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Annual  
report  
2016

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### Disclaimer - Forward Looking Statements

In this Annual Report Aperam has made certain forward-looking statements with respect to, among other topics, its financial position, business strategy, projected costs, projected savings, and the plans and objectives of its management. Such statements are identified by the use of forward-looking verbs such as 'anticipate', 'intend', 'expect', 'plan', 'believe', or 'estimate', or words or phrases with similar meanings. Aperam's actual results may differ materially from those implied by such forward-looking statements due to the known and unknown principal risks and uncertainties to which it is exposed, including, without limitation, the risks described in this Annual Report. Aperam does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved. Please refer to the 'Principal risks and uncertainties related to Aperam and the stainless and specialty steel industry' section of this report. Such forward-looking statements represent, in each case, only one of many possible scenarios and should not necessarily be viewed as the most likely to occur or standard scenario. Aperam undertakes no obligation to publicly update its forward-looking statements, whether as a result of new information, future events or otherwise. Unless indicated otherwise or the context otherwise requires, references in this Annual Report to 'Aperam', the 'Group' and the 'Company' or similar terms refer to Aperam, 'société anonyme', having its registered office at 12C, Rue Guillaume Kroll, L-1882 Luxembourg, Grand Duchy of Luxembourg, and to its consolidated subsidiaries.

## Message from the Chairman of the Board of Directors

February 28, 2017



Dear Shareholders,

Since Aperam's creation in early 2011, we have made consistent progress. We have restructured our industrial footprint, invested in our best performing assets, strengthened our balance sheet and focussed on exceeding customer expectations by providing the best stainless steel solutions and services.

These initiatives addressed both the structural and macroeconomic conditions that were challenging our performance, as well as the industry more broadly.

I am pleased to report that 2016 has been another year of solid progress, further strengthening Aperam's operational and financial performance.

I am even more proud of these achievements given that operating conditions in 2016 were tough, with the Chinese economy negatively impacting the commodities markets as well as international stainless steel prices, the Brazilian macro environment remained challenging, and the oil and gas market downturn affected our alloys business.

Looking at our operational and financial performance we achieved U.S.\$514 million operational improvements at EBITDA level since our creation, and reported an EBITDA of U.S.\$492 million including a U.S.\$11 million non-recurring and non-cash charge related to the announced intention to divest one of our tubes activities. Excluding this non-recurring and non-cash items, our operational performance improved compared to the previous year. We have now achieved more than half a billion U.S.\$ of operational improvements at the EBITDA level, thanks largely to self-help measures and the successful implementation of our Leadership Journey®.

The strengthening of our balance sheet has been an important priority. We have succeeded to reduce our net debt by more than 6 times, with net debt of U.S.\$154 million at the end of 2016, compared with more than a billion U.S.\$ at our creation.

As a result of these achievements, the Board of Directors has taken two important decisions. The first is an increase of the base dividend from U.S.\$1.25 per share to U.S.\$1.50 per share, which will be proposed to shareholders at our next general meeting. The second is a share buyback program launched for an aggregate maximum amount of U.S.\$100 million and a maximum of 2 million shares. It is also our intention to maintain an overall payout to shareholders between 50% to 100% of Earnings per Share.

Finally, during the year, we continued to enhance our Corporate Responsibility program. Despite our considerable efforts to continuously improve our performance in health and safety, our lost time injury frequency rate deteriorated from 1.0 in 2015 to 1.4 in 2016. This was clearly disappointing but I can promise you that we will continue to prioritise safety and I hope to see this negative movement reversed in 2017. We are absolutely focussed on driving further progress in this regard until we reach and sustain our target of zero accidents. As part of our corporate responsibility, we also believe that our products are part of the solutions to the global environmental challenges: stainless steel has key properties of endless recyclability, durability and mechanical resistance.

In conclusion, I am very happy with the progress Aperam is making. The actions we have taken over the past six years are yielding the right results. We have a solid and cost competitive industrial footprint, and we are continuing to serve our customers with innovative and quality products.

Looking forward, I remain fully confident in Aperam Leadership Team's ability to maximize the long term growth of the company and the value accretion for its shareholders. Our increased confidence is reflected in the Board of Directors' decision to increase the base dividend and launch a share buyback program.

A handwritten signature in purple ink, which appears to read "Lakshmi N. Mittal". The signature is written in a cursive, slightly stylized font.

**Lakshmi N. Mittal, Chairman of the Board of Directors**

## Message from the Chief Executive Officer

February 28, 2017



Dear Shareholders,

It is a great honor and pleasure for me to present you Aperam's 2016 Annual Report.

Our Chairman of the Board of Directors has explained to you the specific headwinds which have impacted the stainless steel sector and Aperam in 2016 and how we were able to once again achieve a solid performance and continue to remain confident in our ability to execute our strategic priorities.

Let me start with Health and Safety. In the year 2016 our lost time injury frequency rate was impacted by isolated deteriorating performances at two of our European sites. Becoming a sustainable safe company is our top priority and we are taking this situation very seriously. Together with my colleagues from the Leadership Team we have decided to reinforce our trainings in this area to stimulate excellence in behaviours, further leveraging the best practices in the industry and within Aperam. We have started to see some progress towards the end of the year and I can ensure you that Health and Safety of our people remains our first priority and we will make all our efforts to sustain this trend.

I would now like to explain you how we achieved our solid performance in 2016 despite difficult market conditions and highlight the improvements we further expect to capture. It is important to highlight that all our actions are driven with the objective to make Aperam a stronger company without counting on any help from external factors and remaining highly focused on value creation for all our stakeholders.

> In 2016, we continued to progress on the Leadership Journey®, our internal plan to improve operational excellence. At the end of 2016 our Leadership Journey® had contributed a total amount of U.S.\$514 million to EBITDA since the beginning of 2011, compared to U.S.\$478 million a year earlier. During the year we continued to implement and benefit from the asset upgrade program launched earlier with the goal of productivity improvement at our major plants in Belgium, France and Brazil. Our journey reaching operational excellence is continuing with target to reach additional gains of U.S.\$60 million by the end of 2017. In this challenging environment our focus will remain on the operational competitiveness of Aperam.

> During the year 2016, we continued to progress on our Top Line strategy to support the European growth and mitigate the impact of the challenging Brazilian environment. Our Top Line strategy consists of innovation and commercial projects focusing on our most profitable products, segments, clients or geographical areas providing value to our customers. Looking forward, we expect to continue developing our Top Line strategy and provide our customers with the high value products and services which have granted us their loyalty.

> Facing challenging market conditions since our creation, we have generated cash every year, reduced and restructured our debt, thereby reducing strongly our cost of debt and further improving our Earnings per Shares and cash generating capability. At the end of 2016, we had successfully deleveraged the company from a net debt of U.S.\$1,066 million at our creation to reach U.S.\$154 million. This performance led to an upgrade to Investment Grade (Baa3) by Moody's in February 2017 and ranks Aperam amongst the most solid players of the industry in terms of profitability and Balance Sheet strength.

I am extremely proud of these achievements under the leadership of our Board of Directors and which have only been made possible thanks to the support and engagement of all our employees.

I would also like to warmly thank the members of my Leadership Team for their continuous efforts and dedication, and I'm confident that this team will lead Aperam to even higher levels of sustainable performance and profitability.

A handwritten signature in purple ink, appearing to be 'T. Di Maulo', written in a cursive style.

**Timoteo Di Maulo, Chief Executive Officer**

# Glossary

This Annual Report includes Alternative Performance Measures (“APM”), which are non-GAAP financial measures. Aperam believes that these APMs are relevant to enhance the understanding of its financial position and provides additional information to investors and management with respect to the Company’s financial performance, capital structure and credit assessment. The definitions of those APMs are the same since the creation of the Company. These non-GAAP financial measures should be read in conjunction with and not as an alternative for, Aperam’s financial information prepared in accordance with IFRS. Such non-GAAP measures may not be comparable to similarly titled measures applied by other companies. Those APMs are detailed in the section “Operational Review” later in the Report.

## Financial Measures:

- > “EBITDA” is defined as operating income<sup>1</sup> before depreciation<sup>1</sup> and impairment expenses<sup>1</sup>.
- > “free cash flow before dividend” is defined as net cash provided by operating activities<sup>1</sup> less net cash used in investing activities<sup>1</sup>.
- > “gearing” is defined as net debt divided by Equity<sup>1</sup>.
- > “net debt” refers to long-term debt<sup>1</sup> plus short-term debt<sup>1</sup>, less cash and cash equivalents<sup>1</sup> (including short-term investments) and restricted cash<sup>1</sup>.

## Other terms used in this annual report:

- > “absenteeism rate” is defined as the number of hours of absence for illness inferior to six months divided by the number of theoretical to-be-worked hours;
- > “annealing” are to the process of heating cold steel to make it more suitable for bending and shaping and to prevent breaking and cracking;
- > “bright annealing” are to the final annealing lines (with an oven) with a reducing atmosphere which produces a bright annealed finish;
- > “brownfield project” are to the expansion of an existing operation;
- > “carbon steel scrap” are to recycled carbon steel that is remelted and recasted into new steel;
- > “cold rolling” are to the forming method employed after hot rolling;
- > “downstream” are to finishing operations, for example in the case of flat products, the operations after the production of hot-rolled coil;
- > “€” or “EUR” are Euros and are converted into U.S. dollars using the closing exchange rate of U.S.\$1= €0.948677 as at December 31, 2016;
- > “ferritic steel” are to stainless steels which have a low carbon content and contain between 10.5% and 27% chromium, the main alloying element;
- > “greenfield project” are to the development of a new project;
- > “IFRS” means International Financial Reporting Standards as adopted in the European Union;
- > “Lost Time Injury Frequency rate”, or “LTIF”, is a key metric which measures the time lost due to injuries per 1,000,000 worked hour;
- > “pickling” are to the process where steel coils are cleaned using chemical baths to remove impurities, such as rust, dirt and oil;
- > “production capacity” are to the annual production capacity of plant and equipment based on existing technical parameters as estimated by management;
- > “R\$” or BRL are Brazilian Real and are converted into U.S. dollars using the closing exchange rate of U.S.\$1= R\$3.2591 as at december 31, 2016;
- > “sales” include shipping and handling fees and costs billed to a customer in a sales transaction;
- > “Significant shareholder” means the trust (HSBC Trust (C.I.) Limited, as trustee) of which Mr. Lakshmi N. Mittal, Ms. Usha Mittal and their children are the beneficiaries, holding Aperam shares through the following two companies: Nuavam Investments S.à r.l. and Lumen Investments S.à r.l.
- > “slabs” are to compact blocks of crude steel (usually a product of the casting process in steel mills), which are used as a pre-product in hot-rolling mills to produce rolled hot rolled coils or strips;
- > “spin-off” are to the transfer of the assets comprising ArcelorMittal’s stainless and specialty steels businesses from its carbon steel and mining businesses to the Company, and the pro rata allocation of the ordinary shares of the Company to ArcelorMittal shareholders;
- > “stainless steel scrap” are to recycled stainless steel materials that are remelted and recasted into new steel;
- > “steckel mill” are to reversing steel sheet reduction mills with heated coil boxes at each end where steel sheet or plate is sent through the rolls of the reversing mill and then coiled at the end of the mill, reheated in the coil box and sent back through the steckel stands and recoiled;
- > “tonnes” are to metric tonnes and are used in measurements involving stainless and specialty steel products (a metric tonne is equal to 1,000 kilograms or 2,204.62 pounds);
- > “upstream” are to operations that precede downstream steel-making, such as coke, sinter, blast furnaces, electric arc furnaces, casters and hot rolling/steckel mills.

<sup>1</sup> Those measures are derived directly from the financial statements, see the Notes to the Consolidated Financial Statements

# Management Report

The Board of Directors is pleased to present its report, which constitutes the management report (“Management Report”) as defined by Luxembourg Law, together with the audited consolidated financial statements and annual accounts as of December 31, 2016 and for the year then ended.

As permitted by Luxembourg Law, the Board of Directors has elected to prepare a single Management Report covering both the Company and the Group.



**City Hall, Illkirch Graffenstaden**  
Atelier Filippini © R Filippini  
Aperam 304 - bead blasted and  
electropolished

# Group Overview

## Introduction

Aperam is a leading global stainless and specialty steel producer with an annual production capacity of 2.5 million tonnes in 2016. We are a leading stainless and specialty steel producer in South America and the second largest producer in Europe. We are also a leading producer of high value added specialty products, including grain oriented ("GO") and non-grain oriented ("NGO") electrical steels and nickel alloys. Our production capacity is concentrated in six production facilities located in Brazil, Belgium and France, and we have about 9,600 employees at end of December 2016. Our distribution network is comprised of 14 Steel Service Centres ("SSCs"), 8 transformation facilities and 20 sales offices. Our products are sold to customers in over 40 countries, including customers in the aerospace, automotive, catering, construction, household appliances and electrical engineering, industrial processes, medical, and oil & gas industries.

We had sales of U.S.\$4.3 billion and U.S.\$4.7 billion and EBITDA of U.S.\$492 million and U.S.\$501 million for the years ended December 31, 2016, and 2015, respectively. Shipments amounted to 1.92 million tonnes and 1.89 million tonnes for the years ended December 31, 2016, and 2015, respectively.

We manage our business according to three primary operating segments:

> **Stainless & Electrical Steel.** We are a leading global producers of stainless steel by production capacity. We produce a wide range of stainless and electrical steels (both Grain Oriented and Non-Grain Oriented) and continuously expand our product offerings by developing new and higher grades of stainless steel and electrical steel. The segment Stainless & Electrical Steel includes Precision business and Aperam BioEnergia, which produces wood and charcoal (biomass) from cultivated eucalyptus forests. We use the charcoal (biomass) produced by Aperam BioEnergia as a substitute for coke at our Timóteo production facility.

The segment accounted for 82.3% of sales<sup>2</sup> and 83.3% of EBITDA for the year ended December 31, 2016, and respectively 80.7% of sales and 87.4% of EBITDA for the year ended December 31, 2015<sup>3</sup>.

> **Services & Solutions.** Our Services & Solutions segment, which includes our tubes business, performs three core activities: (i) the management of exclusive, direct sales of stainless steel products from our production facilities, primarily those located in Europe; (ii) distribution of our products and, to a much lesser extent, external suppliers' products; and (iii) transformation services, which include the provision of value added and customised steel solutions through further processing to meet specific customer requirements.

The segment accounted for 46.0% of sales and 16.5% of EBITDA for the year ended December 31, 2016, and respectively 42.9% of sales and 8.3% of EBITDA for the year ended December 31, 2015<sup>3</sup>.

> **Alloys & Specialties.** Our Alloys & Specialties segment is the fourth largest producer of nickel alloys in the world. We are specialised in the design, production and transformation of various nickel alloys and certain specific stainless steels.

Our products take the form of bars, semis, cold-rolled strips, wire and wire rods, and plates, and are offered in a wide range of grades.

The segment accounted for 9.7% of sales and 6.1% of EBITDA for the year ended December 31, 2016, and respectively 12.0% of sales and 8.8% of EBITDA for the year ended December 31, 2015.

Additionally, we have sales and EBITDA that are reported within our "Other" segment. This segment, including eliminations between our primary operating segments, accounted for (6.1)% of EBITDA for the year ended December 31, 2016, and (4.5)% of EBITDA for the year ended December 31, 2015.

<sup>2</sup> Amounts are shown prior to intragroup eliminations. For additional information, see Note 3 to the Consolidated Financial Statements.

<sup>3</sup> Due to the transfer of the Business Unit "Precision" from the segment "Services & Solutions" to the segment "Stainless & Electrical Steel" as from January 1, 2016, segmented figures for the year ended December 31, 2015 have been restated, see Note 3 to the Consolidated Financial Statements.



## The creation of Aperam

On December 7, 2010, The Board of Directors of Aperam and the Board of Directors of ArcelorMittal approved a proposal to spin-off ArcelorMittal's stainless and specialty steels businesses to its shareholders in order to enable it to benefit from better visibility in the markets, and to pursue its growth strategy as an independent company in the developed and emerging markets and in specialty products, including electrical steel. On January 25, 2011, at an extraordinary general meeting, the shareholders of ArcelorMittal voted to approve the spin-off proposal.

Since the creation of Aperam, the main shareholder ("Significant Shareholder") holds 40.85% of the issued share capital. Please refer to the share capital section of this Management Report for the definition of the term "Significant shareholder".

## Our facilities

### Our key production sites



Genk (Belgium)



Châtelet (Belgium)



Gueugnon (France)



Isbergues (France)



Imphy (France)



Timoteo (Brazil)

## Stainless & Electrical Steel

### Europe

Our European facilities produce the full range of our stainless steel products. In 2016, steel shipments from Stainless & Electrical Steel Europe facilities represented 1,241 thousand tonnes and 1,182 thousand tonnes in 2015<sup>4</sup>.

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

<sup>4</sup> Due to the transfer of the Business Unit "Precision" from the segment "Services & Solutions" to the segment "Stainless & Electrical Steel" as from January 1, 2016, segmented figures for the year ended December 31, 2015 have been restated, see Note 3 to the Consolidated Financial Statements.

Our cold rolling facilities in Europe consist of four cold rolling mill plants, located in Belgium (Genk) and France (Gueugnon, Isbergues and Pont-de-Roide). Our plants include annealing and pickling lines (with shot blasting and pickling equipment), cold rolling mills, bright annealing lines (in Gueugnon and Genk), skin-pass and finishing operations equipment. The Isbergues plant also includes a DRAP (“Direct Roll Anneal and Pickle”) line. The Genk plant is focused on austenitic steel products, the Gueugnon plant on ferritic products and the Isbergues plant on products dedicated to the automotive market (mainly ferritic steels) and industrial market (mainly austenitic steels). The Pont-de-Roide plant is focused on narrow precision strips. Our electric arc furnace recycling facility Recyco, located in France (Isbergues) recycles dust and slugs with the aim to retrieve stainless steel raw materials and reduce waste.

## South America

We are the only integrated producer of flat stainless and electrical steel in South America. Our integrated production facility in Timóteo, Brazil produces a wide range of Stainless, electrical steel and Special Carbon products, which account for approximately 35% of the Stainless & Electrical Steel operating segment’s total shipments. Steel shipments from Stainless & Electrical Steel Brazil facilities represented 639 thousand tonnes in 2016 and 654 thousand tonnes in 2015.

The Timóteo integrated production facility includes two blast furnaces, one melting shop area (including two electrical furnaces, two converters and two continuous casting machines), one hot rolling mill (including one walking beam and one pusher furnace with one rougher mill and one steckel mill), a stainless cold rolling shop (including one hot annealing pickling line, two cold annealing pickling lines, one cold preparation line, three cold rolling mills and 4 batch annealing furnaces) and an electrical steel cold rolling shop (including one hot annealing pickling line, two tandem annealing lines, one decarburising line, one thermo-flattening and carlite coating line, one cold rolling mill and 20 batch annealing furnaces).

## Services & Solutions

We sell and distribute our products through our Services & Solutions segment, which includes our tubes business, and which also provides value added and customised steel solutions through further processing to meet specific customer requirements. Our distribution network comprises 14 Steel Service Centres, 8 transformation facilities and 20 sales offices. Steel shipments from Services and Solutions Division represented 799 thousand tonnes in 2016 and 746 thousand tonnes in 2015<sup>4</sup>.

## Alloys & Specialties

The Alloys & Specialties integrated production facility is located in Imphy, France and includes a meltshop, a wire rod facility and a cold rolling facility. The meltshop is designed to produce specialty grades and includes one electric arc furnace, two induction furnaces with two vacuum oxygen decarburisation ladles and a ladle furnace, one vacuum induction melting furnace, two vacuum arc remelting furnaces and one electroslag remelting furnace. The melt shop is also equipped with ingot casting facilities and a continuous billet caster.

Our wire rod mill specialises in the production of nickel alloys and has the ability to process a wide range of grades, including stainless steel. It comprises a blooming mill, billet grinding, a hot rolling mill, which has a capacity of 35 thousand tonnes, and finishing lines. Steel shipments from Alloys & Specialties facilities represented 30 thousand tonnes in 2016 and 34 thousand tonnes in 2015.

