months ended June 30, 2013 was mainly related to capital expenditures for \$67 million and transfer into restricted cash of deposits related to credit arrangements for \$10 million. Net cash used in investing activities for the six months ended June 30, 2012 was mainly related to capital expenditures for \$83 million.

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

Net cash provided by financing activities was \$50 million for the six months ended June 30, 2013, compared to net cash used in financing activities of \$31 million for the six months ended June 30, 2012. The increase of net cash provided by financing activities was primarily due to payables to banks and long term debt that amounted to net proceeds of \$52 million for the six months ended June 30, 2013, mainly resulting from drawings on the Borrowing Base Facility for \$55 million, compared to net proceeds of \$1 million during the six months ended June 30, 2012.

## Interim Management Report

There was no dividend paid during the six months ended June 30, 2013 while dividends of \$29 million were paid during the six months ended June 30, 2012.

### Earnings Distributions

On February 4, 2013, the Company announced that the Board of Directors will submit to a shareholders' vote, at the next annual general meeting on May 8, 2013, a proposal to make no dividend payment in 2013 in order to accelerate the net debt reduction target of USD 650 million by the end of 2014. This proposal was approved by a shareholders' vote at the annual general meeting of May 8, 2013.

### Research and Developments, 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 six months ended June 30, 2013 amounted to \$10 million, compared to \$9 million for the six months ended June 30, 2012.

### Trend Information

All of the statements in this "Trend Information" section are subject to and qualified by the information set forth under the "Cautionary Statement Regarding Forward-Looking Statements". See also "Key factors affecting results of operations" page 9.

EBITDA in the third quarter of 2013 is expected to be lower compared to EBITDA in the second quarter of 2013 due to the traditional seasonal slowdown and the current market weakness. Net financial debt is expected to temporarily increase in the third quarter of 2013.



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## Recent Developments

- On February 4, 2013, Aperam announces 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 to accelerate the net debt reduction target of USD 650 million by the end of 2014. Capex is also expected to be reduced in full year 2013 compared to full year 2012 and concentrated on security, environment and cost reduction.
- On February 4, 2013, Aperam announced that in response to the current economic uncertainty and in a continuing effort to improve its cost competitiveness and profitability, the Company targets an expansion of the Leadership Journey® with USD 150 million targeted over the next 2 years starting end of 2012. This expansion of the Leadership Journey® in combination with the achievements realized under the previous Leadership Journey® target of USD 350 million by 2013 leads to a new combined target of USD 425 million by the end of 2014.
- On February 4, 2013, Aperam announces that it obtained an in-principle refinancing commitment to extend a portion of 600 million USD of its current Secured Borrowing Base Revolving Credit Facility from March 2014 until March 2015.
- On February 20, 2013, Aperam, Arvedi and Marcegaglia announced that they have signed a memorandum of understanding ("MoU") 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.
- On March 7, 2013, Aperam announced the publication of its 2012 Annual Report. Aperam's Annual Report can be read online at [www.aperam.com](http://www.aperam.com), sections investors & shareholders.
- On May 8, 2013 Aperam announced the publication of its second Sustainability Report. The report outlines the Company's sustainability performance and its record and policies in areas such as safety, people, communities, environment, as well as the contribution of the Company's products to society. Aperam's first Sustainability Report can be read online at [www.aperam.com](http://www.aperam.com), section sustainability.
- On May 8, 2013, the Annual General Meeting of Shareholders held in Luxembourg approved all resolutions on the agenda by a large majority. 46,782,903 shares, or 59.94% of the Company's share capital, were present or represented at the meeting. In particular, the shareholders approved the consolidated financial statements for the year ended December 31, 2012. In addition, the re-election of Board Members and the authorization of grants of share based incentives were approved.
- On 24 May 2013, the Board of Directors of Aperam decided to co-opt Mr. Joseph Greenwell (62 years) as director until Aperam's next general meeting of shareholders, where Mr. Greenwell's election will be submitted for confirmation to the shareholders. This decision follows the resignation of Mr. David Burritt from the Board for personal considerations effective May 24, 2013. Mr. Greenwell has a career of 40 years in the motor industry and held senior roles in Jaguar, Ford of Europe and Ford North America. Mr. Greenwell's biographical information is available online at [www.aperam.com](http://www.aperam.com), section investors & shareholders.
- On July 31, 2013 Aperam announced that following the departure of Mr. Julien Burdeau effective July 15, 2013, Mr. Philippe Darmayan, current Chief Executive Officer of Aperam, will now also hold responsibilities for the Alloys & Specialties division.