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

## Our key competitive strengths

We believe that the following are among our key strengths:

### **We are committed to Sustainability and our number one priority is Health & Safety**

Safety will always remain our first duty to our People. To monitor our health and safety programs, the company uses as main indicator the "Lost Time Injury Frequency rate", or "LTIF", a key metric which measures the time lost due to injuries per 1,000,000 worked hours. In 2016, LTIF rate was 1.4 compared to 1.0 last year. But beyond a healthy staff, what we want is an efficient and motivated team to develop, thrive and innovate for Aperam. With this aim, training and career development programs are continuously improved over the years and we promote proximity and team spirit.

From an environmental perspective, where many challenges lie for an energy-intensive industry, Aperam is up to its responsibilities. Firstly, we are proud of our unique capability to produce charcoal-based biomass to use in our production instead of extractive coke. Also, while we look into all solutions to reduce the energy consumption of our manufacturing process, we also procure intelligent steel solutions to our customers to assist them in developing energy-efficiency end-products. Lastly, as a producer of 100% recyclable products, it is only logical that we promote the circular economy. And so we do, primarily through an extensive usage of scraps ranking our steels among the best, in terms of carbon footprint, also through our fully-owned Recyco subsidiary which recovers metallic contents from melting shop dusts, and eventually through our zero-waste objective (for landfill).

In terms of Governance, Aperam aims for the best practices. We strive to maintain constant engagement, benevolence and transparency, with all our stakeholders. With our Customers, we target the best satisfaction rates and propose innovative solutions ; with other stakeholder groups, such as neighbours or Authorities, we engage openly, to earn their trust and maintain sound and sustainable local relationships.

### **A restructured and efficient European footprint able to seize market opportunities**

Aperam's modern production facilities allow the Group to support its customers' stainless and specialty steel requirements with a high level of operational efficiency.

In Europe, the Group benefits from high quality and cost efficient plants with the largest and most recent electric arc furnace meltshop (Châtelet, Belgium), the largest hot rolling mill (Châtelet, Belgium), one of the largest cold rolling mills (Genk, Belgium) and LC21, the best-in-class integrated rolling-mill (Isbergues, France).

In Brazil, the Group operates a fully integrated production facility using charcoal produced by Aperam BioEnergia.

Through an early restructuring of its downstream operations since the creation of Aperam - from 29 tools to 17 tools in Europe - to adapt to the market conditions, Aperam managed to reach record volumes in Europe since 2008 although with a lower number of tools. Aperam is well positioned in the core markets in Europe with an optimal loading of its most efficient assets. In addition, Aperam aims to continue investing in its industrial asset base with Leadership Journey® initiatives to benefit from the long-term potential growth of the stainless and specialty-steel industry. The Leadership Journey® initiative is described in greater detail below under the section "- Our key strategic priorities".

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

Aperam also has a strong presence in the European stainless steel market. The Group's modern production facilities in Belgium and France are strategically located close to the scrap generating regions and are also close to the Group's major customers. Aperam's European industrial operations have consistently maintained high performance standards through the optimisation of production volumes, inventory and costs. The Group 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.

## Key strengths of the European operations of Aperam

Sourcing	Logistics	Production
The only integrated upstream operations in the heart of Europe, with the best access to scrap supply	Best location to serve the biggest consumption areas of Europe	Full range of innovative products of stainless steel
	Efficient logistics between sites for a working capital management at the benchmark of the industry	Flexibility and efficient capacity
		A strategy to be a cost benchmark on the key Aperam products

Aperam is a leading stainless and specialty steel producer in South America and according to the International Stainless Steel Forum (the "ISSF"), is the second largest producer in Europe. Aperam is well-positioned in both developed and emerging markets. In 2016 approximately 73% of the sales were derived from developed markets and 27% from emerging markets. In South America, the Group has a leading presence in flat stainless steel and electrical steel production with modern, flexible and fully integrated production and service centres.

This unique asset base is perfectly adapted to the South American market. Based upon low levels of historical apparent consumption per capita and a developing market for stainless steel, Management estimates that there is important growth potential in South America. In Brazil, Aperam has continued to benefit from the actions of the Leadership Journey and Top Line strategy while the long term growth prospects in terms of stainless steel consumption have remained intact.

## Key strengths of the Brazilian operations of Aperam

Sourcing	Logistics	Production
The only fully integrated stainless steel facility in South America with access to iron ore and environmental friendly charcoal produced from own eucalyptus forests	Efficient logistics with integrated service centers	Full range of products including flat stainless steel, electrical steel and special carbon
	Only stainless steel producer in South America with best in class deliveries to customers	A flexible production route which allow Aperam to maximise the product mix
	Flexible geographical sales capabilities within South America which allow Aperam to optimise its geographical exposure	An improving cost position compared to industry benchmark benefiting from best practice benchmarking with European operations

## Value accretion beyond stainless production

Aperam has one of the largest integrated stainless and specialty steel sales, distribution and steel services networks in the world, with a total of 14 Steel Service Centres ("SSCs"), 8 transformation facilities and 20 sales offices. This network allows the Group to develop customers' loyalty thanks to a best-in-class service, to have a consistent and stable customer base to load the mills and finally to capture additional value in the downstream operations. The Group's distribution channels are strategically located in areas of high demand and close to many end-users. The Group 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 Group's global distribution network enables it to tailor its products to address specific customer needs, thereby facilitating the maintenance of market share and the capture of growth opportunities. The Group's customer base is well diversified, comprising a number of blue chip clients.

## 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 Group'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 Group is the fourth largest global producer of nickel alloys and the largest in alloys wire rods, 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 Group 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 for stainless steel products, helps the Group to maintain and improve its margins and profitability.

Aperam's research and development activities are closely aligned with our strategy, focused on product development and process development. The Group's Research and Development team comprises 131 employees. These employees are based in two centres in Europe, located in Isbergues and Imphy, France, and one centre in Timóteo, Brazil. The Research and Development departments interact closely with the Group's operating segments and partner with industrial end-users and leading research organisations in order to remain at the forefront of product development. The research and development capabilities have contributed to both the Group's leadership in the industry and its development of long standing and recognisable brands. Aperam concentrates a significant portion of its research and development budget on high margin value-added niche products, such as nickel alloys and on developing products with enhanced capabilities for new applications and end markets.

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

The Group's profitability is supported by its implementation of the Leadership Journey®, which, at the end of December 2016, has contributed to approximately U.S.\$514 million to EBITDA since the beginning of 2011.

In addition, the Group has been able to generate positive free cash flows over the past six years. As of December 31, 2016, the Group had net financial debt of U.S.\$154 million, representing a gearing of 6% , compared to net financial debt of U.S.\$1,066 million at the end of December 2010.

As of December 31, 2016 the Group had a solid funding structure and debt maturity profiles as described in greater detail in the section "Liquidity".

On February 15, 2017, Aperam announced that its Long Term Issuer rating has been upgraded to Investment Grade by Moody's, in recognition of its sustainable financial performance. Aperam's Long Term Issuer rating by Moody's is now at Baa3, with stable outlook. The credit ratings are described in greater detail in the section "Credit Ratings".

These achievements have been the result of Aperam's strategic priorities as described in greater detail under the below section "Our strategic priorities".

## Talented and dynamic Leadership Team and motivated workforce

Aperam benefits from the experience and industry knowhow of its Leadership Team. The team is comprised of nine members including the Chief Executive Officer ("CEO"), Mr. Timoteo Di Maulo. Mr. Di Maulo has over twenty-five years of experience in the stainless steel industry, having held a number of positions in the controlling, purchasing, logistics and commercial areas and has been CEO of different units of the Group. He is supported by the other members of the Group's senior management team, including Mr. Sandeep Jalan, the Chief Financial Officer ("CFO") who has over twenty-five years of experience in finance. Mr. Jalan joined the ArcelorMittal group in 1999 and served as CFO of ArcelorMittal Long Carbon Europe, responsible for finance and strategy prior to joining Aperam in 2014.

The other members of the Leadership Team are Ms. Vanisha Mittal Bhatia, Chief Strategy Officer; Mr. Nicolas Changeur, Chief Marketing Officer; Mr. Bernard Hallemaans, Chief Operating Officer Stainless & Electrical Steel Europe; Mr. Bert Lyssens, Head of Sustainability, Human Resources and Communications; Mr. Frederico Ayres Lima, Chief Operating Officer Stainless & Electrical Steel South America; Ms. Johanna Van Sevenant, Chief Executive Officer Services & Solutions and Mr. Frédéric Mattei, Chief Executive Officer Alloys & Specialties.

The collective industry knowledge and leadership of Aperam's senior management team and their record of accomplishment in responding to challenging economic conditions is a key asset to Aperam's business.

The Group has also introduced various initiatives to improve the dedication and motivation of its workforce, including development programs, employee annual appraisal, career committee meetings to evaluate opportunities for managers and performance based bonuses. Greater accountability improves motivation, and the Group's approach to human resources has contributed to the dedication and engagement of its workforce.

## Our key strategic priorities

Since the early creation of Aperam, we have pursued a strategy designed to reinforce Aperam's resilience to challenging market conditions based on our in-house internal improvement measures and relying on our own resources.

This has proven a successful strategy as it reduces reliance on external factors/resources to support our performance. Our key strategic priorities have proven their efficiency in terms of operating and financial performance over the past years, thus we remain focused on:

- > Improving operational efficiency and increasing EBITDA through the Leadership Journey® by enhancing the potential of our best performing assets,
- > Driving value through our Top Line strategy by strengthening our product and service differentiation,
- > Generating positive cash flows, and
- > Maintaining a strong balance sheet consistent with Investment Grade Financial ratios.

Our Top Line strategy is based on commercial projects with the objective to develop Aperam's most profitable products, segments, clients or geographical areas and to continue to build a quality and service offering to the customers. Within the Top Line strategy, specific focus is allocated to develop innovative products allowing niche presence as well as attractive margins. More specifically, our Top Line strategy includes:

- > Leveraging our unique stainless steel product portfolio,
- > Driving additional value through the Services & 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 by enhancing the potential of our best performing assets. The Leadership Journey® is composed of a number of initiatives which can be broadly characterised as restructuring projects, cost cutting projects and performance projects as described below:

- > Restructuring projects under the Leadership Journey® have traditionally focused on the closure or mothballing of noncompetitive capacities and the reduction of fixed costs through process simplification,
- > In parallel to the restructuring initiatives, major cost cutting investments have been launched with the goal to improve the industrial footprint and to reduce the number of tools,
- > Several performance projects have also been launched in order to reinforce the existing continuous improvement program and accelerate cost reductions. In particular, specific actions have been implemented to reduce our costs for sourcing, IT and sales and general administrative costs,
- > Upgrade and productivity improvement of our production facilities.

Since 2014, upgrade programs on the most performing assets have been launched for a total amount of U.S.\$112 million and are described more in detail at the below table:

Tranche	Amount Invested	Period of implementation	Description
1	U.S.\$52 million	2014 - 2015	<ul style="list-style-type: none"> <li>&gt; Productivity improvement of the downstream facilities in Genk (CAP2), Gueugnon (CAP10) and Timoteo (Sendzimir Mill #1)</li> <li>&gt; Upgrade of the Wire Rod mill in Imphy</li> <li>&gt; Upgrade of Grain Oriented operations in Timoteo with development of High Grain Oriented (Electrical Steel)</li> </ul>
2	U.S.\$30 million	2015 - 2016	Breakthrough on productivity increases: <ul style="list-style-type: none"> <li>&gt; Upgrade of CAP 2 in Genk</li> <li>&gt; Upgrade of LC2i in Isbergues</li> </ul>
3	U.S.\$30 million	2015 - 2017	<ul style="list-style-type: none"> <li>&gt; Efficiency and competitiveness improvement of the lines CR6 and BA8 in Gueugnon</li> <li>&gt; Upgrade of compact box annealing furnaces of the Wire Rod mill in Imphy</li> </ul>

As at December 31, 2016, the Leadership Journey® had contributed a total amount of U.S.\$514 million to EBITDA since the beginning of 2011. Our goal is to achieve U.S.\$575 million in gains and profit enhancements by the end of 2017.

## Leveraging our unique stainless steel product portfolio

We intend to continue to support the development of our wide range of products, with a focus on high margin value added niche products. Because of the specialised and innovative nature of these products, we are able to earn higher margins, typically attracting higher prices than our other more commoditised products. In order to grow our sales of high margin value added niche products and replace low contribution margin products, we continue to put our focus on the development of innovative products through our research and development, while leveraging our marketing and advertising efforts for wider promotion.

The investments approved by the Board of Directors as part of the Top Line strategy, which will also be improving the cost competitiveness of the Group's operations, are described in greater detail under the section "Liquidity Capital expenditures".

## Driving additional value through the Services & Solutions segment

Our industrial footprint in Europe and South America is perfectly complemented with global service centers and sales network as part of our Services & Solutions segment. In a volatile environment, we believe that the development of the Services & Solutions segment and the provision of better services to our customers are key for achieving financial and operational excellence. Value added services provided to our clients include cutting, polishing, brushing, forming, welding, pickling, annealing or packaging. We believe that further development of the Services & Solutions segment will drive additional value creation while serving our customers more effectively. As part of this strategy, we continue to invest in and strengthen our service centers in Europe, Brazil and other parts of the world.

## Strengthening our Leadership in the Alloys & Specialties segment

The Alloys & Specialties segment specialises in the design, production and transformation of various nickel alloys and certain specific stainless steels. These products are intended for high end applications or to address very specific customer requirements across a broad range of industries, including the oil and gas, aerospace, automotive, electronics, petrochemical and other industries. We believe that the Alloys & Specialties segment has significant growth potential which could be captured with new investments. As part of this strategy, we invested U.S.\$29 million in the upstream enhancements of our Imphy plant in France with one additional induction furnace with secondary metallurgy and two additional remelting furnaces. We are also investing U.S.\$16 million in the downstream debottlenecking of the finishing line of the Imphy Wire Rod mill through automation and upgrade of its assets (including U.S.\$10 million announced in 2014 with Tranche 1 and U.S.\$6 million announced in 2015 with tranche 3 of the Leadership Journey® upgrading program).

## Maintaining strong Balance Sheet ratios consistent with Investment Grade Financial ratios

As part of our efforts to become a more resilient company capable of responding to the volatile market environment, we have reduced our net debt to U.S.\$154 million at the end of December 2016, representing a gearing of 6%, compared to U.S.\$316 million at the end of December 2015 representing a gearing of 14% and U.S.\$1,066 million at the end of December 2010 representing a gearing of 29%. This achievement is based on a strong set of actions in optimising our debt profile and interest costs, which were initiated in 2013-2015.

In 2016, our most relevant and recent debt restructuring actions included:

- (i) in February 2016, the extension of the final maturity date of the U.S.\$400 million Secured Borrowing Base Revolving Credit Facility to March 5, 2019. The Facility is used for liquidity and working capital purposes;
- (ii) in June 2016, the signature of a financing contract with the European Investment Bank for an amount of €50 million. The financing contract will be dedicated to finance a research and development programme over the period 2016-2019 as well as the upgrade of two plants located in cohesion regions in France & Belgium (Isbergues, Hauts-de-France and Châtelet, Hainaut).

In coherence with its Financial Policy, the Board of Directors has decided in February 2017, to propose for approval at the next shareholder meeting of May 10, 2017, a base dividend increase from U.S.\$1.25 per share to U.S.\$1.50 per share. The Board of Directors has also decided a share buyback program for an aggregate maximum amount of one U.S.\$100 million and a maximum of 2 million shares under the authorization given by the annual general meeting of shareholders held in 2015. The company intends to maintain an overall payout between 50% to 100% of basic earnings per share.

Please refer to the section "Liquidity" of this Management Report for further details with respect to the Group's financing and to the section "Liquidity-Earnings Distribution" for the detailed and updated dividend calendar for the year 2017.



## Our profit driving pillars

The Group's key profit driving pillars based on our strategic priorities can be summarised as follows:

1. We are aiming at being the best in cost with our Leadership Journey® and are targeting a cumulative contribution of U.S.\$575 million to EBITDA by end of 2017, since the beginning of 2011
2. We aim to optimise our product portfolio and replace low contribution margin products by higher margin products with our Top Line strategy and our innovative products
3. We aim to continue to focus on cash generation while maintaining a strong Balance Sheet consistent with Investment Grade Financial ratios
4. We aim to grow in our Alloys & Specialties business while continuing to improve our competitiveness



**Conservation center for the departmental archives of the Nord, Lille, France; de Alzua+ /ZigZag Architecture © Sergio Grazia**  
Stainless steel used: Aperam 304 with Uginox Mat surface finish

# Market analysis

## Market environment

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

### Stainless Steel Pricing

The market for stainless steel is considered to be a global market. Stainless steel is suitable for transport over long distances as logistics costs represent a small proportion of overall costs. As a result, prices for commoditised stainless steel products evolve similarly across regions. However, in general, stainless steel products are not completely fungible due to wide variations in shape, chemical composition, quality, specifications and application, local raw material availability and purchase conditions all of which impact sales prices. Accordingly, there remains a limited market for uniform pricing or exchange trading of certain stainless steel products.

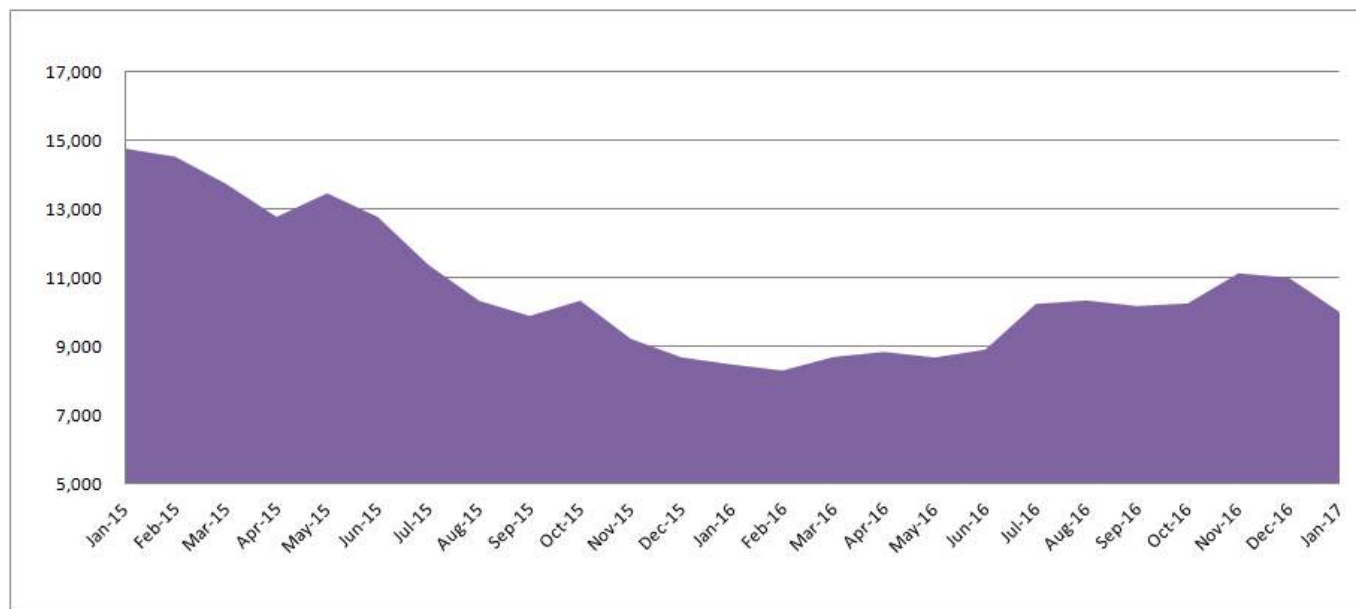
Stainless steel is a steel alloy with a minimum of 10.5% chromium content by mass and a combination of alloys which are added to confer certain specific properties depending upon the application. The cost of alloys used in stainless steel products varies across products and can fluctuate significantly.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

- > the "base price", which is negotiated with customers and depends on market supply and demand; and
- > the "alloy surcharge", which is a supplementary charge to the selling price of steel and offsets the purchase price increases in raw materials, such as nickel, chromium or molybdenum, by directly passing these increases onto customers. The concept of the "alloy surcharge", which is calculated using raw material purchase prices, among which some are 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.

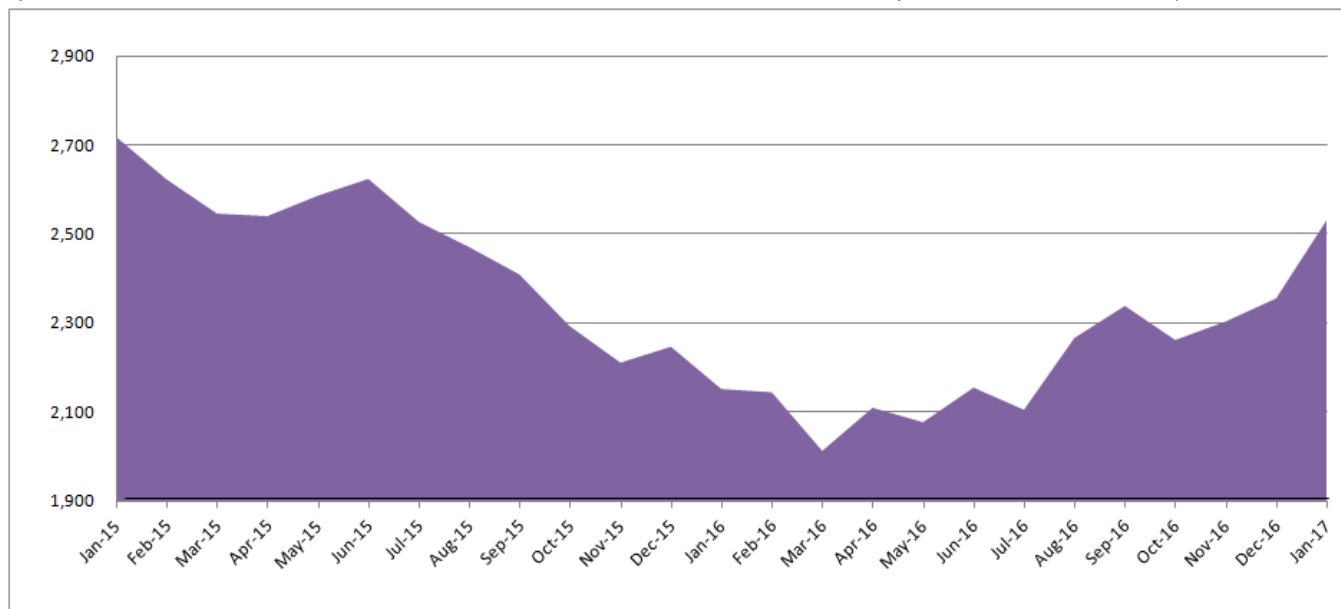
Notwithstanding the application of the "alloy surcharge", the Group is still affected by changes in raw material prices, in particular nickel, which in the last decade experienced some sudden spikes, before coming back to a lower level. In general, when the price of nickel is falling, purchasers of stainless 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. The nickel price evolution from 2015 to end of 2016 is highlighted in the graph below under "Nickel LME Official Daily (in U.S.\$/tonne)".

In 2016, the price of nickel remained around 2015 lows during the first half of the year, while it showed a gradual increase and acceleration towards the end of the year due to market speculation over a potential tightening of Nickel ore supply from Philippines, currently one of the main producers. It soon became clear, however, that orders by the Philippines Government to shut down smaller mines were having no real impact on global Nickel supply-demand. Therefore, Nickel prices retraced and even accelerated their downward trend in the second half of 2016 as Indonesia relaxed its Ni-ore export ban which had been enforced since 2014. In the first half of 2016 Nickel price averaged U.S.\$8,662 per tonne, while it exceeded U.S.\$11,000 per tonne towards the end of the year when the Nickel prices was the subject of the market speculations mentioned above.

Graph: Nickel LME Official Daily Price (in U.S.\$/tonne)



Graph: Stainless Steel / CR 304 2B 2mm Coil Transaction Price/Southern Europe Domestic Delivered (in U.S.\$/tonne)



**Source:**

Nickel prices have been derived from the LME. Stainless steel / CR 304 2B 2mm coil transaction price/Southern European domestic delivered prices have been derived from Steel Business Briefing ("SBB").

From the second half of 2015 to the first quarter of 2016, apparent demand in China has been decreasing, participating to the pressure on raw materials. As a consequence of decreasing raw material prices and lower load, Chinese mills have put base price under greater pressure accelerating the decrease. As a consequence, Aperam experienced heavy price pressure in Europe and even more in Brazil, where the falling Gross Domestic Product and the Government crisis led to historic low prices for stainless steel.

In the second half of 2016, thanks to the normalisation of demand in China and healthier raw material prices, stainless steel prices have improved, both in Europe and South America, our main markets.

All in all, despite improved demand, restocking and capacity utilisation improvements in Europe, Aperam expects stainless steel prices to remain under pressure, primarily as a consequence of overcapacity in Asia.

## Electrical Steel Pricing

Prices for electrical steels in 2016 reflect the different factors that influence Non Grain Oriented steels (NGO) and Grain Oriented steels (GO). International prices of Non Grain Oriented (NGO) have recovered based in the evolution of raw materials costs as well as stronger and more consistent demand in China last year. Grain Oriented electrical steel (GO) besides being influenced by raw material costs is also linked to investments on power grid expansion and electricity generation projects. We have experienced a 2016 with less projects worldwide (especially in South America) that have lead to lower Grain Oriented (GO) steels demand and consequently lower prices.

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

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

In 2016, global demand for stainless steel flat products grew again, due to the sharp demand increase in China (in second half) , consumption growth and positive figures in developed markets.

In 2016, Nickel Alloys market growth continued its slow down already started in 2015, as the consequence of a contrasted situation, opposing healthy aerospace and electrical safety markets against depressed oil & gas markets. However, among oil & gas applications, the growing role of natural gas in the world boosted the demand for nickel alloys in this area and enabled to partially offset the general oil & gas market decreases. In 2016 these trends were confirmed, as the general oil & gas market slowdown continued. Management estimates that the global demand for nickel alloys will remain stable for the rest of the year.

## Production and capacity

In 2016, global flat stainless steel production increased by more than 1%. Global structural overcapacity driven by China continued to affect the global stainless steel industry, as 2016 saw another year of double digit growth in flat stainless steel capacity in China, while consumption growth re-accelerated sharply. Despite the China's initial efforts to tackle it, overcapacity continued to be a main factor weighing down China stainless industry in 2016, with cold rolled capacity utilisation estimated around 73%, slightly improved compared to 2015.

China is not only facing a significant industry restructuring challenge, but with over 50% of global installed capacity, its industry is exerting disproportionate direct and indirect export pressures globally.

Management estimates global utilisation rates touched its lowest in 2015 and it is forecasted to gradually improve through 2021, as global demand growth continues and China addresses its structural overcapacity.

## Competition

Aperam is a leading flat stainless steel producer in South America, the second largest producer in Europe and one of the top 10 flat stainless steel producers in the World.

Aperam's main competitors in Europe are Outokumpu, Acerinox and Thyssenkrupp Acciai Speciali Terni S.P.A. Although antidumping duties imposed on Chinese cold rolled coils significantly reduced imports from China, imports from Taiwan continue to be in the market with a reduced level of anti-dumping duties, these have been partially offset by a sharp increase in imports from other non European countries.

Aperam remains a leading flat stainless producer in South America, with its operations based in Timoteo, Brazil. Challenging market conditions in Brazil in 2015 and in 2016, and increased competitiveness of Brazilian operations in regional markets enabled higher exports out of Brazil to the Latin America region and beyond.

The global competitive landscape has transformed over the past years, with Chinese producers Tsingshan, TISCO, Baosteel and Beihai Chengde today ranking among the ten largest global flat stainless producers in the world.

## Anti-dumping developments

### European Union

The rates of the definitive anti-dumping duty applicable to the net, free-at-Union-frontier price, before duty, are as follows:

Type of products	Countries	Definitive Anti-dumping duty (%)	Effective from
Cold Rolled Stainless Steel Flat Products	People's Republic of China	From 24.4% up to 25.3%	March 26, 2015 <sup>(1)</sup>
Cold Rolled Stainless Steel Flat Products	Taiwan	6.8% except Chia Far 0%	March 26, 2015 <sup>(1)</sup>

Note:  
(1) Entry in force from the day following that of the publication of the provisional measures in the Official Journal of the European Union. The measures have been implemented for a 5-year-period.

On June 28, 2016, The European Steel Association, Eurofer, on behalf of producers representing more than 25 % of the total Union production of stainless steel cold-rolled flat products, lodged a request for an absorption reinvestigation on imports of stainless steel cold-rolled flat products, originating in Taiwan. Definitive measure and termination of the complaint will be announced at the latest by May 11, 2017.

## Brazil

During 2012, Brazil's Trade Defence Department ("Decom"), an investigative body under the Brazilian Ministry of Development, Industry and Foreign Trade, opened an anti-dumping investigation against imports from several countries for welded austenitic stainless pipes, flat stainless steel products and flat non-grain oriented products and imposed anti-dumping duties for a period of 5 years as described below (no evolution since December 2015):

Type of products	Import duties status	Anti-dumping ("AD") status
<b>Stainless Steel Flat Products</b> CR 304 and 430, in thicknesses between 0.35mm and 4.75mm	Normal import duties are 14%	AD duties starting October 4, 2013, for 5 years from U.S.\$236/tonne to U.S.\$1,077/tonne for imports. Countries involved are China, Taiwan, South Korea, Vietnam, Finland and Germany
<b>Stainless Steel Welded Tubes</b> in thickness between 0.4mm to 12.70mm	Normal import duties are 14%	AD duties starting July 29, 2013, for 5 years from U.S.\$360/tonne up to U.S.\$911/tonne. Countries involved are China and Taiwan.
<b>Electrical steel – Non Grain Oriented</b>	Normal import duties are 14%	<p>AD duties starting July 17, 2013, for 5 years from U.S.\$133/tonne to U.S.\$567/tonne. The countries involved are China, Korea and Taiwan.</p> <p>On August 15, 2014, Camex released AD partially, allowing 45 thousand tonnes of imports in the next 12 months to be without AD penalties.</p> <p>On August 12, 2015, Camex announced 11 thousand tonnes of free AD quota until the end of the Public Interest investigation in November 2015. AD rights payment would be subject to final investigation decision.</p> <p>On November 4, 2015, Camex announced the end of the Public Interest investigation that cancel free AD import quotas published in August 12, 2015, and established AD duties from U.S.\$90/tonne to U.S.\$132/tonne (valid until 2018) – from China, Taiwan and South Korea. Also announced a call for importers to make the payment of the AD rights for the material imported during the quota period from August 2015 to November 2015.</p>
<b>Electrical steel – Grain Oriented</b>	Normal import duties are 14%	

## Raw Materials and Energy

### Raw Materials

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

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

In 2015, the nickel price, like most other commodity prices, suffered from oversupply and the weaker Chinese economy. The European benchmark price for ferrochrome was stable at U.S.\$1.08 per pound of chrome from January 2015 till September 2015 but dropped to U.S.\$1.04 per pound of chrome in the fourth quarter of 2015. Like nickel, molybdenum prices saw a big correction from U.S.\$20,000 per tonne in January 2015 to U.S.\$11,000 per tonne in December 2015. The reference iron ore price (62% Fe<sub>2</sub>O<sub>3</sub>; CIF China) also continued its fall in 2015, from U.S.\$70 per tonne in January 2015 to U.S.\$40 per tonne by end December 2015. Ferrous scrap prices (E8 quality; Germany) followed the iron ore trend with some delay and started the year relatively stable in a range of €230 – €240 per tonne but decreased as of July 2015 to end the year 2015 at €170 per tonne.

In 2016, after almost 18 months of continuous decline since mid 2014, the nickel price finally started to recover from the lows at U.S.\$8,500 per tonne thanks to increasing demand (mainly from China) and stable supply to reach U.S.\$11,500 in the fourth quarter of 2016. However, in December 2016, nickel prices declined back to U.S.\$10,000 per tonne on rumours that Indonesia would again allow the export of nickel ore after having installed an export ban in early 2014. The ban relaxation was confirmed on January 11, 2017.

The European benchmark ferrochrome price initially dropped in first and second quarter of 2016 respectively to U.S.\$0.92 and U.S.\$0.82 per pound of chrome but recovered to U.S.\$1.10 per pound of chrome by the fourth quarter of 2016.

Molybdenum prices were stable around U.S.\$12,000 per tonne the first half of 2016 but strengthened to U.S.\$15,000 in the second half of 2016.

The iron ore price reference (62% Fe<sub>2</sub>O<sub>3</sub>; CIF China), started the year at U.S.\$43 per tonne to reach U.S.\$66 per tonne in April 2016. After trading between U.S.\$50 and U.S.\$60 per tonne from May 2016 to October 2016, the iron ore price ended the year 2016 close to U.S.\$80 per tonne.

Ferrous scrap prices (E8 quality; Germany) were rather volatile in 2016 with a low of €155 per tonne in February 2016 and a spike to €260 per tonne in May 2016. A correction to €180 per tonne followed in June 2016 and July 2016 but by December 2016 the price had recovered back to €220 per tonne.

### Energy

With regard to natural gas, as part of the Leadership Journey®, the Timóteo production facility in Brazil switched from liquefied petroleum gas (LPG) to natural gas in 2011 and entered into a long-term natural gas supply contract with a Brazilian supplier. Since 2015, the Group purchases most of its natural gas in Europe through a new supply contract that has been put in place with ArcelorMittal Energy Sca.

With regard to electricity, in most of the countries where the Group operates, electricity prices have moved in line with other energy commodities. The Group benefits from access to baseload nuclear power in France. Complementary needs are sourced from the market. In France, a new supply contract has been put in place with ArcelorMittal Energy Sca since the beginning of 2016 and for the Belgium perimeter such contract was already in place since the beginning of 2015. Aperam operations in Brazil have a net long position which is mitigated through excess power sale to the market.

With regard to industrial gases, the Group procures its industrial gas requirements using short or long-term contracts with various suppliers in different geographical regions.

## Impact of exchange rate movements

At the end of 2015, the U.S. dollar amounted to 0.9185 Euro/U.S. dollar and 3.9048 Brazilian real/U.S. dollar. In 2016, the U.S. dollar appreciated by 3% against the Euro to reach 0.9487 Euro/U.S. dollar at year end. In 2016, the U.S. dollar depreciated by 17% against the Brazilian real to reach 3.2591 Brazilian real/U.S. dollar at year end. 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 minimise its currency exposure, the Group enters into hedging transactions to lock in a set exchange rate, in accordance with its management policies.



**CFA de Brétigny**, Brétigny-sur-Orge, France; ©ARCHI5  
Aperam Stainless Steel used: Aperam 304 with Uginox Bright finish



## Board of directors

**The Board of Directors is in charge of the overall management of the Company. It is responsible for the performance of all acts of administration necessary or useful to implementation of the corporate purpose of the Company as described in the Articles of Association, except for matters expressly reserved by Luxembourg law or the Articles of Association to the general meeting of shareholders.**

Aperam places a strong emphasis on corporate governance. Aperam has four independent directors out of the seven members of the Board of Directors and the Board's Audit and Risk Management Committee and Remuneration, Nomination and Corporate Governance Committee are each comprised exclusively of independent directors. Mr. Lakshmi N. Mittal is the Chairman of the Board of Directors and Mr. Romain Bausch is the Lead Independent Director. Mr. Bausch's principal duties and responsibilities as Lead Independent Director are as follows: coordination of activities of the other Independent Directors; liaison between the Chairman and the other Independent Directors; the calling of meetings of the Independent Directors when necessary and appropriate; leading the Board of Directors' self-evaluation process and such other duties as are assigned from time to time by the Board of Directors.

On May 4, 2016, the Annual General Meeting of Shareholders approved the reelection of Mr. Lakshmi N. Mittal, Mr. Romain Bausch, Ms. Kathryn A. Matthews and Mr. Aditya Mittal as Members of the Board of Directors of Aperam for a term of three years.

Aperam's Board composition is subject to the election of the members of the Board of Directors by the shareholders at the Company's upcoming shareholders' meeting. The election of members of the Board of Directors is an agenda item published in the Company's convening notice to its shareholders' meetings. Members of the Board of Directors are elected by simple majority of the represented shareholders at an ordinary general meeting of shareholders. The directors of Aperam are elected for three year terms.

No member of the Board of Directors have entered into a service contract with Aperam or any of its subsidiaries providing for benefits upon the end of his or her service on the Board. In December 2013, all non-executive Directors of the Company signed the Company's Appointment Letter, which confirms the conditions of their appointment including compliance with a non-compete provision, the 10 Principles of Corporate Governance of the Luxembourg Stock Exchange and the Company's Code of Business Conduct.

The members of the Board of Directors as of the date of this Annual Report are set forth below. The terms of the members of the Board of Directors expire at the annual general meeting of shareholders as described in the table on the next page.

Name	Age <sup>(1)</sup>	Position within the Company <sup>(2)</sup>	Date joined Board	Term Expires
Mr. Lakshmi N. Mittal	66	Chairman, Non-independent member of the Board of Directors	December 2010	May 2019
Mr. Romain Bausch <sup>(3) (4)</sup>	63	Lead Independent Director, Independent member of the Board of Directors	January 2011	May 2019
Mr. Philippe Darmayan	64	Non-independent member of the Board of Directors	May 2015	May 2018
Mr. Joseph Greenwell <sup>(3) (4)</sup>	65	Independent member of the Board of Directors	May 2013	May 2017
Ms. Kathryn A. Matthews <sup>(4)</sup>	57	Independent member of the Board of Directors	December 2010	May 2019
Mr. Aditya Mittal	40	Non-independent member of the Board of Directors	December 2010	May 2019
Ms. Laurence Mulliez <sup>(3)</sup>	50	Independent member of the Board of Directors	May 2011	May 2017

Company Secretary: Mr. Laurent Beauloye

**Notes:**

(1) Age on December 31, 2016.

(2) See section Corporate Governance/Board of Directors for the status of independent director.

(3) Member of the Audit and Risk Management Committee.

(4) Member of the Remuneration, Nomination and Corporate Governance Committee



**Mr. Lakshmi N. Mittal**

Mr. Lakshmi N Mittal, is the Chairman and Chief Executive Officer of ArcelorMittal. Mr. Mittal started his career in steel in 1976 by founding Ispat Indo, a company that is still held privately by the Mittal family. He founded Mittal Steel Company (formerly the LNM Group) in 1989 and guided its strategic development, culminating in the merger in 2006 with Arcelor, to form the world's largest steelmaker.

He is widely recognised for the leading role he has played in restructuring the steel industry towards a more consolidated and globalised model. Mr. Mittal is an active philanthropist and a member of various boards and trusts, including chairman of the board of Aperam and the boards of Goldman Sachs and Airbus N.V (previously EADS NV). He is a member of the Foreign Investment Council in Kazakhstan, the World Economic Forum's International Business Council and the World Steel Association's Executive Committee. He also sits on the Board of Trustees of Cleveland Clinic in the United States.

Mr. Mittal began his career working in his family's steelmaking business in India, and has over 35 years of experience working in steel and related industries. In addition to spearheading the steel industry's consolidation, he championed the development of integrated mini-mills and the use of Direct Reduced Iron (DRI) as a scrap substitute for steelmaking. Following the merger of Ispat International and LNM Holdings to form Mittal Steel in December 2004, with the simultaneous acquisition of International Steel Group, he led the formation of the world's steel producer at the time. In 2006, he orchestrated Mittal Steel and Arcelor's merger to form ArcelorMittal. Mr. Mittal then led a successful integration of two large entities to firmly establish ArcelorMittal as one of the foremost industrial companies in the world. The company continues to be the largest and most global steel manufacturer. More recently, Mr. Mittal has been leading ArcelorMittal's expansion of its mining business through significant brownfield and greenfield growth.