# Interim Management Report

## Recent Developments in Legal Proceedings

### Tax Claims

- On December 16, 2011, Aperam Stainless Services and Solution Brasil has been assessed by the Tax authorities aiming at collecting \$39 million (including interests on late payment 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. Despite a partial favorable decision obtained in June 2013 the case is still pending before the Court of Appeal.
- In December 2010, Aperam South America received a tax assessment in the total amount of \$35 million. The Minas Gerais State revenue claimed that the company should have paid VAT ("ICMS") related to the distribution of electrical 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 ICMS. In March 2013, the Company obtained a favorable decision at the first judicial level but the State presented an appeal. The case is still pending.
- In December 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 alleged 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. In May 2013, the partial favorable decision has been confirmed to the Company. The amount in dispute is approximately \$7 million.

### Civil claim

- In April 2004, a sanctioning administrative process with the Central Bank was brought against Aperam South America based on alleged irregular exchange operations utilized by the company in purchase and sale of treasury bills. In March 2007, Aperam South America has been assessed with a fine of \$10 million plus interest. In 2012, the Company brought the case before the judicial court. In this proceeding the petition offering an insurance guarantee and asking for the suspension of payment was accepted by the court in May 2013. The case is still pending at the first judicial instance.

# Interim Management Report

## Corporate Governance

We refer you to the “Corporate Governance” section of our Annual Report 2012 for a complete overview. Aperam’s Annual Report can be read online at [www.aperam.com](http://www.aperam.com), section investors & shareholders. The purpose of the present section is solely to describe the events and changes affecting the corporate governance of Aperam between December 31, 2012 and June 30, 2013.

### Annual General Meetings of Shareholders of May 8, 2013

#### *Re-election of members of the Board of Directors*

On May 8, 2013, the Annual General Meeting of Shareholders approved the re-election of the directors whose mandates came to an end on the date of the General Meeting: Mr. Lakshmi N. Mittal, Mr. Romain Bausch, Mr. David B. Burritt, Ms. Kathryn A. Matthews, Mr. Aditya Mittal and Mr. Gonzalo Urquijo.

#### *Authorisation of grants of share based incentives*

On May 8, 2013, the Annual General Meeting of Shareholders authorized the Board of Directors to issue up to 220,000 of the Company’s fully paid-up ordinary shares to Management Committee members under the Management Committee Performance Share Unit Plan (the “MC PSU Plan”). These shares can be newly issued shares or treasury shares. The Board of Directors may consider appropriate rules to implement the MC PSU Plan, including other retention based grants below the level of the Management Committee. The details of the MC PSU Plan are available online in the convening notice at [www.aperam.com](http://www.aperam.com), section investors & shareholders, shareholders’ meetings, 8 May 2013 - Annual General Meeting of Shareholder.

### Board of Directors and Committee composition

The members of the Board of Directors as of the date of this interim financial report are set forth below.

Name	Age <sup>(1)</sup>	Position within the Company <sup>(2)</sup>	Date joined Board	Term Expires
Mr. Lakshmi N. Mittal .....	62	Chairman, Non-independent member of the Board of Directors	December 2010	May 2016
Mr. Romain Bausch.....	59	Lead Independent Director, Independent member of the Board of Directors	January 2011	May 2016
Mr. Joseph Greenwell .....	61	Independent member of the Board of Directors	May 2013 <sup>(2)</sup>	— <sup>(2)</sup>
Ms. Kathryn A. Matthews .....	53	Independent member of the Board of Directors	December 2010	May 2016
Mr. Aditya Mittal .....	36	Non-independent member of the Board of Directors	December 2010	May 2016
Ms. Laurence Mulliez .....	46	Independent member of the Board of Directors	May 2011	May 2014
Mr. Gonzalo Urquijo .....	51	Non-independent member of the Board of Directors	December 2010	May 2016

Company Secretary: Mr. Laurent Beauloye

(1) Age on December 31, 2012.

(2) On May 24, 2013, the Board of Directors of Aperam decided to co-opt Mr. Joseph Greenwell as director until Aperam’s next general meeting of shareholders, where Mr. Greenwell’s election will be submitted for confirmation to the shareholders. This decision follows the resignation of Mr. David Burritt from the Board for personal considerations effective May 24, 2013.

## Interim Management Report

The composition of the Committees of the Board of Directors as of the date of this interim 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)	
Joseph Greenwell .....	Member of Board of Directors	Independent	X	X	
Kathryn Matthews .....	Member of Board of Directors	Independent		X	X
Laurence Mulliez .....	Member of Board of Directors	Independent	X (Chairman)		X
Gonzalo Urquijo .....	Member of Board of Directors	Non Independent			X (Chairman)

### Management Committee composition

The composition of the Company's Management Committee as of the date of this interim financial report is set forth below. The members of the Management Committee are 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.