In 1996, Mr. Mittal was awarded 'Steelmaker of the Year' by New Steel in the United States and in 1998 the 'Willy Korf Steel Vision Award' by World Steel Dynamics for outstanding vision, entrepreneurship, leadership and success in global steel development. He was named Fortune magazine's 'European Businessman of the Year 2004'. Mr. Mittal was awarded 'Business Person of 2006' by the Sunday Times, 'International Newsmaker of the Year 2006' by Time Magazine and 'Person of the Year 2006' by the Financial Times for his outstanding business achievements. In January 2007, Mr. Mittal was presented with a Fellowship from King's College London, the college's highest award. He also received in 2007 the Dwight D. Eisenhower Global Leadership Award, the Grand Cross of Civil Merit from Spain and was named AIST Steelmaker of the year. In January 2008, Mr. Mittal was awarded the Padma Vibhushan, India's second highest civilian honor, by the President of India. In September 2008, Mr. Mittal was chosen for the third 'Forbes Lifetime Achievement Award', which honors heroes of entrepreneurial capitalism and free enterprise. In October 2010, he was awarded World Steel Association's medal in recognition of his services to the Association as its Chairman and also for his contribution to the sustainable development of the global steel industry. In January 2013, Mr. Mittal was awarded with a Doctor Honoris Causa by the AGH University of Science and Technology in Krakow, Poland. Mr. Mittal was born in Sadulpur in Rajasthan, India on June 15, 1950. He graduated from St. Xavier's College in Kolkata, India where he received a Bachelor of Commerce degree. Mr. Mittal is married to Usha Mittal. They have a son, Aditya Mittal, and a daughter, Vanisha Mittal Bhatia. Mr. Mittal is a citizen of India.



**Mr. Romain Bausch**

Mr. Romain Bausch is the Chairman of the Board of Directors of SES since January 2015. Mr. Bausch is a member of the Board of Directors of SES since April 2014. Previously, he was President and Chief Executive Officer of SES from July 2001 to April 2014. SES is a world-leading telecommunications satellite operator, with a global fleet of 54 geostationary satellites. SES holds participations in a number of satellite operators and satellite service provision companies.

Mr. Bausch became the Director General and the Chairman of the Management Committee of SES in 1995, following a career in the Luxembourg civil service (Ministry of Finance). Previously, he occupied key positions in the banking, media and telecommunications sectors in Luxembourg. Mr. Bausch is a member of the Board of Directors of non-publicly listed Banque Raiffeisen Société Coopérative, BIP Investment Partners, Compagnie Financière La Luxembourgeoise, SES Astra, the Luxembourg Future Fund and a Member of the CNFP, the Luxembourg Independent Advisory Board for Public Finances.

Mr. Bausch graduated with a degree in economics (specialisation in business administration) from the University of Nancy and holds an honorary doctorate from Sacred Heart University in Luxembourg. Mr. Bausch is a citizen of Luxembourg.



**Mr. Philippe Darmayan**

Since January 1, 2015, Mr. Philippe Darmayan has been President of ArcelorMittal France. He is also President of the French Steel Federation (FFA), President of the Group of French Industrial Federations (GFI) and Board Member of non-publicly listed REstore, a leading European demand response aggregator. Mr. Philippe Darmayan spent his whole career in metallurgy (nuclear fuel, aluminum, carbon and stainless steel).

From 2011 to 2014, Mr Philippe Darmayan was Chief Executive Officer of Aperam after being Executive Vice President, member of ArcelorMittal's Management Committee and Chief Executive Officer of ArcelorMittal Distribution and Solutions (AMDS) from 2005 to 2011. Mr. Philippe Darmayan is a graduate of HEC Paris. Mr. Philippe Darmayan is a citizen of France.



### Mr. Joseph Greenwell

Mr. Joseph Greenwell has a career of 40 years in the motor industry and held senior roles in Jaguar Land Rover, Ford of Europe and Ford North America. Mr. Greenwell was appointed Chairman of Ford of Britain in 2009 and retired effective from this position end of April 2013.

Prior to this role, Mr. Greenwell was Vice President, Government Affairs, Ford of Europe and Premier Automotive Group from 2005 to 2008 and Chairman and Chief Executive Officer of Jaguar and Land Rover from 2003 to 2005.

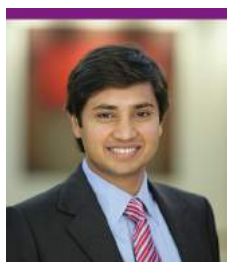
Previously, he was Vice President, Marketing, Ford North America, Vice President, Global Marketing and Operations and Vice President Global Product Promotions from 2001 to 2003. Prior to that, he was Vice President Communications and Public Affairs for Ford of Europe from 1999 to 2001 and held similar responsibilities for Jaguar Cars from 1996 to 1999. Mr. Greenwell began his career as a graduate trainee with British Leyland Motor Corporation in 1973. In recognition of his services to the automotive industry he was awarded a CBE (Commander of the Most Excellent Order of the British Empire) in the Queen's birthday honours list in 2011. Mr. Greenwell is Chairman of the RAC Foundation, a UK transport research charity. Mr. Greenwell holds a Bachelor of Art degree from the University of East Anglia. Mr. Greenwell is a citizen of the United Kingdom.



### Ms. Kathryn A. Matthews

Ms. Kathryn A. Matthews has over thirty years of experience in the financial sector, with a focus on asset management, and has held senior management roles with Fidelity International Ltd, AXA Investment Managers, Santander Global Advisors Inc. and Baring Asset Management. Currently, Ms Matthews is a non-executive director of publicly listed Rathbone Brothers Plc and JPMorgan Chinese Investment Trust Plc. She is also a non-executive director of publicly listed Montanaro UK Smaller Companies Investment Trust Plc and of publicly listed BT Investment Management.

Ms. Matthews is a member of the charitable non listed Board of Trustees for The Nuffield Trust and a member of the Council for the Duchy of Lancaster. Ms. Matthews holds a Bachelor of Science degree in Economics from Bristol University in Bristol, England and is a citizen of the United Kingdom.



### Mr. Aditya Mittal

Mr. Aditya Mittal is the Chief Financial Officer of ArcelorMittal and the CEO of ArcelorMittal Europe. Prior to the merger to create ArcelorMittal, Mr. Aditya Mittal held the position of President and Chief Financial Officer of Mittal Steel Company from October 2004 to 2006.

He joined Mittal Steel in January 1997 and has held various finance and management roles within the company. In 1999, he was appointed Head of Mergers and Acquisitions for Mittal Steel.

In this role, he led the company's acquisition strategy, resulting in Mittal Steel's expansion into Central Europe, Africa and the United States.

Besides M&A responsibilities, Aditya Mittal was involved in post-integration, turnaround and improvement strategies. As Chief Financial Officer of Mittal Steel, he also initiated and led Mittal Steel's offer for Arcelor to create the first 100 million tonnes plus steel company. He serves on the board of Aperam, is a board member of Hindustan Mittal Energy Limited (HMEL), is a Board member at the Wharton School and a Board member at Iconiq Capital.

He is also a trustee at Brookings Institute and an alumni of the World Economic Forum Young Global Leader's Programme. Aditya Mittal holds a Bachelor's degree of Science in Economics with concentrations in Strategic Management and Corporate Finance from the Wharton School in Pennsylvania, United States. Mr. Aditya Mittal is the son of Mr. Lakshmi N. Mittal. Mr. Aditya Mittal is a citizen of India.



### Ms. Laurence Mulliez

Ms. Laurence Mulliez has 25 years of experience mostly in Managing Director roles in the oil, gas and chemical industries as well as renewables (solar and wind power). She was recently CEO of Eoxis from 2010 to 2013. Privately held Eoxis produced energy from renewable resources in Spain, Italy and India and was backed by a private equity firm, Platina Partners. Ms. Laurence Mulliez was previously CEO of Castrol Industrial Lubricants and Services at BP from 2007 to 2009 and before that held various Managing Director level positions in BP, such as

Vice President PTA (a Chemical business) across Europe, Middle East and Africa from 2004 to 2007 and before that Head of Strategy and Financial Planning globally for all of BP's Gas, Power and Renewable Energy businesses. Previous to that, she held a number of financial roles and operational roles.

Ms. Mulliez is currently the Chairman at Voltalia, a renewable-based electricity producer in four countries which is publicly listed on Euronext in Paris, a member of the Supervisory Board of SBM Offshore, a provider of floating production solutions to the offshore energy industry which is publicly listed on Euronext in Amsterdam and a Non-Executive director of Morgan Advanced Materials plc, a global engineering company listed on the London Stock Exchange. She is also a Non-Executive Director at non-publicly listed Green Investment Bank plc in the UK. She previously spent ten years as a Non-Executive Director at Leroy Merlin, where she sat on the Audit Committee.

Ms. Mulliez holds a degree in business from the Ecole Supérieure de Commerce de Rouen and an MBA from the University of Chicago Booth, with a concentration in Finance and Strategy. Ms. Mulliez is a citizen of France but has been living in London for the last 18 years.



**Fondation Clément**, Le François, Martinique,  
Stainless steel used: Uginox Squares & Meca 8 ND; 316L/1.4404

## Senior management

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

### Changes to the Leadership Team in 2016

Mr. Bernard Hallemans is the Chief Operating Officer Stainless & Electrical Steel Europe and Member of the Leadership Team since October 2016. Mr. Bernard Hallemans, previously Chief Technical Officer and Member of the Leadership Team, replaced Jean-Paul Rouffiac who left on retirement at the end of the year 2016. The Chief Technical Officer functions at the Leadership Team level are under the responsibility of the Chief Executive Officer, Mr. Timoteo Di Maulo.

Name	Age <sup>(1)</sup>	Function
Mr. Timóteo Di Maulo	57	Chief Executive Officer; Member of the Leadership Team
Mr. Sandeep Jalan	49	Chief Financial Officer; Member of the Leadership Team
Ms. Vanisha Mittal Bhatia	36	Chief Strategy Officer; Member of the Leadership Team
Mr. Nicolas Changeur	45	Chief Marketing Officer, Member of the Leadership Team
Mr. Bernard Hallemans	49	Chief Operating Officer Stainless & Electrical Steel Europe; Member of the Leadership Team
Mr. Bert Lyssens	47	Head of Sustainability, Human Resources and Communications Member of the Leadership Team
Mr. Frederico Ayres Lima	44	Chief Operating Officer Stainless & Electrical Steel South America; Member of the Leadership Team
Ms. Johanna Van Sevenant	48	Chief Executive Officer Services & Solutions; Member of the Leadership Team
Mr. Frédéric Mattei	43	Chief Executive Officer Alloys & Specialties, Member of the Leadership Team

Secretary to the Leadership Team: Mr. Guillaume Bazetoux, Head of Finance

Note:

(1) Age on December 31, 2016



### Mr. Timoteo Di Mauro

Mr. Timoteo Di Mauro is the Chief Executive Officer since January 2015. Mr. Di Mauro has over twenty-five years of experience in the stainless steel industry, having held a number of positions in the controlling, purchasing, logistics and commercial areas and has been CEO of different units of the Group. Previously, Mr. Di Mauro was Chief Commercial and Sourcing Officer from May 2012 to December 2014.

Prior to this function Mr. Di Mauro has served as Chief Executive Officer - Services & Solutions since 2005. In 1990, Mr. Di Mauro joined Ugine Italia, where he held various positions in the controlling, purchasing and sales departments. While at Ugine Italia, he successfully implemented and launched the ERP System, "Sidonie", across all of Ugine's subsidiaries worldwide. In 1996, Mr. Di Mauro joined Ugine's Commercial Direction in Paris where he was in charge of its Industry and Distribution division. Mr. Di Mauro was subsequently named Service Division Industrial Director in 1998 and took on additional responsibilities as Chief Executive Officer of the German SSC, RCC.

In 2000, Mr. Di Mauro was named Chief Executive Officer of U&A Italy, a role which gave him full responsibility for its mill sales network and its two Italian SSCs. Mr. Di Mauro was then appointed Chief Executive Officer of ArcelorMittal's Stainless Europe Service Division in 2005 and, in 2008, of ArcelorMittal Stainless International (which included the division's worldwide mill sales network, all distribution and processing centres and ArcelorMittal Stainless Europe's tube mills and precision strips). Mr. Di Mauro is a graduate of Politecnico di Milano in Milan and holds an M.B.A. from Bocconi University in Milan. Mr. Di Mauro is a citizen of Italy.



### Mr. Sandeep Jalan

Mr. Sandeep Jalan is the Chief Financial Officer of Aperam since January 2014. Mr. Sandeep Jalan has over twenty-five years of experience in finance and joined ArcelorMittal in 1999. During his time with ArcelorMittal he has held a number of positions including being an active member of the Mergers & Acquisition due diligence team for numerous acquisitions in both steel and mining and also helped in establishing the company's group-wide business performance management systems.

Most recently Mr. Sandeep Jalan was Chief Financial Officer of ArcelorMittal Long Carbon Europe, responsible for finance and strategy. Mr. Jalan is a Commerce Graduate from Banaras Hindu University (BHU), Chartered Accountant (equivalent to CPA) and Company Secretary from the respective Institutes in India.

He has also completed an Executive Education Programme on Leadership at the London School of Business and an executive education program on Strategic Finance at IMD, Lausanne. Mr. Jalan is a citizen of India.



### Ms. Vanisha Mittal Bhatia

Ms. Vanisha Mittal Bhatia joined Aperam in April 2011 and is the Chief Strategy Officer. She has a bachelor of sciences from the European Business School. Ms. Mittal Bhatia is a member of the Board of Directors of ArcelorMittal and previously of LNM holdings; where she worked in the procurement department. She is also the daughter of Mr. Lakshmi N. Mittal. Ms. Mittal Bhatia is a citizen of India.



### Mr. Nicolas Changeur

Mr. Nicolas Changeur is the Chief Marketing Officer for Stainless & Electrical Steel since November 2014. Mr. Changeur joined the Group in 2003 as Head of strategy of J&L, USA. He then held various positions inside the stainless segment in strategy and in operations in Europe and in South America. Prior to joining the Group, Mr. Changeur spent 2 years as Senior Associate at AT Kearney a strategy consulting firm. Until July 2012, Mr. Changeur was in charge of Services & Solutions Tubes & Bars.

In July 2012 he was appointed Responsible for Operating Marketing. Mr. Changeur holds a master in science in general engineering from Ecole Nationale Supérieure des Arts et Métiers and a master in business administration from INSEAD. Mr. Changeur is a citizen of France.



### Mr. Bernard Hallemans

Mr. Bernard Hallemans is the Chief Operating Officer Stainless & Electrical Steel since October 2016. Previously, Mr. Hallemans was Chief Technical Officer and Member of the Leadership Team from November 2014 to September 2016. Mr. Bernard Hallemans joined the Group in 1995 as a research and metallurgical engineer. He conducted different Research and Development, quality and process improvement projects in the stainless steel making, hot rolling and cold rolling areas until 2001.

From the Ugine & ALZ merger in 2002 to 2007, he was responsible for the setup and management of the customer service department of the Genk plant and later of the Division Industry within Stainless Europe. In 2008, he moved to Châtelet, heading the Châtelet plant. He was appointed Plant Manager of Genk, effective January, 2012. Bernard graduated as a Metallurgical Engineer from KU Leuven, where he worked for 4 years as a research assistant while finishing his PhD in Materials Science. He holds a European Executive MBA from ESCP-EAP Paris. Mr. Hallemans is a citizen of Belgium.



### Mr. Bert Lyssens

Mr. Bert Lyssens is the Responsible for Sustainability, Human Resources and Communications since April 2015. Mr. Lyssens started his professional career in Belgium and was Executive Search Consultant at Schelstraete & Desmedt as from 1994 before joining Cimad Consultants in 1997 as Project Staffing Manager and IBM as HR Manager in 1998. From 1999 to 2005, Mr. Lyssens held senior HR positions at AT&T, an American multinational telecommunications corporation, with assignments in The Netherlands and the UK and responsibilities for EMEA.

He joined Agfa Gevaert in 2005 as HR Director responsible for EMEA and was appointed HR Director International at Agfa Graphics in 2006. In 2008, he was appointed VP Human Resources at Agfa HealthCare and in 2010, he was appointed Group Vice President. Mr. Lyssens holds a degree in Psychology from the University of Ghent. Mr. Lyssens is a citizen of Belgium.



### Mr. Frederico Ayres Lima

Mr. Frederico Ayres Lima is the Chief Operating Officer Stainless & Electrical Steel South America since December 2014. Prior to this function Mr. Lima held the position of Commercial Director of Aperam Stainless & Electrical Steel South America since 2009. Mr. Lima started his career in the Group in 1996 in Brazil as Metallurgist performing various roles in cost efficiency, technical assistance and production.

Mr. Lima worked in with exports from 2000 to 2003 and was appointed Manager in 2003 pursuing responsibilities in Europe in the fields of synergies between mills, logistics and coordination of the stainless sales network. Mr. Lima moved back to Brazil in 2006 and held positions of Export Manager and afterwards General Manager.



Mr. Lima holds Engineering and Master in Science degrees in Metallurgy from the Universidade Federal de Minas Gerais and an Executive MBA in International Business Management from the Fundação Getulio Vargas. Mr. Lima is a citizen of Brazil.



#### **Ms. Johanna Van Sevenant**

Ms. Johanna Van Sevenant is the Chief Executive Officer Services & Solutions since November 2014. Previously, Ms. Van Sevenant was Responsible for Sustainability, Human Resources and Communications and Member of the Leadership Team since the creation of Aperam. Ms. Johanna Van Sevenant started her career at PricewaterhouseCoopers Brussels in 1993 and later joined Deloitte & Touche in 1999 where she worked as a Senior Manager of the Human Resources Advisory Services.

She subsequently joined the Arcelor Group in 2001 as Managing Director of the Belgian Pension Competence Centre at Usinor in Liège, Belgium. Between 2003 and 2006, Ms. Van Sevenant served as International Manager—Pension and Risks Benefits at the Human Resources Corporate Centre in Luxembourg. Ms. Van Sevenant became Manager of Integration in 2006 and, in 2007, was named Head of Human Resources, Communications and General Services of the ArcelorMittal International division within Steel Services & Solutions. She was later named Head of Human Resources and Communication of the Stainless Steel segment in December 2008. Ms. Van Sevenant holds a Master's degree in Political Science and Business Administration from University Libre de Bruxelles in Brussels, Belgium and a Master's degree in Tax Law from HEC St. Louis in Brussels. Ms. Van Sevenant is a citizen of Belgium.



#### **Mr. Frédéric Mattei**

Mr. Frédéric Mattei was appointed Chief Executive Officer Alloys & Specialties since June 2014. Mr. Mattei started his career in 1998 at Creusot Loire Industrie, where he was successively project leader, manager of the Hot Rolling Mill and clad plates workshop and Logistics and Quality Manager.

From 2005 to 2007, he was head of Strategy and Innovation of ArcelorMittal's Global Plates business unit. In 2007, he became the manager of the Le Creusot plant, part of ArcelorMittal's Industeel unit.

In 2013, Mr. Mattei joined the Salzgitter Group as CEO of Salzgitter Mannesmann Stainless Tubes - France. Mr. Mattei is a graduate of France's Ecole Polytechnique and Ecole Nationale des Ponts et Chaussées and holds an Executive MBA from ESCP- EAP. Mr. Mattei is a citizen of France.

# Corporate responsibility

On April 4, 2016, Aperam published its fifth “made for life” report, which details our progress for 2015 on the path of sustainability.

Based on the best practices in terms of Sustainability reporting, Aperam's report follows the Global Reporting Initiative's G4 framework and has been verified by an external audit firm.

In addition and for the first time, three Country pages were supplemented as online appendices for the 3 countries (Belgium, Brazil, France) gathering 80% of our total global workforce. The objective of these one-page report is to detail key metrics and yearly developments in local languages and to ensure especially that our employees and other local stakeholders can access easily to data aggregated at National level, as is relevant to them.

Altogether, the report demonstrates in detail how Aperam's Sustainability Roadmap is being integrated into our Group strategy, spurring cohesion and innovation and improving our ability to address the challenges and opportunities raised by our world in quest for sustainable development.

Our report starts with “People first!”. And truly, at Aperam, our values of leadership, ingenuity and agility, which are put in motion by our people at all levels at the hierarchy, put the human factor as our main focus. This is why Health and Safety cannot be anything less than our top priority, and this why people development is also a true strategic topic.

On the environmental side, Aperam's efforts to reduce its impacts are described with detailed metrics on all the areas impacted by our heavy-industry plants. On the Governance side, our high ethical standards are not only visible in our strict governance strengthened by a structured compliance program. Our strong customer focus, with innovation and Research and Development as a key pillar, proves that we are good at listening and finding the right solutions, and so we try to keep the same pattern in our social dialogue and various stakeholders' engagement.

## Our responsibility as an employer

### Health & Safety

Zero fatalities, zero injuries. This is our top priority. Our first duty, as an employer, is not to allow anyone working for Aperam to suffer any harm from his or her work.

All teams of the Aperam Group are therefore working in unison to make sure all appropriate mindsets and procedures (including certifications such as OHSAS 18 001) are in place, anytime and everywhere in the organisation and this is also reflected in the personal objectives allocated to each Aperam employee.

As a consequence, our primary indicator remains the LTIF (Lost Time Injury Frequency rate equals lost time injuries per 1,000,000 worked hours), complemented by the Severity rate, and we monitor these data not only for our own people but also for all our subcontractors.

In spite of the tremendous efforts generated in the aftermath of the fatality occurred in 2015, our LTIF was impacted in 2016 by isolated deteriorating performances at two of our European sites and deteriorated from 1.0 in 2015 to 1.4 in 2016. We are not happy with these results and will be redoubling our efforts in the coming years in this area.

## People development and motivation

Contrary to most of physical assets that depreciate over time, we believe that an employee base is gaining value over the years. With an expertise constantly enhanced with on-the-job experience and training, our teams gain in autonomy. Therefore, they can knit networks that bring fresh ideas and synergies into play. And they can also help on the induction of newcomers, accelerating the time needed to climb the learning curve, with a structured mentoring process or simply thanks to team-spirit and pragmatic tips from the more experienced.

This is why monitoring performance of our workforce over time, with yearly routines to touch base and well defined training needs is so essential. But to define the right career paths, to assess existing programs and to improve further, we also need to be active listeners of our people and so we pay great attention to daily proximity while making sure we have a global vision with our Climate surveys.

## Social dialogue and employee relations

Social dialogue is obviously a key component in this engagement with our people. Employee representatives and Unions are a natural intermediary for our staff as they also are a familiar business partner in discussions regarding the organisation of operations. So we promote a positive dialogue and ensure the right to collective bargaining at all our sites. As a result, we have collective labour agreements in place throughout Aperam. In spite of a higher number of strikes in 2016 due to the social context in some of our countries of operations, we consider that our operations have run in a sound social climate, confirmed by a 2.2% absenteeism rate in 2016. In 2016, we had 4 meetings of our European Work Council.

## Our environmental responsibility

### Sustainable production processes

Metallurgy is a heavy industry requiring huge power and hazardous substances to transform raw materials into the precise blend of alloys requested by our clients. Together with cost awareness, this has resulted in a specific mindset, where resource efficiency is seen as “second nature”. Environmental consciousness is therefore both a duty to the public-at-large and a trigger to our sustainable profitability.

Consequently, and independently from evolving regulatory standards, resource efficiency topics (energy, raw materials) rank high on our priority list, which also encompass key areas such as water consumption, waste management or recyclability.

In terms of energy and CO<sub>2</sub>, we have a two-fold strategy. On the Brazilian side, our blast furnace plant is fuelled with charcoal (biomass) from our eucalyptus forestry Aperam BioEnergia, as a natural and renewable substitute for fossil fuels (coke). On the European side, our lower-consumption electric arc furnaces leverage locally available scrap material in order to use less energy and generate a lower level of CO<sub>2</sub> emissions than traditional blast furnaces.

But everywhere, including in our network of service centres, we have dedicated teams trying to reach our ambitious Company targets. And in 2016, we were glad to be rated ‘B’ by the Carbon Disclosure Project (“CDP”).

### Pollution prevention and biodiversity protection

In addition to our responsibility towards future generations, we make sure that we are ready to address at any time any possible emergency such as fire or pollutions, with regular training and on-site simulations. At our main sites, these exercises are periodically set up with local authorities to assess the efficiency of our procedures to inform and protect local communities. We also closely manage our effluents, especially our dust emissions which are inconvenient to surrounding communities, as well as water quality, and we make periodic complementary analyses on soil or noise.

More original to our industry is our focus on biodiversity. We are proud of our Brazilian FSC-certified forestries and their ability to combine an efficient plantation management (using biological pest control), and a well-applauded program for the protection of local flora and fauna, including large mammals.

## Provision of recyclable energy efficient steel solutions

Within our environmental responsibility, there is also our mission to propose energy-efficient steel products as an element of the solution to global environmental challenges. Indeed, its properties of endless recyclability, durability and mechanical resistance make stainless steel the perfect fabric of a sustainable society, opening up new opportunities for Aperam. Indeed, our products are used in energy efficient applications by our industrial customers, especially:

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

## Our responsibility as a neighbor and market player

### Community Engagement

Aperam's local impact can be significant where we are a key employer. In fact, in many cases, our responsibility goes well beyond direct jobs, payment of wages and taxes.

For example, an organisation like ours can indirectly attract additional revenues to the local economy by supporting local partners in the supply chain, especially in remote settings or areas with high unemployment rates. Even in smaller sites, Aperam is aware of its extended responsibility, as with traffic or noise, and so we try to mitigate any possible nuisance through constant engagement with local authorities and stakeholders.

As a result, Aperam develops Corporate Responsibility programs to support neighbouring communities on topics related to employment, education, culture and the environment. We do this in Brazil primarily through our Aperam Acesita Foundation, which is fertile in projects and partnerships across Minas Gerais, and through a myriad of local programs elsewhere.

We are convinced that we cannot strive to the detriment of those that are the breeding ground of our current and future employees, of our local suppliers, and of end-users, to name a few. So, we organise our development in a way that is also beneficial to them, earning their trust and protecting our licence to operate.

### Cooperation with Authorities and compliance with Business Ethics

Aperam aims to be cooperating diligently with Authorities and to continuously improve its Corporate Governance and Compliance framework in line with best standards.

In a global organisation like Aperam it is most important to ensure that all employees are at all times fully aware and aligned with the Corporate Governance and Compliance framework and that a zero tolerance for non-compliant behaviours is achieved.

So Aperam invests a lot of efforts to make sure all its numerous policies are well understood, in topics as varied as anti-trust, economic sanctions, conflict of interest, data privacy with a network of champions spreading the word down to the shop-floor across Aperam. Likewise, we try to be exemplary in our direct relationships with Authorities, at local, national or supranational level, responding to questions conscientiously. Also, we do not contribute to the political sphere with any donations nor in any other manner than through open debates with our professional associations (EUROFER, Brazil Steel Institute, ISSF, ...).

But beyond regulations, Aperam Compliance program also ensures that our Ethics are well understood, based on our Code of Conduct. With the help of our Risk management organisation, we aim to develop a true culture of awareness and shared vigilance on these topics as well -which will be elaborated on within our Sustainability report. In 2016, this effort was coming together with an effort to prove our openness and transparency with more disclosures in terms of policies (Tax policy) and data, especially within our Country pages.

### Sustainability Reports

Aperam's sustainability reports are issued on a yearly basis and are available on Aperam's website, [www.aperam.com](http://www.aperam.com) in the Sustainability section. Next release will be organised ahead of the 2017 Annual General Meeting.

# Operational review

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

The information in this section relates to the year ended December 31, 2016, compared to the year ended December 31, 2015.

## Key Indicators

The key performance indicators that we use to analyse operations are sales, steel shipments, average steel selling prices and operating result.

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

The following table provides our sales, steel shipments and average selling prices by operating segment for the year ended December 31, 2016 as compared to the year ended December 31, 2015:

Operating segment	Sales for the Year Ended December 31, <sup>(1)</sup> <sub>(2)</sub>		Steel Shipments for the Year Ended December 31, <sup>(1)</sup> <sup>(3)</sup>		Average Steel Selling Price for the Year Ended December 31, <sup>(1)</sup>		Changes in		
	2016	2015	2016	2015	2016	2015	Sales	Steel Shipments	Average Steel Selling Price
	(in millions of U.S. dollars)		(in thousands of tonnes)		(in U.S. dollars/tonne)		(%)		
Stainless & Electrical Steel <sup>(4)</sup>	3,510	3,806	1,880	1,836	1,817	2,012	(7.8)	2.4	(9.7)
Services & Solutions	1,964	2,024	799	746	2,366	2,571	(3.0)	7.1	(8.0)
Alloys & Specialties	415	566	30	34	13,046	15,874	(26.7)	(11.8)	(17.8)
Total (before intragroup eliminations)	5,889	6,396	2,709	2,616			(7.9)	3.6	
Total (after intragroup eliminations)	4,265	4,716	1,917	1,886			(9.6)	1.6	

#### Notes:

- (1) Due to the transfer of the Business Unit "Precision" from the segment "Services & Solutions" to the segment "Stainless & Electrical Steel" as from January 1, 2016, segmented figures for the year ended December 31, 2015 have been restated, see Note 3 to the Consolidated Financial Statements.
- (2) Amounts are shown prior to intra-group eliminations. For additional information, see Note 3 to the Consolidated Financial Statements
- (3) Stainless & Electrical Steel shipment amounts are shown prior to intersegment shipments of 792 thousand tonnes and 730 thousand tonnes in the year ended December 31, 2016 and 2015, respectively.
- (4) Includes shipments of special carbon steel from the Company's Timóteo production facility.

The Group had sales of U.S.\$4,265 million for the year ended December 31, 2016 representing a decrease of 9.6% compared to sales of U.S.\$4,716 million for the year ended December 31, 2015. The decrease in sales was primarily due to lower average steel selling price, which decreased by 10.4% from U.S.\$2,413 per tonne in 2015 to U.S.\$2,162 per tonne in 2016, partly offset by higher steel shipments, which increased by 1.6% to 1,917 thousand tonnes for the year ended December 31, 2016 from 1,886 thousand tonnes for the year ended December 31, 2015.

## Stainless & Electrical Steel

Sales in the Stainless & Electrical Steel segment (including intersegment sales) decreased by 7.8% to U.S.\$3,510 million for the year ended December 31, 2016 from U.S.\$3,806 million for the year ended December 31, 2015, mainly as a result of decreased average steel selling price, partly offset by higher shipment volumes. The average steel selling price for the Stainless & Electrical Steel segment decreased by 9.7%, to U.S.\$1,817 per tonne for the year ended December 31, 2016 from U.S.\$2,012 per tonne for the year ended December 31, 2015. Steel shipments for this segment (including intersegment shipments) increased to 1,880 thousand tonnes for the year ended December 31, 2016 (of which 639 thousand tonnes were attributable to our operations in South America and 1,241 thousand tonnes were attributable to our operations in Europe, including intersegment shipments) from 1,836 thousand tonnes for the year ended December 31, 2015 (of which 654 thousand tonnes were attributable to our operations in South America and 1,182 thousand tonnes were attributable to our operations in Europe, including intersegment shipments), which represented an increase of 2.4%.

Sales to external customers in the Stainless & Electrical Steel segment were U.S.\$1,964 million for the year ended December 31, 2016, representing 46.0% of total sales, a decrease of 11.0% as compared to sales to external customers of U.S.\$2,208 million for the year ended December 31, 2015, or 46.8% of total sales.

## Services & Solutions

Sales in the Services & Solutions segment (including intersegment sales) decreased from U.S.\$2,024 million for the year ended December 31, 2015 to U.S.\$1,964 million for the year-ended December 31, 2016, which represented a 3.0% decrease year-over-year. The decrease in sales was primarily the result of a lower average steel selling price for the segment partly compensated by higher steel shipments. The average steel selling price for the Services & Solutions segment decreased by 8.0%, to U.S.\$2,366 per tonne in 2016 from U.S.\$2,571 per tonne for 2015. Steel shipments for this segment increased to 799 thousand tonnes for 2016 from 746 thousand tonnes for 2015, which represented an increase of 7.1%.

Sales to external customers in the Services & Solutions segment were U.S.\$1,892 million for the year ended December 31, 2016, representing 44.4% of total sales, a decrease of 2.8% as compared to sales of U.S.\$1,947 million for the year ended December 31, 2015, or 41.3% of total sales.

## Alloys & Specialties

Sales in the Alloys & Specialties segment (including intersegment sales) decreased by 26.7% to U.S.\$415 million for the year ended December 31, 2016 from U.S.\$566 million for the year ended December 31, 2015. The decrease in sales was primarily the result of lower steel shipments and a lower average steel selling price for the segment. The average steel selling price for the Alloys & Specialties segment decreased by 17.8% to U.S.\$13.046 per tonne in 2016 compared to U.S.\$15,874 per tonne in 2015. Steel shipments for this segment were 30 thousand tonnes for the year ended December 31, 2016, which is a 11.8% decrease compared to the 34 thousand tonnes for the year ended December 31, 2015.

Sales to external customers in the Alloys & Specialties segment were U.S.\$409 million for the year ended December 31, 2016, representing 9.6% of total sales, a decrease of 27.2% as compared to sales to external customers of U.S.\$561 million for the year ended December 31, 2015 or 11.9% of total sales.

## Operating Income

The Group's operating income for the year ended December 31, 2016 was U.S.\$317 million, including U.S.\$ (19) million non-recurring and non-cash charge related to the announced intention of divestment of the French Tubes units of Services & Solutions division, compared to an operating income of U.S.\$327 million for the year ended December 31, 2015. Despite headwinds coming from challenging market conditions in South America and Alloys Division, the company maintained its EBITDA level (excluding the impact of the non-recurring charge) in the year primarily due to the continuous contribution of the Leadership Journey®, the Top Line strategy and a strong performance of Services & Solutions as well as recovery of the stainless steel prices.

The following table provides our operating income and operating margin for the year ended December 31, 2016 as compared to the year ended December 31, 2015:

Operating Segment	Operating Income Year Ended December 31,		Operating Margin Year Ended December 31,	
	2016	2015 <sup>(1)</sup>	2016	2015 <sup>(1)</sup>
	(in millions of U.S. dollars)		(%)	
Stainless & Electrical Steel	265	290	7.5	7.6
Services & Solutions	60	24	3.1	1.2
Alloys & Specialties	24	38	5.8	6.7
Total <sup>(2)</sup>	317	327	7.4	6.9

### Notes:

(1) Due to the transfer of the Business Unit "Precision" from the segment "Services & Solutions" to the segment "Stainless & Electrical Steel" as from January 1, 2016, segmented figures for the year ended December 31, 2015 have been restated, see Note 3 to the Consolidated Financial Statements.

(2) Amounts shown include eliminations of U.S.\$(32) million and U.S.\$(25) million for the year ended December 31, 2016 and 2015, 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.

### Stainless & Electrical Steel

The operating income for the Stainless & Electrical Steel segment was U.S.\$265 million for the year ended December 31, 2016 (of which an operating income of U.S.\$216 million was attributable to our operations in Europe, and U.S.\$49 million was attributable to our operations in South America) compared to operating income of U.S.\$290 million for the year ended December 31, 2015 (of which an operating income of U.S.\$173 million was attributable to our operations in Europe, and U.S.\$118 million was attributable to our operations in South America). The operating result for the year ended December 31, 2016 decreased compared to the year ended December 31, 2015 in the Stainless & Electrical Steel segment mainly due to the challenging macro-environment of the Brazilian market and foreign exchange effects which have been partly mitigated thanks to the Top Line strategy and Leadership Journey®.

### Services & Solutions

The operating income for the Services & Solutions segment was U.S.\$60 million for the year ended December 31, 2016 compared to operating income of U.S.\$24 million for the year ended December 31, 2015. This increased operational result was mainly due to better margins and shipments over the year as well as the absence of negative impact on inventories from the nickel price evolution compared to 2015.

### Alloys & Specialties

The operating income for the Alloys & Specialties segment was U.S.\$24 million for the year ended December 31, 2016, compared to operating income of U.S.\$38 million for the year ended December 31, 2015. This was mainly due to the negative effects from raw material prices evolution, forex translation effects and some indirect headwinds from Oil & Gas related markets.

## Income from Other Investments

Aperam didn't recorded any result from other investments for the year ended December 31, 2016 compared to a loss of U.S.\$(15) million for the year ended December 31, 2015 mainly on account of an impairment loss of U.S.\$(13) million booked on the minority stake the Group holds in Gerdau, a Brazilian steelmaker, and U.S.\$(2) million booked on the minority stake we hold in General Moly, a US molybdenum mining company, partly offset by dividends of \$1 million received from Gerdau.

## Interest Income

Interest income was U.S.\$4 million for the year ended December 31, 2016, compared to U.S.\$4 million recorded for the year ended December 31, 2015, mainly due to interest income on short-term investments in Brazil.

## 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 decreased to U.S.\$(44) million for the year ended December 31, 2016, compared to U.S.\$(88) million for the year ended December 31, 2015.

Excluding foreign exchange and derivative result described below, interest expense and other financing costs for the year ended December 31, 2016 were U.S.\$(41) million, primarily related to financing costs of U.S.\$(15) million, compared to interest expense and other financing costs of U.S.\$(81) million for the year ended December 31, 2015, primarily related to financing costs of U.S.\$(29) million. Financing costs relate to interests and other expenses related to the service of debt and other financing facilities. The decrease in financing costs is primarily related to refinancing of remaining outstanding high yield bonds in 2015, improved financing conditions and reduction of net financial indebtedness.

Realised and unrealised foreign exchange and derivative gains were U.S.\$3 million for the year ended December 31, 2016, compared to realised and unrealised foreign exchange and derivative losses of U.S.\$(7) million for the year ended December 31, 2015. Foreign exchange results primarily relate to the accounting revaluation of U.S. dollar denominated short term investments by subsidiaries and the revaluation of Euro denominated deferred tax assets on tax losses in the parent company. Results on derivatives primarily relate to financial instruments we entered into to hedge our exposure to nickel prices which do not qualify for hedge accounting treatment under IAS 39.

## Income Tax

We recorded an income tax expense of U.S.\$(63) million for the year ended December 31, 2016, compared to an income tax expense of U.S.\$(55) million for the year ended December 31, 2015. Our income tax expense in 2016 was primarily due to positive operational results in several countries. The increase by U.S.\$8 million in income tax expense for the year ended December 31, 2016 compared to the year ended December 31, 2015 is primarily due to the increase in the result before tax from a profit before tax of U.S.\$228 million for the year ended December 31, 2015 to a profit before tax of U.S.\$277 million for the year ended December 31, 2016.

## Net Income Attributable to Equity Holders of the Parent

Our net result was a profit of U.S.\$214 million for the year ended December 31, 2016, compared to a profit of U.S.\$172 million for the year ended December 31, 2015.



## Alternative Performance Measures

This Annual Report includes Alternative Performance Measures ("APM"), which are non-GAAP financial measures. Aperam believes that these APMs are relevant to enhance the understanding of its financial position and provides additional information to investors and management with respect to the Company's financial performance, capital structure and credit assessment. The definitions of those APMs are the same since the creation of the Company. These non-GAAP financial measures should be read in conjunction with and not as an alternative for, Aperam's financial information prepared in accordance with IFRS. Such non-GAAP measures may not be comparable to similarly titled measures applied by other companies.