<b>Name</b>	<b>Age<sup>(1)</sup></b>	<b>Function</b>
Mr. Philippe Darmayan .....	60	Chief Executive Officer; 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

(1) Age on December 31, 2012.

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

### Compensation

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

In April 2013, a total of 39,000 RSUs were granted to employees below the level of the Management Committee. These grants were allocated under the May 8, 2012 shareholder meeting authorization.

## Interim Management Report

### Cautionary Statement Regarding Forward-Looking Statements

This document may contain forward-looking information and statements about Aperam and its subsidiaries. These statements include financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future operations, products and services, and statements regarding future performance. Forward-looking statements may be identified by the words “believe,” “expect,” “anticipate,” “target” or similar expressions. Although Aperam’s management believes that the expectations reflected in such forward-looking statements are reasonable, investors and holders of Aperam’s securities are cautioned that forward-looking information and statements are subject to numerous risks and uncertainties, many of which are difficult to predict and generally beyond the control of Aperam, that could cause actual results and developments to differ materially and adversely from those expressed in, or implied or projected by, the forward-looking information and statements. These risks and uncertainties include those discussed or identified in the filings with the Luxembourg financial and stock market regulator (*Commission de Surveillance du Secteur Financier*). Aperam undertakes no obligation to publicly update its forward looking statements, whether as a result of new information, future events, or otherwise.

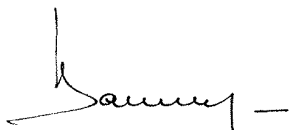
# Interim Management Report

## Statement of Responsible Persons

We confirm, to the best of our knowledge, that:

1. the Condensed Consolidated Financial Statements of Aperam presented in this Half Year Report 2013, prepared in conformity with International Accounting Standard 34, *Interim Financial Reporting*, as adopted in the European Union, give a true and fair view of the assets, liabilities, financial position, profit or loss of the Company and significant off balance sheet arrangements.
2. the interim management report includes a fair review of the material events that occurred in the first six months of the financial year 2013 and their impact on the Condensed Consolidated Financial Statements, of the main related party transactions, and a description of the principal risks and uncertainties for the remaining six months of the year.

By order of the Board of Directors



Chief Executive Officer  
Mr. Philippe Darmayan  
August 5, 2013



Chief Financial Officer  
Mr. Julien Onillon  
August 5, 2013

**Condensed Consolidated Financial Statements  
for the six months ended June 30, 2013**

**Aperam**

**Condensed Consolidated Statement of Financial Position  
(in millions of U.S. dollars)**

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	233	226
Restricted cash	10	—
Trade accounts receivable	392	330
Inventories (note 2)	1,299	1,227
Prepaid expenses and other current assets (note 3)	162	120
Income tax receivable	14	14
<b>Total current assets</b>	<b>2,110</b>	<b>1,917</b>
<b>Non-current assets:</b>		
Goodwill and intangible assets	813	859
Biological assets	124	135
Property, plant and equipment	2,311	2,474
Investments in associates	2	2
Other investments	74	120
Deferred tax assets	342	303
Other assets	108	113
<b>Total non-current assets</b>	<b>3,774</b>	<b>4,006</b>
<b>Total assets</b>	<b>5,884</b>	<b>5,923</b>

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



# Condensed Consolidated Financial Statements for the six months ended June 30, 2013

## Aperam

### Condensed Consolidated Statement of Financial Position (in millions of U.S. dollars)

	June 30, 2013	December 31, 2012
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Short-term debt and current portion of long-term debt (note 6)	468	435
Trade accounts payable	1,137	950
Short-term provisions	42	33
Accrued expenses and other liabilities	270	297
Income tax liabilities	3	3
<b>Total current liabilities</b>	<b>1,920</b>	<b>1,718</b>
<b>Non-current liabilities:</b>		
Long-term debt, net of current portion (note 6)	616	607
Deferred tax liabilities	116	136
Deferred employee benefits	211	211
Long-term provisions	74	75
Other long-term obligations	12	14
<b>Total non-current liabilities</b>	<b>1,029</b>	<b>1,043</b>
<b>Total liabilities</b>	<b>2,949</b>	<b>2,761</b>
<b>Equity (note 4):</b>		
Common shares (no par value, 85,854,303 and 85,854,303 shares authorized, 78,049,730, and 78,049,730 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively)	547	547
Additional paid-in capital	1,600	1,600
Retained earnings	918	957
Reserves	(134)	54
Equity attributable to the equity holders of the parent	2,931	3,158
Non-controlling interests	4	4
<b>Total equity</b>	<b>2,935</b>	<b>3,162</b>
<b>Total liabilities and equity</b>	<b>5,884</b>	<b>5,923</b>