### EBITDA

EBITDA is defined as operating income before depreciation and impairment expenses. The following table presents a reconciliation of EBITDA to operating income:

(in millions of U.S. dollars)

<b>Year ended December 31, 2016</b>	<b>Stainless &amp; Electrical Steel</b>	<b>Services &amp; Solutions<sup>(3)</sup></b>	<b>Alloys &amp; Specialties</b>	<b>Others / Eliminations<sup>(1)</sup></b>	<b>Total</b>
Operating income (loss)	265	60	24	(32)	<b>317</b>
Depreciation and Impairment	(145)	(22)	(6)	(2)	<b>(175)</b>
<b>EBITDA</b>	<b>410</b>	<b>82</b>	<b>30</b>	<b>(30)</b>	<b>492</b>

(in millions of U.S. dollars)

<b>Year ended December 31, 2015<sup>(2)</sup></b>	<b>Stainless &amp; Electrical Steel</b>	<b>Services &amp; Solutions</b>	<b>Alloys &amp; Specialties</b>	<b>Others / Eliminations<sup>(1)</sup></b>	<b>Total</b>
Operating income (loss)	290	24	38	(25)	<b>327</b>
Depreciation and Impairment	(148)	(18)	(6)	(2)	<b>(174)</b>
<b>EBITDA</b>	<b>438</b>	<b>42</b>	<b>44</b>	<b>(23)</b>	<b>501</b>

#### Notes:

(1) Others / Eliminations includes all other operations than mentioned above, together with inter-segment elimination, and/or non-operational items which are not segmented.

(2) Due to the transfer of the Business Unit "Precision" from the segment "Services & Solutions" to the segment "Stainless & Electrical Steel" as from January 1, 2016, segmented figures for the year ended December 31, 2015 have been restated, see Note 3 to the Consolidated Financial Statements.

(3) Include the following non-recurring and non-cash charge related to the announced intention of divestment of the French Tubes units:

- U.S.\$(19) million charge in operating income;
- U.S.\$(8) million charge in depreciation and impairment;
- U.S.\$(11) million charge in EBITDA.

## Net Debt and Gearing

Net Debt refers to long-term debt, plus short-term debt, less cash and cash equivalents (including short-term investments) and restricted cash.

Gearing is defined as Net Debt divided by Equity.

The following table presents a reconciliation of Net Debt and Gearing with amounts disclosed in the consolidated statement of financial position:

<i>(in millions of U.S. dollars)</i>	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Long-term debt	275	450
Short-term debt	204	14
Cash and cash equivalents	(325)	(148)
<b>Net debt</b>	<b>154</b>	<b>316</b>
Equity	2,485	2,222
<b>Gearing</b>	<b>6%</b>	<b>14%</b>

## Free cash flow before dividend

Free cash flow before dividend is defined as net cash provided by operating activities less net cash used in investing activities. The following table presents a reconciliation of Free cash flow before dividend with amounts disclosed in the consolidated statement of cash flows:

<i>(in millions of U.S. dollars)</i>	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Net cash provided by operating activities	417	392
Net cash used in financing activities	(129)	(126)
<b>Free cash flow before dividend</b>	<b>288</b>	<b>266</b>

## Trend Information

All of the statements in this "Trend Information" section are subject to and qualified by the information set forth under the "Disclaimer - Forward-Looking Statements". See also "Principal risks and uncertainties related to Aperam and the stainless and specialty steel industry".

## Outlook

On February 9, 2017, Aperam published its full year and fourth quarter 2016 results with its outlook for the first quarter 2017. EBITDA in Q1 2017 is expected to increase compared to EBITDA in Q4 2016 and net debt is expected to increase in Q1 2017 compared to Q4 2016.

The full year and fourth quarter 2016 results press release including the outlook section is available on [www.aperam.com](http://www.aperam.com) under Investors & Shareholders, Earnings.

## Aperam S.A. as Parent Company

Aperam S.A., incorporated under the laws and domiciled in Luxembourg, is the parent company of the Aperam Group and is expected to continue this role during the coming years.

The parent company was incorporated on September 9, 2010 to hold the assets which comprise the stainless and specialty steels businesses of ArcelorMittal. As described in the parent company's articles of association, the corporate purpose of the company shall be the manufacture, processing and marketing of stainless steel, stainless steel products and all other metallurgical products, as well as all products and materials used in their manufacture, their processing and their marketing, and all industrial and commercial activities connected directly or indirectly with those objects, including mining and research activities and the creation, acquisition, holding, exploitation and sale of patents, licenses, know-how and, more generally, intellectual and industrial property rights.

The parent 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 B155.908. The parent company owns a branch office located in Zug (Switzerland) and controls directly and indirectly 54 subsidiaries. The parent company generated a net loss<sup>5</sup> of U.S.\$158 million in 2016.

## Liquidity

### Liquidity and Capital Resources

The Group's principal sources of liquidity are cash generated from its operations and its credit facilities at the corporate level.

Because Aperam S.A. is a holding company, it 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.

In management's opinion, the Group's operations and credit facilities are sufficient to meet the Group's present requirements.

Our cash and cash equivalents amounted to U.S.\$325 million and U.S.\$148 million as of December 31, 2016 and December 31, 2015, respectively.

Our total debt, which includes long term debt and short term debt, was U.S.\$479 million and U.S.\$464 million as of December 31, 2016 and December 31, 2015, respectively. Net debt, defined as long term debt plus short term debt less cash and cash equivalents (including short term investments), was U.S.\$154 million as of December 31, 2016 compared to U.S.\$316 million at December 31, 2015. Gearing, defined as net debt divided by total equity, was 6% as of December 31, 2016 compared to 14% as of December 31, 2015.

As of December 31, 2016, no amount of the Borrowing Base Facility was drawn, leaving a committed credit line of U.S.\$400 million under the facility.

In addition, as of December 31, 2016, Aperam had U.S.\$18 million of debt outstanding at the subsidiary level, of which the Company had granted security over U.S.\$13 million of indebtedness. As of December 31, 2016, the Company had total liquidity of U.S.\$778 million, consisting of cash and cash equivalents (including short term investments) of U.S.\$325 million and committed credit lines of U.S.\$453 million (borrowing base facility of U.S.\$400 million and EIB financing of €50 million described below). As of December 31, 2015, the Company had total liquidity of U.S.\$548 million, consisting of cash and cash equivalents (including short term investments) of U.S.\$148 million and committed credit lines of U.S.\$400 million.

<sup>5</sup> The net loss has been established according to generally accepted accounting principles and in accordance with the laws and regulations in force in the Grand-Duchy of Luxembourg.

These facilities, which include debt held at the subsidiary level, together with other forms of financing, including the convertible bonds, represent an aggregate amount of approximately U.S.\$1 billion, including borrowing capacity of U.S.\$453 million. In management's opinion, such financing will be sufficient for our future requirements.

## Financing

### Borrowing Base Facility

On March 6, 2015, Aperam signed a U.S.\$500 million secured borrowing base revolving credit facility ("The Facility") with a group of nine banks. The facility is structured as a three-year revolving credit facility and includes a one year extension option. It will be used for liquidity and working capital purposes. On December 1, 2015, Aperam cancelled a U.S.\$100 million of commitments leading to a remaining U.S.\$400 million secured borrowing base revolving credit facility. On May 26, 2016, Aperam extended the credit facility until March 5, 2019.

The 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 Group's most recent corporate rating by Standard & Poor's or Moody's or both) for the relevant interest period, which may be below one, one, two, three or six months or any other period agreed between the parties. The Facility also charges a utilisation fee on the drawn portion of the total facility amount and a commitment fee on the undrawn and uncanceled portion of the total facility amount, payable quarterly in arrears.

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

The Borrowing Base Facility is secured by first-ranking, second-ranking, third ranking and fourth-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 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 Facility contains financial covenants, including:

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

On December 31, 2016, these financial covenants were fully met.

### EIB Financing

On June 27, 2016, Aperam and the European Investment Bank ("EIB") announced the signature of a financing contract of an amount of €50 million which will be dedicated to finance a research and development programme over the period 2016-2019 as well as the upgrade of two plants located in cohesion regions in France & Belgium (Isbergues - Hauts-de-France and Châtelet-Hainaut). This project was funded under the Investment Plan for Europe, also named "Juncker Plan", of which France is one of the main beneficiary countries with 35 operations launched to date by the EIB Group for a total amount of €1.7 billion, which should generate €15 billion of additional investments. The financing contract is senior unsecured and is available for eighteen month following the signature date. Loans can be drawn for five years maturity with bullet repayment or for ten years maturity with progressive amortisation of principal.

## Notes

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

On April 1, 2015, Aperam called and early redeemed U.S.\$250 million aggregate principal amount of its 7.75% notes due 2018.

### Convertible bonds

#### Convertible and/or exchangeable bonds due 2020

On September 19, 2013, Aperam announced the successful placing and pricing of its offering of convertible and/or exchangeable bonds for U.S.\$200 million (the “bonds” hereafter). The bonds are convertible into new or existing ordinary shares of the Company. The Significant Shareholder, subscribed for U.S.\$81.8 million of bonds, equal to its 40.8% stake in the Company’s share capital. The bonds are senior and unsecured, and 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. They have an annual coupon of 2.625% payable semi-annually in arrear and an initial conversion price of U.S.\$21.96. The bonds were issued and will be redeemed at 100% of their principal amount and will, unless previously redeemed, converted, purchased and cancelled under certain conditions, mature on September 30, 2020. The Company will have the option to redeem the bonds at their principal amount plus accrued interest on or after October 15, 2017, if the parity value (translated into U.S.\$ at the prevailing exchange rate), shall have exceeded 130% of the bonds’ principal amount. Bondholders will be entitled to have their bonds redeemed at their principal amount plus accrued interest on September 30, 2017.

Unless previously redeemed, or purchased and cancelled, each bond will be convertible and/or exchangeable into shares at the option of the bondholder during the conversion period.

The delivery of new and/or existing shares is at Aperam’s absolute discretion, subject to the limits and conditions set out below. Should the number of new shares to be issued be in excess of the number of new shares which Aperam is authorised to issue, Aperam will deliver existing shares. On the basis of the initial conversion ratio, the issuance of up to 9,107,468 new shares would be required to deliver the necessary shares upon conversion of the bonds.

Following the successive quarterly dividend payments during 2016, the conversion price of such bond was adjusted to U.S.\$21.28 as per respective terms and conditions. On such basis, the issuance of up to 9,398,496 new shares would be required to deliver the necessary shares upon conversion of the bonds.

#### Net share settled convertible and/or exchangeable bonds due 2021

On June 27, 2014, Aperam announced the successful placing and pricing of its offering of net share settled convertible and/or exchangeable bonds due 2021 (the “bonds” hereafter). Following the success of the Offering, the Company decided to exercise in full the extension clause in order to increase the initial Offering size to U.S.\$300 million. The net proceeds of the Offering are being used for general corporate purposes and the refinancing of existing indebtedness (including senior notes maturing in 2016 as described above under “— Notes”). The issue of the bonds reflects the proactive approach of the Company to optimising its debt profile and interest costs.

The Bonds are senior and unsecured, and 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 bonds have an annual coupon of 0.625% payable semi-annually in arrear and an initial conversion price of U.S.\$43.92 representing a conversion premium of 32.5% above the reference price of U.S.\$33.15 (based on the volume-weighted average price of the Company’s shares on Euronext Amsterdam between launch and pricing of €24.3453, and an exchange rate of €1=U.S.\$1.3616). The bonds will be issued and redeemed at 100% of their principal amount and will mature on July 8, 2021 (7 years), unless previously redeemed, converted, exchanged or purchased and cancelled.

The Company has the option to redeem the Bonds at their principal amount plus accrued interest on or after July 23, 2018 (4 years plus 15 days), if the parity value (translated into U.S.\$ at the prevailing exchange rate), shall have exceeded 130% of the Bonds’ principal amount.

Bondholders will be entitled to have their Bonds redeemed at their principal amount plus accrued interest on January 8, 2019 (4.5 years).

In case of exercise of their conversion right, bondholders shall receive, unless the Company elects otherwise, an amount in cash corresponding to the outstanding principal amount and, as the case may be, a number of new and/or existing Aperam shares corresponding to the value in excess thereof. The Company also has the option to elect to deliver new and/or existing shares only. In this case, on the basis of the initial conversion ratio, the issuance of up to 6,830,601 new shares would be required to deliver the necessary shares.

Following the successive quarterly dividend payments during 2016, the conversion price of such bond was adjusted to U.S.\$42.56 as per respective terms and conditions. On such basis, the issuance of up to 7,048,872 new shares would be required to deliver the necessary shares upon conversion of the bonds.

If the Company is unable to satisfy the conversion right in whole or in part through the issue or delivery of Shares, the Company will pay an equivalent cash amount.

The Bonds were issued and settled on July 8, 2014. Application was made to have the Bonds admitted to trading on the Open Market ("Freiverkehr") of the Frankfurt Stock Exchange.

Pursuant to the terms and conditions of the Bonds, the conversion price adjustments to the bonds in connection with the dividend payments are available on the Company's website [www.aperam.com](http://www.aperam.com), section "Investors & shareholders" > "Fixed Income Investors - Bonds".

### True Sales of Receivables Program

Following the spin-off, the Group 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. The maximum combined amount of the programs that could be utilised as of the end of December 2016 was €280 million. Through the TSR program, the Group 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 total amount of receivables sold under the True Sale of Receivables program and derecognised in accordance with IAS 39 for the year ended December 31, 2016 and 2015 was respectively U.S.\$1.4 billion and U.S.\$1.6 billion. Expenses incurred under the TSR program (reflecting the discount granted to the acquirers of the accounts receivable) are recognised in the statement of operations as financing costs and amounted to U.S.\$6 million and U.S.\$9 million for the year ended December 31, 2016 and 2015, respectively.

### Credit ratings

On February 15, 2017, Aperam announced that its Long Term Issuer rating has been upgraded to Investment Grade by Moody's, in recognition of its sustainable financial performance. Aperam's Long Term Issuer rating by Moody's is now at Baa3, with stable outlook.

"Our decision to upgrade Aperam to investment grade reflects the company's strong operating performance, robust cash flow generation and successful efforts to de-lever over the past three years, as well as its ability to further reduce debt and maintain profitability over the coming 12-24 months," said Hubert Allemanni, a Moody's Vice President – Senior Analyst and lead analyst for Aperam.

Since the creation of Aperam in 2011, the Company has successfully pursued a strategy designed to reinforce its resilience to challenging market conditions based on self help measures. The key strategic priorities of the company are based on improving its operational excellence and profitability through the Leadership Journey®, driving value through the Top Line strategy, generating positive cash flows, and disciplined cash allocation policy thereby leading to a strong balance sheet consistent with Investment Grade Financial ratios.

Timoteo Di Maulo, CEO of Aperam, commented: "I am very proud of our upgrade to Investment Grade by Moody's which is a recognition of our endless focus to make Aperam a stronger company. It also reflects the recognition of our financial policy maximising the long term growth of the company and value accretion while maintaining a strong Balance Sheet consistent with Investment Grade Financial ratios. Looking forward, we remain confident in our ability to execute our strategic priorities and to continue generating solid cash flows while maintaining a strong balance sheet."

The below tables provide an overview of the Group's credit ratings evolution since our creation:

Rating Issuer	Long-term rating	Outlook
Moody's	Baa3	Stable
Standard & Poor's	BB+	Positive

#### Moody's

Date	Revision	Rating	Outlook
January 2011	Initiate	Ba2	stable
November 2011	Downgrade	Ba3	negative
November 2012	Downgrade	B1	negative
May 2014	Outlook revision	B1	positive
November 2014	Upgrade	Ba3	positive
April 2015	Upgrade	Ba2	positive
February 2016	Upgrade	Ba1	stable
February 2017	Upgrade	Baa3	stable

#### Standard & Poor's

Date	Revision	Rating	Outlook
April 2011	Initiate	BB	stable
October 2011	Outlook revision	BB	negative
June 2012	Downgrade	BB-	negative
November 2012	Downgrade	B+	negative
July 2014	Outlook revision	B+	positive
November 2014	Upgrade	BB-	stable
April 2015	Upgrade	BB	stable
December 2015	Upgrade	BB+	stable
January 2017	Outlook revision	BB+	positive

## Financial Policy

Aperam's financial policy aims to maximize the long term growth of the Company and the value accretion for its shareholders while maintaining a strong Balance Sheet consistent with Investment Grade Financial ratios.

	Financial Policy
Company Sustainability	Invest in sustaining and upgrading the company's assets base to continuously reinforce Leadership Journey and Top Line Strategy
Value Accretive Growth & M&A	Compelling Growth and M&A opportunities with high hurdle rate
Dividend Policy <sup>(1)</sup>	A base dividend, anticipated to progressively increase over time (as the company continues to benefit from its strategic actions and capture growth opportunities). The company targets a NFD/EBITDA ratio of <1x (through the cycle). In the (unlikely) event that NFD/EBITDA exceeds 1x then the company will review the dividend policy.
Extra Cash Utilization <sup>(2)</sup>	Remaining excess cash will be utilized in the most optimal way

### Notes:

(1) The Board of Directors has decided to propose for approval at the next shareholder meeting of May 10, 2017, a base dividend increase from U.S.\$1.25/share to U.S.\$1.50/share. Please refer to section "Earnings Distribution" below for greater details.

(2) On February 9, 2017, the Company announced a share buyback program for an aggregate maximum amount of U.S.\$100 million and a maximum of 2 million shares under the authorization given by the annual general meeting of shareholders held in 2015. Please refer to section "Earnings Distribution" below for greater details.

The company intends to maintain an overall payout to shareholders between 50% to 100% of basic earnings per share.

## Earnings distribution

### Dividend

On May 4, 2016, at the 2016 Annual General Meeting, the shareholders approved a base dividend of U.S.\$1.25 per share. The dividend was paid in four equal quarterly instalments of U.S.\$0.3125 (gross) per share.

On February 9, 2017, Aperam announced its detailed dividend payment schedule for 2017. The Company also proposed to increase its base dividend from U.S.\$ 1.25/share to U.S.\$1.50/share, subject to shareholder approval at the Annual General Meeting of May 10, 2017, as the company continues to improve its sustainable profitability benefiting from its strategic actions.

The base dividend is anticipated to progressively increase over time as the company continues to benefit from its strategic actions and capture growth opportunities. The company targets a Net Financial Debt/EBITDA ratio of <1x (through the cycle). In the (unlikely) event that Net Financial Debt/EBITDA exceeds 1x then the company will review the dividend policy.

Dividends are announced in U.S. dollars. They are paid in U.S. dollars for shares traded in the United States on the over-the-counter market in the form of New York registry shares and paid in Euro for shares listed on the European Stock Exchanges (Netherlands, France, Belgium, Luxembourg). Dividends to be paid in Euro are converted from U.S. dollars to Euro based on the European Central Bank exchange rate at the date mentioned in the table below.

A Luxembourg withholding tax of 15% is applied on the gross dividend amounts.



The detailed dividend schedule for 2017 as announced on February 9, 2017, is as follows:

	1 <sup>st</sup> Quarterly Payment (interim)	2 <sup>nd</sup> Quarterly Payment	3 <sup>rd</sup> Quarterly Payment	4 <sup>th</sup> Quarterly Payment
<b>Announcement date</b>	06 March 2017	15 May 2017	11 August 2017	13 November 2017
<b>Ex-Dividend</b>	09 March 2017	18 May 2017	16 August 2017	16 November 2017
<b>Record Date</b>	10 March 2017	19 May 2017	17 August 2017	17 November 2017
<b>Payment Date</b>	30 March 2017	14 June 2017	12 September 2017	12 December 2017
<b>FX Exchange rate</b>	07 March 2017	16 May 2017	14 August 2017	14 November 2017

### Share buyback

On February 9, 2017, Aperam announced a share buyback program of up to U.S.\$100 million and a maximum of two million shares under the authorisation given by the annual general meeting of shareholders held on May 5, 2015. Aperam will appoint an investment services provider to execute the repurchases of shares in the open market during open and closed periods.

Aperam intends to repurchase per day a variable number of shares at market price, for an aggregate maximum amount of one hundred (100) million US dollars and a maximum of two (2) million shares, over a period from February 14, 2017, until September 30, 2017. The price per share, of the shares to be bought under the Program, shall not exceed 110% of the average of the final listing prices of the 30 trading days preceding the three trading days prior to each date of repurchase, in accordance to the resolution of the annual general meeting of shareholders held on May 5, 2015.