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

# Condensed Consolidated Financial Statements for the six months ended June 30, 2013

## Aperam

### Condensed Consolidated Statement of Operations (in millions of U.S. dollars except share and per share data)

	Six months ended June 30,	
	2013	2012
Sales		
(including 58 and 83 of sales to related parties for 2013 and 2012, respectively)	2,635	2,760
Cost of sales		
(including depreciation and impairment of 152 and 161 and purchases from related parties of 94 and 78 for 2013 and 2012, respectively)	2,524	2,666
Gross margin	111	94
Selling, general and administrative	117	124
Operating loss	(6)	(30)
Income from other investments	—	1
Interest income	2	1
Interest expense and other net financing costs	(67)	(46)
Loss before taxes	(71)	(74)
Income tax benefit (note 5)	32	34
<b>Net loss</b>	<b>(39)</b>	<b>(40)</b>
Net loss attributable to:		
Equity holders of the parent	(39)	(40)
Earnings per common share (in U.S. dollars):		
Basic common shares	(0.51)	(0.51)
Diluted common shares	(0.51)	(0.51)
Weighted average common shares outstanding (in thousands)		
Basic common shares	78,050	78,050
Diluted common shares	78,050	78,050

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

**Condensed Consolidated Financial Statements  
for the six months ended June 30, 2013**

**Aperam**  
**Condensed Consolidated Statement of Comprehensive Income / (Loss)**  
**(in millions of U.S. dollars)**

	<b>Six months ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Net loss</b>	<b>(39)</b>	<b>(40)</b>
Available-for-sale investments: (Loss) gain arising during the period	(41)	18
Cash flow hedges: Loss arising during the period	(26)	(7)
Reclassification adjustments for loss included in the statement of operations	<u>6</u>	<u>4</u>
	(20)	(3)
Recognized actuarial gains	1	—
Exchange differences arising on translation of foreign operations	(163)	(201)
Income tax benefit related to components of other comprehensive loss	35	16
<b>Total other comprehensive loss</b>	<b><u>(188)</u></b>	<b><u>(170)</u></b>
Total other comprehensive loss attributable to:		
Equity holders of the parent	(188)	(170)
Non-controlling interests	<u>—</u>	<u>—</u>
	(188)	(170)
<b>Net comprehensive loss</b>	<b><u>(227)</u></b>	<b><u>(210)</u></b>
Net comprehensive loss attributable to:		
Equity holders of the parent	(227)	(210)
Non-controlling interests	<u>—</u>	<u>—</u>
<b>Net comprehensive loss</b>	<b><u>(227)</u></b>	<b><u>(210)</u></b>

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

**Condensed Consolidated Financial Statements  
for the six months ended June 30, 2013**

**Aperam**  
**Condensed Consolidated Statement of Changes in Equity**  
**(in millions of U.S. dollars, except share data)**

	Shares <sup>(1)</sup>	Reserves									Total Equity
		Share Capital	Additional Paid-in Capital	Retained Earnings	Foreign Currency Translation Adjustments	Unrealized Losses on Derivatives Financial Instruments	Unrealized Gains (Losses) on Available for Sale Securities	Recognized Actuarial Gains (Losses)	Equity attributable to the equity holders of the parent	Non-controlling interests	
<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>—</b>	<b>3,437</b>	<b>6</b>	<b>3,443</b>
Impact of adoption of IAS 19 revised	—	—	—	(7)	1	—	—	3	(3)	—	(3)
<b>Balance at January 1, 2012</b>	<b>78,050</b>	<b>547</b>	<b>1,600</b>	<b>1,126</b>	<b>177</b>	<b>(4)</b>	<b>(15)</b>	<b>3</b>	<b>3,434</b>	<b>6</b>	<b>3,440</b>
Net loss	—	—	—	(40)	—	—	—	—	(40)	—	(40)
Other comprehensive income (loss)	—	—	—	—	(180)	(2)	12	—	(170)	—	(170)
Total comprehensive income (loss)	—	—	—	(40)	(180)	(2)	12	—	(210)	—	(210)
Recognition of share based payments	—	—	—	1	—	—	—	—	1	—	1
Dividends	—	—	—	(59)	—	—	—	—	(59)	—	(59)
<b>Balance at June 30, 2012</b>	<b>78,050</b>	<b>547</b>	<b>1,600</b>	<b>1,028</b>	<b>(3)</b>	<b>(6)</b>	<b>(3)</b>	<b>3</b>	<b>3,166</b>	<b>6</b>	<b>3,172</b>
<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>—</b>	<b>3,186</b>	<b>4</b>	<b>3,190</b>
Impact of adoption of IAS 19 revised	—	—	—	(10)	—	—	—	(18)	(28)	—	(28)
<b>Balance at January 1, 2013</b>	<b>78,050</b>	<b>547</b>	<b>1,600</b>	<b>957</b>	<b>73</b>	<b>(4)</b>	<b>3</b>	<b>(18)</b>	<b>3,158</b>	<b>4</b>	<b>3,162</b>
Net loss	—	—	—	(39)	—	—	—	—	(39)	—	(39)
Other comprehensive income (loss)	—	—	—	—	(143)	(13)	(33)	1	(188)	—	(188)
Total comprehensive income (loss)	—	—	—	(39)	(143)	(13)	(33)	1	(227)	—	(227)
<b>Balance at June 30, 2013</b>	<b>78,050</b>	<b>547</b>	<b>1,600</b>	<b>918</b>	<b>(70)</b>	<b>(17)</b>	<b>(30)</b>	<b>(17)</b>	<b>2,931</b>	<b>4</b>	<b>2,935</b>

<sup>(1)</sup> In thousands of shares

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

# Condensed Consolidated Financial Statements for the six months ended June 30, 2013

## Aperam Condensed Consolidated Statement of Cash Flows (in millions of U.S. dollars)

	Six months ended June 30,	
	2013	2012
<b>Operating activities:</b>		
Net loss	(39)	(40)
<b>Adjustments to reconcile net loss to net cash provided by operations and payments:</b>		
Depreciation	146	148
Impairment	6	13
Interest expense	40	33
Income tax benefit	(32)	(34)
Write-downs of inventories to net realizable value (note 2)	25	11
Unrealized (losses) gains on derivative instruments	(4)	3
Labor agreements and separation plans	10	3
Unrealized foreign exchange effects, provisions and other non-cash operating expenses (net)	52	18
<b>Changes in operating assets and liabilities:</b>		
Trade accounts receivable	(70)	(21)
Inventories	(134)	(186)
Interest paid (net)	(41)	(32)
Income taxes paid	(7)	(5)
Trade accounts payable	207	246
Cash paid for separation plans	(2)	(5)
Other working capital movements	(113)	(45)
Net cash provided by operating activities	44	107
<b>Investing activities:</b>		
Purchase of property, plant and equipment	(67)	(83)
Other investing activities (net)	(7)	(4)
Net cash used in investing activities	(74)	(87)
<b>Financing activities:</b>		
Proceeds from short-term debt	91	109
Proceeds from long-term debt, net of debt issuance costs	30	13
Payments of short-term debt	(69)	(120)
Payments of long-term debt	—	(1)
Dividends paid	—	(29)
Other financing activities (net)	(2)	(3)
Net cash used in (provided by) financing activities	50	(31)
Effect of exchange rate changes on cash	(13)	(1)
Net increase (decrease) in cash and cash equivalents	7	(12)
<b>Cash and cash equivalents:</b>		
At the beginning of the period	226	247
At the end of the period	233	235

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

## Notes to the Condensed Consolidated Financial Statements for the six months ended June 30, 2013

(in millions of U.S. dollars unless otherwise stated except share and per share data)

### NOTE 1 – NATURE OF BUSINESS, BASIS OF PRESENTATION AND ACCOUNTING POLICIES

#### *Nature of business*

Aperam Société Anonyme (the “Company” or “Aperam”) was incorporated on September 9, 2010 to own certain operating subsidiaries of ArcelorMittal S.A. (“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.

#### *Basis of presentation*

The Condensed Consolidated Financial Statements of Aperam as of and for the six months ended June 30, 2013 (the “Interim Financial Statements”) have been prepared in accordance with International Accounting Standard (“IAS”) No. 34, “Interim Financial Reporting”. They should be read in conjunction with the annual consolidated financial statements and the notes thereto in the Company’s annual report for the year ended December 31, 2012 which have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union (“IFRS”).

#### *Accounting policies*

The Interim 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 accounting policies used to prepare the Interim Financial Statements are similar to those described in Note 2 to the consolidated financial statements as of and for the year ended December 31, 2012.

The Company adopted a number of new standards, amendments to standards or interpretations effective January 1, 2013 which are described in Note 1 to the consolidated financial statements as of and for the year ended December 31, 2012.

As the Group adopted the amended IAS 19 standard as at January 1, 2013, the financial statements for the year ended December 31, 2012 and for the six months ended June 30, 2012 have been restated in accordance with IFRS for purposes of comparison. Accounting impacts of these restatements on the consolidated financial statements for the year ended December 31, 2012, were the following:

- Increase of the net loss for the year ended December 31, 2012 by \$3 million.
- Recognition of actuarial losses with an increase of deferred employee benefits liability of \$42 million and a corresponding decrease (net of deferred tax assets effect of \$14 million) in equity by \$28 million, of which \$18 million and \$10 million have been reflected in other comprehensive loss and retained earnings, respectively.