Simultaneously, the Mittal family has declared its intention to enter into a shares repurchase agreement with Aperam, to sell each trading day on which Aperam has purchased shares under the Program, an equivalent number of shares, at the proportion of the Mittal family's stake of 40.85% of Aperam, at the same price as the shares repurchased on the market. The effect of the share repurchase agreement is to maintain Mittal family's voting rights in Aperam's issued share capital (net of Treasury Shares) at the current level, pursuant to the Program.

The shares so acquired under this buyback program are intended to be cancelled to reduce the share capital of Aperam and will be proposed for cancellation at the next shareholder meeting of May 10, 2017.

## Sources and Uses of Cash

The following table presents a summary of our cash flow for the year ended December 31, 2016, as compared to the year ended December 31, 2015:

	<b>Summary of Cash Flows</b>	
	<b>Year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<i>(in millions of U.S. dollars)</i>	
Net cash provided by operating activities	417	392
Net cash used in investing activities	(129)	(126)
Net cash used in financing activities	(110)	(296)

### Net cash provided by Operating Activities

Net cash provided by operating activities increased to U.S.\$417 million for the year ended December 31, 2016, compared to U.S.\$392 million for the year ended December 31, 2015. The increase of net cash provided by operating activities in 2016 by U.S.\$25 million compared to previous year was mainly due to increase in net result.

### Net cash used in Investing Activities

Net cash used in investing activities amounted to U.S.\$129 million for the year ended December 31, 2016, compared to U.S.\$126 million for the year ended December 31, 2015. The net cash used in investing activities for the year ended December 31, 2016, was mainly related to capital expenditures for U.S.\$130 million compared to U.S.\$132 million for the year ended December 31, 2015.

### Net Cash used in Financing Activities

Net cash used in financing activities was U.S.\$110 million for the year ended December 31, 2016, compared to net cash used in financing activities of U.S.\$296 million for the year ended December 31, 2015. Net cash used in financing activities for the year ended December 31, 2016, was primarily due to U.S.\$97 million of dividend payments. Net cash used in financing activities for the year ended December 31, 2015 was primarily due to U.S.\$250 million early reimbursement of the notes maturing in 2018.

## Equity

Equity attributable to the equity holders of the parent increased to U.S.\$2,481 million at December 31, 2016, as compared to U.S.\$2,217 million at December 31, 2015, primarily due net income for the period of U.S.\$214 million, plus foreign currency translation differences of U.S.\$101 million, partly offset by dividend declaration of U.S.\$97 million.

## Capital Expenditure<sup>(6)</sup>

Capital expenditures for the years ended December 31, 2016, and 2015 were U.S.\$130 million and U.S.\$132 million, respectively. Capital expenditures for 2016 related primarily to the maintenance investments in our facilities in Brazil, France and Belgium.

<sup>6</sup> Capital expenditure is defined as purchase of tangible assets, intangible assets and biological assets, net of change in amount payables on these acquisitions

# Principal risks and uncertainties related to the Company and the stainless and specialty steel industry

The following major factors could cause actual results to differ materially from those discussed in the forward-looking statements included throughout this Annual Report:

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

### **Global economic cycle downturn**

Aperam's business and results of operations are substantially affected by international, national and regional economic conditions, including geopolitical risks that might disrupt the economic activity in affected countries. The re-emergence of recessionary conditions or a period of weak growth in Europe, or slow growth in emerging economies that are, or are expected to become, substantial consumers of stainless and specialty steels (such as China, Brazil, Russia and India, as well as other emerging Asian markets and the Middle East) would have a material adverse effect on the stainless and specialty steel industry.

### **Overcapacity**

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

### **China slowdown**

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

## **The risks of nickel price decrease, raw material price uncertainty, material margin squeeze, over dependency of main suppliers and electricity**

Aperam's profitability correlates amongst other factors with nickel prices. A significant price decrease of nickel would have a negative impact on apparent demand and base prices due to a "wait and see" behaviour from customers. Furthermore, nickel is listed on the LME and subject to speculation on the financial markets. Stainless and specialty steel production requires substantial amounts of raw materials (primarily nickel, chromium, molybdenum, stainless and carbon steel scrap, charcoal (biomass) and iron ore) which can lead to over dependency on its main suppliers. Aperam is also exposed to price uncertainty and material margin squeeze with respect to each of these raw materials, which it purchases mainly under short and long-term contracts, but also on the spot market. Aperam operations in Brazil have a net long position in electricity which is mitigated through excess power sale to the market and which may result in losses depending on spot electricity prices.

### **Fluctuations in currency exchange rates**

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

### **Litigation risks (product liability, patent infringement, commercial practices, employment, employment benefits, taxes, environmental issues, health & safety and occupational disease (including asbestos exposure/ classification))**

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

Management can also give no assurance that any litigation brought in the future will not have a material effect on its financial condition or results of operations. For a discussion of certain ongoing investigations and litigation matters involving Aperam, see Note 24 to the Consolidated Financial Statements.

### **Risks of lack of competitiveness of the workforce costs, of retention and social conflicts**

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

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

Due to the challenging economic climate, Aperam might experience an increased exposure to customers defaults or situations where credit insurance companies refuse to insure the recoverability risks of its receivables. Such a scenario could have a material effect on its business, financial condition, results of operations or cash flows.

### **Cyber security risks**

Aperam's operations depend on the secure and reliable performance of its information technology systems. An increasing number of companies, including Aperam, are experiencing intrusion attempts and phishing attempts for money transfers, as well as attempts at disabling information technology systems. If such attempts would succeed, they could cause applications unavailability, data confidentiality failures, adverse publicity and and interruptions in the Group's operations in case of intrusion to process systems. The Group could be subject to litigation, civil or criminal penalties, and adverse publicity that could adversely affect its reputation, financial condition and results of operations.

## Risk of production equipment breakdown

Stainless steel manufacturing processes are dependent on critical steelmaking equipment, such as furnaces, continuous casters, rolling mills and electrical equipment (such as transformers), and such equipment may incur downtime as a result of unanticipated failures or other events, such as fires, explosions or furnace breakdowns. Aperam's manufacturing plants have experienced, and may in the future experience, plant shutdowns or periods of reduced production as a result of such equipment failures or other events. To the extent that lost production as a result of such a disruption cannot be compensated for by unaffected facilities, such disruptions could have an adverse effect on Aperam's operations, customer service levels and results of operations.



Rotterdam Central, Netherlands; © Jannes Linders;  
Stainless steel used: Aperam 16L Uginox Mat

# Corporate Governance

This section provides a summary of the corporate governance practices of Aperam. The 10 Principles of Corporate Governance of the Luxembourg Stock Exchange constitute Aperam's domestic corporate governance code. We comply with the 10 Principles of Corporate Governance of the Luxembourg Stock Exchange.

## Board of Directors, Leadership Team

Aperam is administered by a Board of Directors and a Leadership Team.

### Board of Directors

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

Any director may be removed with or without cause by a simple majority vote at any general meeting of shareholders. In the event that a vacancy arises on the Board of Directors for any reason, the remaining members of the Board of Directors may, by a simple majority, elect a new director to fulfil temporarily the duties attaching to the vacant post until the next general meeting of shareholders.

As of the date of this Annual Report, the Board of Directors is composed of seven members. Mr. Lakshmi N. Mittal was elected Chairman of the Board of Directors in December 2010. Mr. Romain Bausch was elected Lead Independent Director in February 2011. The Board is assisted by a Company Secretary who also acts as Secretary of all the Board Committees. The Company Secretary fulfils those tasks and functions that are assigned to him by the Board of Directors. In particular, the Company Secretary ensures that all Directors are timely and properly informed and receive appropriate documentation for the performance of their tasks. The 10 Principles of Governance of the Luxembourg Stock Exchange, which constitute Aperam's domestic corporate governance code, require Aperam to define the independence criteria that apply to its directors.

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

### Specific characteristics of the director role

There is no requirement in the Articles of Association that directors be shareholders of the Company. The Board of Directors improved its corporate governance framework on February 4, 2013, to align the Company's corporate governance practices with developing best practices in the area of term limits and over-boarding.

The purpose of these improvements is to limit the time of service of directors on the Board of Directors and to set limits with respect to the number of directorships they can hold. An independent director may not serve on the Board of Directors for more than 12 consecutive years, although the Board of Directors may, by way of exception to this rule, make an affirmative determination, on a case-by-case basis, that he or she may continue to serve beyond 12 years' rule if it considers it to be in the best interest of the Company based on the contribution of the Director involved and the balance between knowledge, skills experience and renewal in the Board.

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

None of the members of the Board of Directors have entered into service contracts with Aperam or any of its subsidiaries that provide for any form of remuneration or for benefits upon the termination of their term. In December 2013, all non-executive Directors of the Group signed the Group's Appointment Letter, which confirms the conditions of their appointment including compliance with a non-compete provision, the 10 Principles of Corporate Governance of the Luxembourg Stock Exchange and the Group's Code of Business Conduct.

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

## Operation of the Board of Directors

### General

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

### Meetings

The board of directors shall choose amongst its members a chairman of the board of directors ("Président du conseil d'administration") (the "Chairman"). The Board may also choose one or several vice-chairmen. The meetings of the board of directors shall be chaired by the Chairman or, in his absence, by a vice-chairman. The Board of Directors meets when convened by the Chairman of the Board or a Vice-Chairman or two members of the Board of Directors.

The Board of Directors holds meetings in person on at least a quarterly basis and additional meetings are held as circumstances require, either in person or by teleconference. The Board of Directors held five meetings in 2016. The average attendance rate of the directors at the Board of Directors' meetings held in 2016 was 91.4%. In order for a meeting of the Board of Directors to be validly held, a majority of the directors must be present or represented. In the absence of the Chairman and of the Vice-Chairman, the Board of Directors will appoint by majority vote a chairman pro tempore for the meeting in question. For any meeting of the Board of Directors, a director may designate another director to represent him or her and vote in his or her name. The agenda of the meeting of the Board of Directors is agreed between the Chairman of the Board of Directors and the Lead Independent Director.

### Votes

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

## Lead Independent Director

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

- > coordination of the activities of the independent directors;
- > liaising between the non-independent directors and the independent directors;
- > calling meetings of the independent directors when necessary and appropriate; and
- > performing such other duties as may be assigned to him or her by the Board of Directors from time to time. Mr. Romain Bausch was elected by the Board of Directors as Aperam's Lead Independent Director in February 2011 and his role was reconfirmed at the February 2017 Board meeting.

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

The independent members of the Board of Directors may schedule meetings outside the presence of the management and the non-independent Directors. Four meetings of the independent Directors outside the presence of management and non-independent Directors were held in 2016.

The Chairman of the Board of Directors and the Lead Independent Director held four meetings in 2016 enabling to provide feedback on the separate meetings of the independent directors outside the presence of the management and the non-independent directors.

## Annual Self-Evaluation

The Board of Directors decided in 2011, the year of the creation of Aperam, to start conducting an annual self-evaluation of its functioning in order to identify potential areas for improvement. The self-evaluation process includes structured interviews between the Lead Independent Director and the members of the Board of Directors and covers the overall performance of the Board of Directors, its relations with senior management, the performance of individual Directors, and the performance of the committees. The process is supported by the Company Secretary under the supervision of the Chairman and the Lead Independent Director.

The findings of the self-evaluation process are examined by the Nomination and Corporate Governance Committee and presented with recommendations from the Committee to the Board of Directors for adoption and implementation. Suggestions for improvement of the Board of Directors' process based on the prior year's performance and functioning are implemented during the following year.

The 2016 Board of Directors' self-evaluation was completed by the Board of Directors on February 9, 2017. Directors believe that the quality of the discussions on the industry and the strategic reviews continued to improve in 2016. The previous year's recommendation to spend additional time on specific attention reviews and broaden the inductions sessions were successfully implemented. In particular, in 2016 the Board participated to specific attention reviews with respect to Environment, Social and Governance, Innovation and Finance related topics. Last year's recommendation to participate to a yearly site visit was successfully implemented.

For 2017, the Board identified a number of additional attention reviews and agreed to reconduct a yearly site visit by the Members of the Board of Directors.

The Board of Directors believes that its members have the appropriate range of skills, knowledge and experience, as well as the degree of diversity, necessary to enable it to effectively govern the business. Board composition is reviewed on a regular basis and additional skills and experience are actively searched for in line with the expected development of Aperam's business as and when appropriate.

## Required Skills, Experience and Other Personal Characteristics

Diverse skills, backgrounds, knowledge, experience, geographic location, nationalities and gender are required in order to effectively govern a global business the size of the Group's operations.

The Board and its committees are therefore required to ensure that the Board has the right balance of skills, experience, independence and knowledge necessary to perform its role in accordance with the highest standards of governance.



The Company's directors must demonstrate unquestioned honesty and integrity, preparedness to question, challenge and critique constructively, and a willingness to understand and commit to the highest standards of governance. They must be committed to the collective decision-making process of the Board and must be able to debate issues openly and constructively, and question or challenge the opinions of others. Directors must also commit themselves to remain actively involved in Board decisions and apply strategic thought to matters at issue. They must be clear communicators and good listeners who actively contribute to the Board in a collegial manner. Each Director must also ensure that no decision or action is taken that places his or her interests in front of the interests of the business. Each Director has an obligation to protect and advance the interests of the Group and must refrain from any conduct that would harm it.

In order to govern effectively, non-executive Directors must have a clear understanding of the Group's strategy, and a thorough knowledge of the Aperam Group and the industries in which it operates. Non-executive Directors must be sufficiently familiar with the Group's core business to effectively contribute to the development of strategy and monitor performance.

With specific regard to the non-executive Directors of the Company, the composition of the group of non-executive Directors should be such that the combination of experience, knowledge and independence of its members allows the Board to fulfil its obligations towards the Company and other stakeholders in the best possible manner.

The Remuneration, Nomination and Corporate Governance Committee ensures that the Board is comprised of high-calibre individuals whose background, skills, experience and personal characteristics enhance the overall profile of the Board and meets its needs and diversity aspirations by nominating high quality candidates for election to the Board by the general meeting of shareholders.

## Board Profile

The key skills and experience of the Directors, and the extent to which they are represented on the Board and its committees, are set out below. In summary, the non-executive Directors contribute:

- > international and operational experience;
- > understanding of the industry sectors in which we operate;
- > knowledge of world capital markets and being a company listed in several jurisdictions; and
- > an understanding of the health, safety, environmental, political and community challenges that we face.

Each Director is required to adhere to the values set out in, and sign, the Aperam Code of Business Conduct. In addition each Director is expected to bring an area of specific expertise to the Board.

## Renewal

The Board plans for its own succession, with the assistance of the Remuneration, Nomination and Corporate Governance Committee. In doing this, the Board:

- > considers the skills, backgrounds, knowledge, experience and diversity of geographic location, nationality and gender necessary to allow it to meet the corporate purpose;
- > assesses the skills, backgrounds, knowledge, experience and diversity currently represented;
- > identifies any inadequate representation of those attributes and agrees the process necessary to ensure a candidate is selected who brings them to the Board; and
- > reviews how Board performance might be enhanced, both at an individual Director level and for the Board as a whole.

The Board believes that orderly succession and renewal is achieved through careful planning and by continuously reviewing the composition of the Board.

When considering new appointments to the Board, the Remuneration, Nomination and Corporate Governance Committee oversees the preparation of a position specification that is provided to an independent recruitment firm retained to conduct a global search, taking into account, among other factors, geographic location, nationality and gender. In addition to the specific skills, knowledge and experience required of the candidate, the specification contains the criteria set out in the Aperam Board profile.

## Director Induction, Training and Development

The Board considers that the development of the directors' knowledge of the Group, the stainless steel-making and raw material industries, and the markets in which the Group operates is an ongoing process. Upon his or her election, each new non-executive director undertakes an induction program specifically tailored to his or her needs.

The Board's development activities include the provision of regular updates to directors on each of the Group's products and markets. Non-executive directors may also participate in training programs designed to maximise the effectiveness of the directors throughout their tenure and link in with their individual performance evaluations. The training and development program may cover not only matters of a business nature, but also matters falling into the environmental, social and governance area.

Structured opportunities are provided to build knowledge through initiatives such as plants visits and business briefings provided at Board meetings. Non-executive directors also build their Group and industry knowledge through the involvement of the Leadership Team members and other senior employees in Board meetings. Business briefings, site visits and development sessions underpin and support the Board's work in monitoring and overseeing progress towards the corporate purpose of creating long-term shareholder value through the development of our business in stainless steel. We therefore continuously build Directors' knowledge to ensure that the Board remains up-to-date with developments within our segments, as well as developments in the markets in which we operate. During the year 2016, non-executive directors participated in the following activities:

- > Comprehensive business briefings intended to provide each director with a deeper understanding of the Group's activities, environment, key issues and strategy of our segments.

These briefings are provided to the Board by the Leadership Team members. The key briefings provided during the course of 2016 included environmental, social and governance, innovation, Research and Development, Finance related topics and strategic reviews. Certain business briefings took place at the level of the Committees and, in other cases, they took place at the Board meetings; and

- > Development sessions on specific topics of relevance, such as regulatory developments in audit or trade flows.

The Remuneration, Nomination and Corporate Governance Committee oversees directors training and development. This approach allows induction and learning opportunities to be tailored to the directors' committee memberships, as well as the Board's specific areas of focus. In addition, this approach ensures a coordinated process in relation to succession planning, Board renewal, training, development and committee composition, all of which are relevant to the Remuneration, Nomination and Corporate Governance Committee role in securing the supply of talent to the Board.

## Committees of the Board of Directors

As of December 31, 2016, the Board of Directors had 2 committees: The Audit and Risk Management Committee and the Remuneration, Nomination and Corporate Governance Committee which are described in greater detail below.

## Committee Composition

The composition of the Committees of the Board of Directors as of December 31, 2016, is set forth below.

Name	Position within Aperam	Independent/ Non Independent Status	Audit and Risk Management Committee	Remuneration, Nomination and Corporate Governance Committee
Romain Bausch	Member of Board of Directors	Lead Independent Director	X	(Chair)
Joseph Greenwell	Member of Board of Directors	Independent	X	X
Kathryn Matthews	Member of Board of Directors	Independent		X
Laurence Mulliez	Member of Board of Directors	Independent	X (Chair)	

## Audit and Risk Management Committee

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

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

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

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

- > be an independent and objective party to monitor our financial reporting process and internal controls system;
- > review and appraise the audit efforts of Aperam's independent external auditors and internal auditing department;
- > review major legal and compliance matters and their follow up;
- > provide an open avenue of communication among our independent auditors, senior management, the internal audit department, and the Board of Directors;
- > approve the appointment and fees of our independent auditors; and
- > monitor the independence of the independent auditors.

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

- > oversight, development and implementation of a risk identification and management process and the review of this process in a consistent manner throughout the Group;
- > review of the effectiveness of our risk management framework, policies and process at the corporate and operating segment levels and the proposal of improvements, with the aim of ensuring that our management is supported by an effective risk management system;

- > promotion of constructive and open exchanges on risk identification and management among senior management, the Board of Directors, the legal department and other relevant departments of the Group;
- > review of proposals to assess, define and review the level of risk tolerance to ensure that appropriate risk limits are in place;
- > review of our internal and external audit plans to ensure that they include a review of the major risks we face; and
- > making recommendations within the scope of its charter to Aperam's senior management and to the Board of Directors about senior management's proposals concerning risk management.

In fulfilling its duties, the Audit and Risk Management Committee may seek the advice of outside experts. The three members of the Audit and Risk Management Committee are Ms. Laurence Mulliez, Mr. Romain Bausch and Mr. Joseph Greenwell. Ms. Laurence Mulliez is the Chairperson of the Audit and Risk Management Committee. Each of these members is an independent director in accordance with the 10 Principles of Corporate Governance of the Luxembourg Stock Exchange.

Ms. Laurence Mulliez has 25 years of experience mostly in Profit & Loss roles in the oil, gas and chemical industries as well as renewables. Ms. Laurence Mulliez held senior responsibilities also as Head of Strategy and Financial Planning and accumulated accounting and audit expertise expertise, also as a non-executive director at a leading international do-it-yourself retailer, Leroy Merlin, where she spent ten years and was also a member of the Audit Committee. Ms. Laurence Mulliez holds a degree in business from the Ecole Supérieure de Commerce de Rouen and an MBA from the University of Chicago Booth, with a concentration in Finance and Strategy.