There were no other significant effects on the Interim Financial Statements as a result of the adoption of any of the aforementioned standards or interpretations other than IAS 19.

In addition to the critical accounting judgments described in Note 2 to the consolidated financial statements referred above, the Company had to assess whether there was objective evidence that available-for-sale financial assets were impaired and, based on the cyclical nature of the assets and the volatility of their fair value, whether the decline of the fair value of those assets was significant or prolonged and would

## Notes to the Condensed Consolidated Financial Statements for the six months ended June 30, 2013

(in millions of U.S. dollars unless otherwise stated except share and per share data)

therefore result in the reclassification of the cumulative loss recognized in other comprehensive income from equity to the consolidated statement of operations.

The preparation of financial statements in conformity with IFRS recognition and measurement principles requires 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 2 – INVENTORIES

Inventories, net of the allowance for slow-moving inventories, excess of cost over net realizable value and obsolescence of \$130 million and \$124 million as of June 30, 2013 and December 31, 2012, respectively, are comprised of the following:

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Finished products	557	524
Production in process	458	399
Raw materials	133	158
Manufacturing supplies, spare parts and other	151	146
<b>Total</b>	<b>1,299</b>	<b>1,227</b>

The amount of write-downs of inventories to net realizable value recognized as an expense was \$27 million and \$24 million during the six months ended June 30, 2013 and 2012, respectively. During the six months ended June 30, 2013 and 2012, utilization of existing write-downs due to normal inventory consumption was \$20 million and \$33 million, respectively.

### NOTE 3 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
VAT and other amount receivable from tax authorities	58	66
Prepaid expenses and accrued receivables	51	17
Other	53	37
<b>Total</b>	<b>162</b>	<b>120</b>



# Notes to the Condensed Consolidated Financial Statements for the six months ended June 30, 2013

(in millions of U.S. dollars unless otherwise stated except share and per share data)

## NOTE 4 – EQUITY

### *Dividends*

On May 8, 2012, the annual general meeting approved the quarterly dividend payment at \$0.1875 per share. For the six months ended June 30, 2012, dividend payments of \$15 million and \$14 million (\$0.1875 per share per quarter) were made on March 13, 2012 and June 14, 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. On May 8, 2013, the annual general meeting of shareholders approved a proposal to make no dividend payment in 2013 in order to accelerate the deleveraging.

## NOTE 5 – INCOME TAX

The income tax expense or benefit for the period is based on an estimated annual effective rate, which requires management to make its best estimate of annual pretax income for the year. During the year, management regularly updates its estimates based on changes in various factors such as geographical mix of operating profit, prices, shipments, product mix, plant operating performance and cost estimates, including labor, raw materials, energy and pension and other postretirement benefits.

Income tax benefit was \$32 million and \$34 million for the six months ended June 30, 2013 and 2012, respectively. The income tax benefit is a result of similar level of estimated results of the Company's operating entities for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012.

## NOTE 6 – SHORT-TERM AND LONG-TERM DEBT

Short-term debt, including the current portion of long-term debt, consisted of the following:

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Short-term bank loans and other credit facilities	437	407
Current portion of long-term debt	23	19
Lease obligations	8	9
<b>Total</b>	<b>468</b>	<b>435</b>

### *800 secured borrowing base revolving credit facility*

On March 16, 2011, the Company entered into a \$800 million secured borrowing base revolving credit facility ("the Borrowing Base 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.

On March 15, 2013, the Company amended the Borrowing Base Facility to extend the maturity of \$600 million of the \$800 million Borrowing Base Facility from March 2014 to March 2015. The Borrowing Base Facility may be repaid and redrawn from time to time until its final maturity in March 2014 for tranche A and March 2015 for tranche B.

As of June 30, 2013, we had \$100 million outstanding under tranche A and \$280 million outstanding under tranche B.

## Notes to the Condensed Consolidated Financial Statements for the six months ended June 30, 2013

(in millions of U.S. dollars unless otherwise stated except share and per share data)

### €17.5 million loan

On September 27, 2011, the Company entered into a EUR 17.5 million (\$22 million) bilateral credit facility agreement. The facility is due on September 2013. As of June 30, 2013, the Company had \$23 million principal amount outstanding under this loan.

The Company's long-term debt consisted of the following:

	<u>Year of maturity</u>	<u>Type of Interest</u>	<u>Interest rate<sup>(1)</sup></u>	<u>June 30, 2013</u>	<u>December 31, 2012</u>
250 unsecured bonds	2016	Fixed	7.375%	247	247
250 unsecured bonds	2018	Fixed	7.750%	247	246
Loans in Brazil	2014-2021	Fixed/Floating	2.50%-8.70%	82	67
50 secured bank loan	2014	Floating	3.38%	50	49
Other loans	2014-2015	Fixed	13.25%	4	6
<b>Total</b>				<b>630</b>	<b>615</b>
Less current portion of long-term debt				23	19
Total long-term debt (excluding lease obligations)				607	596
Lease obligations <sup>(2)</sup>				9	11
<b>Total long-term debt, net of current portion</b>				<b>616</b>	<b>607</b>

<sup>(1)</sup> Rates applicable to balances outstanding at June 30, 2013.

<sup>(2)</sup> Net of current portion of \$8 million and \$9 million as of June 30, 2013 and December 31, 2012 respectively.

### Unsecured Bonds

On March 30, 2011, the Company issued \$500 million principal amount of unsecured fixed rated bonds in two tranches, in a private placement in the international capital markets. The first tranche of \$250 million bears interest at 7.375% due April 1, 2016 and the second tranche of \$250 million bears interest at 7.75% due April 1, 2018. Interests are payable semi-annually on April 1 and on October 1 of each year, commencing on October 1, 2011.

### Loans in Brazil

On February 26, 2013, the Company, through its subsidiary Aperam South America, signed a revolving line of credit of up to BRL 50 million (\$23 million). Funds borrowed under this revolving facility can be drawn until April 15, 2014 and can only be used by Aperam South America for working capital purposes. The interest rate applicable to disbursed amounts is TJLP plus 275 basis points per annum. Monthly repayments will be due from April 2014 to March 2016. As at June 30, 2013 this revolving facility was fully drawn.

On April 9, 2009, Aperam South America entered into a \$50 million advance facility agreement. The facility is to be used to finance the export of steel products by Aperam South America. The facility amortizes by \$2.5 million per quarter from July 16, 2010 until its maturity on April 16, 2015. Interest is set at LIBOR plus 5.0% per annum. As of June 30, 2013, Aperam South America had approximately \$20 million outstanding under this facility, of which \$10 million classified as current-portion of long-term debt.

Other loans in Brazil of \$46 million represent various borrowings with an outstanding amount as at June 30, 2013 of less than \$10 million each.

## Notes to the Condensed Consolidated Financial Statements for the six months ended June 30, 2013

(in millions of U.S. dollars unless otherwise stated except share and per share data)

### *50 secured bank loan*

On September 28, 2012, the Company signed a 2-year \$50 million secured bank loan which bear interest at a rate of US\$ Libor plus 310 basis points per annum. As at June 30, 2013, shares of the Company's investment in Gerdau, representing a carrying value of \$52 million, and restricted cash of \$10 million were pledged as security.

## NOTE 7: FINANCIAL INSTRUMENTS

The following table summarizes the bases used to measure certain assets and liabilities at their fair value as of June 30, 2013. 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.

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<b>Assets at fair value:</b>			
Available-for-sale financial assets .....	67	—	67
Derivative financial assets .....	—	2	2
Total assets at fair value .....	<u>67</u>	<u>2</u>	<u>69</u>
<b>Liabilities at fair value</b>			
Derivative financial liabilities.....	—	16	16
Total liabilities at fair value .....	<u>—</u>	<u>16</u>	<u>16</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.

## Notes to the Condensed Consolidated Financial Statements for the six months ended June 30, 2013

(in millions of U.S. dollars unless otherwise stated except share and per share data)

Except as detailed in the following table, the Company considers that the carrying value amounts of financial assets and financial liabilities recorded at amortized cost in the financial statements equal to their fair values:

	Carrying Amount		Fair value	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Long term debt including lease obligations.....	647	635	612	585

### NOTE 8 – SEGMENT REPORTING

The Company reports its operations in three segments: Stainless & Electrical Steel, Alloys & Specialties and Services & Solutions.

The following table summarizes certain financial data relating to the Company's operations in its different segments:

	Stainless & Electrical Steel	Alloys & Specialties	Services & Solutions	Others / Eliminations <sup>(1)</sup>	Total
<b>Six months ended June 30, 2013</b>					
Sales from external customers	1,201	330	1,101	3	2,635
Intersegment sales <sup>(2)</sup>	884	3	37	(924)	—
Operating (loss) income	(1)	21	(14)	(12)	(6)
Depreciation and impairment	119	6	17	10	152
Capital expenditures	44	5	6	12	67
<b>Six months ended June 30, 2012</b>					
Sales from external customers	1,305	348	1,105	2	2,760
Intersegment sales <sup>(2)</sup>	925	2	38	(965)	—
Operating (loss) income	(63)	24	1	8	(30)
Depreciation and impairment	134	3	15	9	161
Capital expenditures	45	14	17	7	83

<sup>(1)</sup> Others / Eliminations includes all other operations than mentioned above, together with inter-segment elimination, 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.

## Notes to the Condensed Consolidated Financial Statements for the six months ended June 30, 2013

(in millions of U.S. dollars unless otherwise stated except share and per share data)

The reconciliation from operating loss to net loss is as follows:

	Six months ended June 30,	
	2013	2012
Operating loss	(6)	(30)
Interest from other investments	—	1
Interest income	2	1
Interest expense and other net financing costs	(67)	(46)
Loss before taxes	(71)	(74)
Income tax benefit	32	34
Net loss	(39)	(40)

### Geographical information

Sales (by destination)

	Six months ended June 30,	
	2013	2012
<b>Americas</b>		
Brazil	581	623
United States	120	138
Argentina	49	54
Others	39	47
Total Americas	789	862
<b>Europe</b>		
Germany	556	594
Italy	251	252
France	212	243
Belgium	88	115
Poland	72	68
United Kingdom	66	61
Spain	54	52
Netherlands	50	78
Others	263	289
Total Europe	1,612	1,752
<b>Asia &amp; Africa</b>		
South Korea	69	41
China	53	24
Thailand	19	4
Others	93	77
Total Asia & Africa	234	146
<b>Total</b>	<b>2,635</b>	<b>2,760</b>

## Notes to the Condensed Consolidated Financial Statements for the six months ended June 30, 2013

(in millions of U.S. dollars unless otherwise stated except share and per share data)

### NOTE 9 – 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 and other

The total of commitments by category is as follows:

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Purchase commitments	1,531	1,879
Guarantees, pledges and other collateral	1,160	1,082
Operating leases	27	29
Total	<u>2,718</u>	<u>2,990</u>

Pledges mainly relate to mortgages entered into by the Company related to its external debt financing described in note 6.

### NOTE 10 – CONTINGENCIES

The Company is 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. Consequently, for a large number 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 the Company's 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.

## Notes to the Condensed Consolidated Financial Statements for the six months ended June 30, 2013

(in millions of U.S. dollars unless otherwise stated except share and per share data)

The Company is party to various environmental liabilities, labor disputes, tax and other claims, the most significant are described in Note 22 to the consolidated financial statements for the year ended December 31, 2012. Changes in contingencies since December 31, 2012 are described below:

### **Tax Claims**

- On December 16, 2011, Aperam Stainless Services and Solution Brasil has been assessed by the Tax authorities aiming at collecting \$39 million (including interests on late payment 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. Despite a partial favorable decision obtained in June 2013 the case is still pending before the Court of Appeal.
- In December 2010, Aperam South America received a tax assessment in the total amount of \$35 million. The Minas Gerais State revenue claimed that the company should have paid VAT ("ICMS") related to the distribution of electrical 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 ICMS. In March 2013, the Company obtained a favorable decision at the first judicial level but the State presented an appeal. The case is still pending.
- In December 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 alleged 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. In May 2013, the partial favorable decision has been confirmed to the Company. The amount in dispute is approximately \$7 million.

### **Civil claim**

- In April 2004, a sanctioning administrative process with the Central Bank was brought against Aperam South America based on alleged irregular exchange operations utilized by the company in purchase and sale of treasury bills. In March 2007, Aperam South America has been assessed with a fine of \$10 million plus interest. In 2012, the Company brought the case before the judicial court. In this proceeding the petition offering an insurance guarantee and asking for the suspension of payment was accepted by the court in May 2013. The case is still pending at the first judicial instance.

### **NOTE 11 – SUBSEQUENT EVENTS**

There were no subsequent events after June 30, 2013.

To the Shareholders of  
Aperam, Société Anonyme (« Aperam »)  
12C, Rue Guillaume Kroll  
L-1882 Luxembourg

## **REVIEW REPORT OF THE REVISEUR D'ENTREPRISES AGREE ON INTERIM FINANCIAL STATEMENTS**

### *Introduction*

We have reviewed the accompanying condensed consolidated statement of financial position of Aperam as of June 30, 2013 and the related condensed consolidated statements of operations, comprehensive income, changes in equity and cash flows for the six month period then ended and the other explanatory notes, (collectively, the "interim financial statements"). The Board of Directors is responsible for the preparation and fair presentation of the interim financial statements in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as adopted in the European Union. Our responsibility is to express a conclusion on these interim financial statements based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as adopted in the European Union.

For Deloitte Audit, *Cabinet de révision agréé*

John Psaila, *Réviseur d'entreprises agréé*  
Partner

August 5, 2013



## **Aperam**

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**Grand-Duchy of Luxembourg**

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