According to its charter, the Audit and Risk Management Committee is required to meet at least four times a year. During 2016, the Audit Committee met four times. The attendance rate of the directors at the Audit and Risk Management Committee meetings held in 2016 was 100%. Invitees at the Committee in 2016 included from the Board of Directors Ms. Kathryn Matthews and Mr. Philippe Darmayan and from the Leadership Team, the CEO and the CFO. Other invitees included Finance Team and Combined Assurance Team members as appropriate as well as representatives of External Audit. The Company Secretary acts as secretary of the Committee.

During the year 2016, the Audit and Risk Management Committee reviewed on a quarterly basis the Financial and Sustainability Reporting, the External Auditor's report, the Combined Assurance reports, the Risk Management reports (including risks described in detail at the end of this annual report) and the Compliance reports. Specific sessions were also organised at the Committee level such as: cyber security, regulatory developments in Market Abuse Regulations and development in compliance.

As part of the annual self-evaluation interviews, the Audit and Risk Management Committee performed an evaluation, which was completed in February 2017 with respect to performance in 2016.

## Remuneration, Nomination and Corporate Governance Committee

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

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

- > determine Aperam's compensation framework, including short and long term incentives for the Chief Executive Officer, the Chief Financial Officer, the members of the Leadership Team and make recommendations to the Board;
- > review and approve succession and contingency plans for key managerial positions at the level of the Leadership Team;
- > review and evaluate on a yearly basis the performance of the Leadership Team as a whole and its individual members.
- > consider any candidate for appointment or reappointment to the Board of Directors at the request of the Board of Directors and provide advice and recommendations to it regarding the same;

- > evaluate the functioning of the Board of Directors and monitor the Board of Directors' self assessment process; and
- > develop, monitor and review corporate governance principles and corporate responsibility policies applicable to Aperam, as well as their application in practice.

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

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

The Remuneration, Nomination and Corporate Governance Committee is required to meet at least twice a year. During 2016, this committee met two times. The attendance rate at the Remuneration, Nomination and Corporate Governance Committee meetings held in 2016 was 100%. Invitees at the Committee in 2016 included from the Board of Directors Ms. Laurence Mulliez, Mr. Philippe Darmayan and from the Leadership Team, the CEO and the Head of Human Resources, Sustainability and Communications. The Company Secretary acts as secretary of the Committee.

During the year 2016, the Remuneration, Nomination and Corporate Governance reviewed in particular; the succession planning for the Board and the Leadership Team, the performance of the Leadership Team members and the self-assessment of the Board Members, the Long Term Incentive Plan performance indicators evolution, and the Leadership Team nominations and remunerations.

As part of the annual self-evaluation interviews, the Remuneration, Nomination and Corporate Governance Committee performed an evaluation, which was completed in February 2017 with respect to performance in 2016.

## Leadership Team

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

## Succession Planning

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

## Other Corporate Governance Practices

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

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

### Ethics and Compliance

#### Business Ethics and fair dealings

Ethics are governed by Aperam's Code of Business Conduct. This code establishes the standards for ethical behaviour to be followed by all employees and directors of Aperam in the exercise of their duties, on top of the strict observance of laws required. Code of Business Conduct training is offered throughout Aperam and regularly repeated to ensure it impregnates mindsets. Any behaviour that deviates from the Code of Business Conduct is to be reported to the employee's hierarchy, the head of compliance, the General Counsel and the head of the combined assurance department.

Our code of Conduct specifies do's and don't's. It addresses topics ranging from the fight against discrimination, up to the fair behaviours expected towards our partners in business, be they customers or suppliers. It also covers the numerous facets of Conflict of interest. As per our Code, an Aperam employee must not acquire any interest in any business or participate in any activity that could deprive Aperam of the time or the attention needed for conducting his/her duties. In short, Aperam employees should always act in the best interests of Aperam and must avoid any situation in which their personal interests conflict, or could conflict, with the obligations to Aperam.

A set of additional policies published externally detail also Aperam stance on key topics such as Anti-Trust, Anti-Fraud, Data Privacy or Human Rights, and they come with operational guidelines that are regularly updated in line with the best practices.

The Code of Business Conduct is available in the "About - Corporate Governance - Compliance" section of Aperam's website at [www.aperam.com](http://www.aperam.com).

#### A compliance-focused workforce

With the objective of zero tolerance for non-compliant behaviours, in 2016 the Group continued its initiatives to improve its corporate governance and compliance framework as well as its employees' overall awareness on the subject. In particular, a specific communication campaign built around 4 posters raising awareness in 11 languages was deployed throughout 2016. The campaign started with a dual postering promoting diversity and our Code of Conduct, and continued in the course of the year with a poster on Conflict of interest and a last one on Anti-fraud, dispatched on the United Nations Day against Corruption. The last two displays were combined each with pedagogical actions for more impact.

### Process for Handling Complaints on Accounting and Financial Matters

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

During 2016, there were 7 allegations relating to fraud, which were referred to the Group's Combined Assurance Department for investigation. At the end of 2016, 3 forensic cases had been finalised with 2 cases founded and 1 case unfounded while 2 were in progress and 2 to be planned. Following review by the Audit and Risk Management Committee, none of the 2 founded cases had a material impact on Aperam accounts.

## Combined Assurance

Aperam has a Combined Assurance function that, through its Head of Combined Assurance, reports directly to the Audit and Risk Management Committee. The function, using best-in class methodology in line with the Institute of Internal Auditors standards, is staffed by full-time professional staff located at the Head Office and the main production sites. The function supports the Audit and Risk Management Committee and the Leadership Team in fulfilling their oversight responsibilities in Governance, Risk Management and Forensic Services. Recommendations relating to the internal control environment are made by the Combined Assurance function and their implementation is regularly reviewed by the Audit and Risk Management Committee. In order to comply with the Standards of the Institute of Internal Auditors, the Combined Assurance function has been assessed by an external consultant. The diagnostic indicates that the Internal Audit function is compliant with the IIA Standards and the Combined Assurance function is in the top performing scores of the maturity Index. A Strategy map for 2020 has been developed reflecting the updated vision : "to be a trusted advisor by providing value-adding assurance services and facilitating change through a talent pool of future business leaders". In order to achieve the Strategy map for 2020 a Roadmap has been developed with 10 key projects based on the following 3 strategic themes : efficiency & agility, sustainable assurance and integrated GRC.

## Independent Auditors

The selection and determination of fees of the independent auditors is the direct responsibility of the Audit and Risk Management Committee. The Audit and Risk Management Committee is further responsible for obtaining, at least once each year, a written statement from the independent auditors that their independence has not been impaired. The Audit and Risk Management Committee has obtained from Aperam's principal independent auditors such an independence statement as well as a confirmation that none of its former employees are in a position within Aperam that may impair the principal auditors' independence. The appointment of the independent auditors is submitted to shareholder approval. Audit fees in 2016 were U.S.\$2.0 million for the audits of financial statements. Please refer to Note 27 to the Consolidated Financial Statements for further details.

## Measures to Prevent Insider Dealing and Market Manipulation

The Board of Directors of Aperam has adopted Insider Dealing Regulations ("IDR"), which are updated when necessary and in relation to which training is conducted throughout the Group.

In 2016, the IDR were updated following the automatic implementation on July 3, 2016, in all EU member states including Luxembourg of Regulation No 596/2014 of the European Parliament and the Council of April 16, 2014, on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC.

The IDR are available on Aperam's website, [www.aperam.com](http://www.aperam.com), under "About - Corporate Governance - Compliance".

The Board of Directors has appointed the Company Secretary to act as the IDR Compliance Officer and who responds to questions about the IDR's interpretation. Aperam maintains a list of insiders as required by law. The compliance officer may assist senior executives and directors with the filing of notices required by Luxembourg law to be filed with the Luxembourg financial regulator, the CSSF ("Commission de Surveillance du Secteur Financier"). Furthermore, the compliance officer has the power to conduct investigations in connection with the application and enforcement of the IDR, in which any employee or member of senior management or of the Board of Directors is required to cooperate.

## Luxembourg Takeover Law disclosure

The following disclosures are made in compliance with article 11 of the Luxembourg Law of May 19, 2006, transposing Directive 2004/25/EC of the European Parliament and of the Council of April 21, 2004, on takeover bids. The Company's articles of association are available at [www.aperam.com](http://www.aperam.com), under "Investors & shareholders - Corporate Governance - Articles of Association".

- > With reference to article 11 (1) (a) of the above mentioned law - The Company has issued a single category of shares (ordinary shares). As per article 13.6 of the Articles of Association of the Company each share is entitled to one vote. The shareholder structure including voting rights is set out in the share capital section of this Management Report and available at [www.aperam.com](http://www.aperam.com), under "Corporate Governance - Shareholding Structure", where the shareholding structure table is updated monthly.
- > With reference to article 11 (1) (b) of the above mentioned law - The ordinary shares of the Company are freely transferable.
- > With reference to article 11 (1) (c) of the above mentioned law - The beneficial ownership and voting rights in the Company by each person who is known to be the beneficial owner of 2.5% or more of the Company's issued share capital is set out in the share capital section of this Management Report and available at [www.aperam.com](http://www.aperam.com), under "Corporate Governance - Shareholding Structure", where the shareholding structure table is updated monthly.
- > With reference to article 11 (1) (d) of the above mentioned law - All of the issued and outstanding ordinary shares in the Company have equal voting rights and there are no special control rights attaching to the ordinary shares. As per article 13.6 of the Articles of Association of the Company each share is entitled to one vote. As per article 8.4 of the Articles of Association of the Company, the Mittal Shareholder (as defined in the Articles of Association) may, at its discretion, decide to exercise the right of proportional representation and nominate candidates for appointment as members of the Board of Directors. The Mittal Shareholder has not, to date, exercised that right.
- > With reference to article 11 (1) (e) and (f) of the above mentioned law - Not applicable. However, the sanction of suspension of voting rights automatically applies, subject to limited exceptions set out in the Transparency Law (as defined below), to any shareholder (or group of shareholders) who has (or have) crossed the thresholds set out in article 7 of the Articles of Association and articles 8 to 15 of the Luxembourg law of January 11, 2008, on the transparency requirements regarding issuers of securities (the "Transparency Law") but have not notified the Company accordingly. The sanction of suspension of voting rights will apply until such time as the notification has been properly made by the relevant shareholder(s).
- > With reference to article 11 (1) (g) of the above mentioned law - Not applicable.
- > With reference to article 11 (1) (h) of the above mentioned law - As per article 8.3 of the Articles of Association of the Company, the members of the Board of Directors shall be elected by the shareholders at the annual general meeting or at any other general meeting of shareholders for a term not exceeding three years and shall be eligible for re-election. In the event that a vacancy arises on the Board of Directors for any reason, the remaining members of the Board of Directors may, by a simple majority, elect a new director to fulfil temporarily the duties attaching to the vacant post until the next general meeting of shareholders. The Board of Directors' election is also set out in the section Corporate Governance - Board of Directors of this Management Report. Rules governing amendments of the Company's articles of association are set out in article 14 of the articles of association of the Company.
- > With reference to article 11 (1) (i) of the above mentioned law - As of December 31, 2016, the Company's authorised share capital, including the issued share capital, consisted of 96,216,785 shares without nominal value. The Company's issued share capital was represented by 78,049,730 fully paid up shares without nominal value. On May 5, 2015, the Annual General Meeting of Shareholders decided (a) to cancel the authorisation granted to the Board of Directors by the general meeting of shareholders held on January 21, 2011, with respect to the share buyback program, and (b) to authorise the Board of Directors of the Company, with option to delegate, and the corporate bodies of the other companies in the Aperam Group in accordance with the Luxembourg law of August 10, 1915, on commercial companies, as amended (the "Law"), to acquire and sell shares in the Company in accordance with the Law and any other applicable laws and regulations, including but not limited to entering into off-market and over-the-counter transactions and to acquire shares in the Company through derivative financial instruments.



The authorisation is valid for a period of five (5) years or until the date of its renewal by a resolution of the general meeting of shareholders if such renewal date is prior to the expiration the five-year period. The maximum number of shares that may be acquired is the maximum allowed by the Law as amended in such manner that the accounting par value of the Company's shares held by the Company do not in any event exceed 10% of the Company's issued share capital.

The maximum number of own shares that Aperam may hold at any time directly or indirectly may not have the effect of reducing its net assets ("actif net") below the amount mentioned in paragraphs 1 and 2 of Article 72-1 of the Law. The purchase price per share to be paid shall not represent more than 110% of the trading price of the shares on the Euronext markets where the Company is listed or the Luxembourg Stock Exchange, depending on the market on which the purchases are made, and no less than one euro cent. For off-market transactions, the maximum purchase price shall be 110% of the reference price on the Euronext markets where the Company is listed. The reference price will be deemed to be the average of the final listing prices per share on these markets during thirty (30) consecutive days on which these markets are open for trading preceding the three trading days prior to the date of purchase. In the event of a share capital increase by incorporation of reserves or issue of shares at premium and the free allotment of shares as well as in the event of the division or regrouping of the shares, the purchase price indicated above shall be adjusted by a multiplying coefficient equal to the ratio between the number of shares comprising the issued share capital prior to the transaction and such number following the transaction.

On February 9, 2017, Aperam announced a share buyback program under the authorization given by the annual general meeting of shareholders held on May 5, 2015 (the "Program"). Aperam will appoint an investment services provider to execute the repurchases of shares in the open market during open and closed periods. Aperam intends to repurchase per day a variable number of shares at market price, for an aggregate maximum amount of one hundred (100) million US dollars and a maximum of two (2) million shares, over a period from February 14, 2017, until September 30, 2017. The price per share, of the shares to be bought under the Program, shall not exceed 110% of the average of the final listing prices of the 30 trading days preceding the three trading days prior to each date of repurchase, in accordance to the resolution of the annual general meeting of shareholders held on May 5, 2015. Simultaneously, the Mittal family has declared its intention to enter into a shares repurchase agreement with Aperam, to sell each trading day on which Aperam has purchased shares under the Program, an equivalent number of shares, at the proportion of the Mittal family's stake of 40.85% of Aperam, at the same price as the shares repurchased on the market. The effect of the share repurchase agreement is to maintain Mittal family's voting rights in Aperam's issued share capital (net of Treasury Shares) at the current level, pursuant to the Program. The shares so acquired under this buyback program are intended to be cancelled to reduce the share capital of Aperam and will be proposed for cancellation at the next shareholder meeting of May 10, 2017.

> With reference to article 11 (1) (j) of the above mentioned law - Not applicable.

> With reference to article 11 (1) (k) of the above mentioned law - Not applicable.

## Articles of Association

There were no amendments to the Aperam's Articles of Association in 2016. The last version of the Company's Articles of Association is dated May 8, 2014, and is available on the Company's website [www.aperam.com](http://www.aperam.com), under "Investors & shareholders - Corporate Governance - Articles of Association".

# Compensation

## Remuneration of Board of Directors

As of December 31, 2016, and 2015, Aperam did not have any outstanding loans or advances to members of its Board of Directors and, as of December 31, 2016, Aperam had not given any guarantees for the benefit of any member of its Board of Directors. At the May 4, 2016, annual general meeting of shareholders, the shareholders approved the annual remuneration for non-executive Directors for the 2015 financial year at U.S.\$598,786 based on the following annual fees set in Euros:

### (Amounts in Euros):

Position	Compensation (annual basis)
Basic Director's remuneration	€ 70,000
Lead Independent Director's remuneration	€ 80,000
Additional remuneration for the Chair of the Audit and Risk Management Committee	€ 15,000
Additional remuneration for the other Audit and Risk Management Committee members	€ 7,500
Additional remuneration for the Chair of the Remuneration, Nomination and Corporate Governance Committee	€ 10,000
Additional remuneration for the member of the Remuneration, Nomination and Corporate Governance Committee	€ 5,000

The table below shows the Directors' compensation for the financial periods ending December 31, 2015 and 2016.

The directors' compensation for the financial period ended December 31, 2016, will be submitted to shareholder approval at the annual general meeting of May 10, 2017.

Name	Financial period ending December 31, 2015 <sup>(2)</sup>	Financial period ending December 31, 2016 <sup>(2)</sup>
Mr. Lakshmi N. Mittal	U.S.\$ 76,209	U.S.\$ 73,787
Mr. Romain Bausch	U.S.\$ 106,148	U.S.\$ 102,755
Mr. Philippe Darmayan <sup>(1)</sup>	U.S.\$ 50,319	U.S.\$ 73,787
Mr. Joseph Greenwell	U.S.\$ 89,818	U.S.\$ 86,963
Ms. Kathryn A. Matthews	U.S.\$ 81,653	U.S.\$ 79,058
Mr. Aditya Mittal	U.S.\$ 76,209	U.S.\$ 73,787
Ms. Laurence Mulliez	U.S.\$ 92,540	U.S.\$ 89,599
Mr. Gonzalo Urquijo <sup>(1)</sup>	U.S.\$ 28,890	-
<b>Total</b>	<b>U.S.\$ 598.786</b>	<b>U.S.\$ 579.755</b>
Shareholders' approval date	May 4, 2016	N/A
Shareholders' expected approval date	N/A	May 10, 2017

#### Notes:

(1) On May 5, 2015, the annual general meeting of shareholders elected Mr. Philippe Darmayan for a term of three years following Mr. Gonzalo Urquijo's decision to step down from the Board of Directors for personal considerations effective May 5, 2015.

(2) Differences between the years 2015 and 2016 are explained by currency effects between the U.S.\$ and €.

Mr. Philippe Darmayan who has been elected as member of the Board of Directors on May 5, 2015, at the annual general meeting of shareholders is Aperam's former Chief Executive Officer from 2011 to 2014. As announced on October 14, 2015, Mr. Philippe Darmayan is retaining links with the Group as advisor due to his extensive industry knowledge. In 2016, the Group paid to PHD Partners, a company owned by Mr. Darmayan, an amount of € 148,000 for advisory services.

## Remuneration of Senior Management

The total compensation paid in 2016 to the persons comprising the Company's Leadership Team members was U.S.\$3.09 million in base salary (including certain allowances paid in cash) and U.S.\$1.2 million in short-term performance related variable pay (consisting of a bonus linked to the 2015 results). As of December 31, 2016, approximately U.S.\$0.38 million was accrued to provide pension benefits to such persons. In August 2016, the persons comprising the Company's Leadership Team received 34,561 PSUs, corresponding to a value at grant equal to 45% of the year base salary for the Chief Executive Officer and for the other Leadership Team members. The fair value per share for this grant was U.S.\$39.14. Each PSU may give right to up to one and half shares of the Company. The changes to the composition of the Leadership Team are described in greater detail in the section "Senior Management" of this Management Report.

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

The following table summarises the detailed allocation of equity based incentives to the Leadership Team ('LT' thereafter in the table) Members under the shareholder approvals. Additional information about the equity based incentives is available in greater detail under "— Long-term Incentives: Equity Based Incentives".

<b>Allocation under the shareholder approval of</b>				
	<b>May 8, 2013</b>	<b>May 8, 2014</b>	<b>May 8, 2015</b>	<b>May 4, 2016</b>
Authorisation to issue up to	220,000 shares for grants under the LT PSU Plan and other retention based grants below level of LT	220,000 shares for grants under the LT PSU Plan and other retention based grants below level of LT	220,000 shares for grants under the LT PSU Plan and other retention based grants below level of LT	220,000 shares for grants under the LT PSU Plan and other retention based grants below level of LT
Represented in percentage of the Company's issued share capital (net of treasury shares) on an outstanding Basis at the date of the shareholder approval	Less than 0.29%	Less than 0.29%	Less than 0.29%	Less than 0.29%
Targeted population under the RSU Plan	Employees below the level of LT members	Employees below the level of LT members	Employees below the level of LT members	Employees below the level of LT members
Targeted population under the PSU Plan	Leadership Team members	Leadership Team members	Leadership Team members	Leadership Team members
Allocation under the shareholder approval limit to members of the Leadership Team	66,792 PSU (vesting August 5, 2016) (LT members do not receive RSUs under the LT PSU Plan)	41,439 PSU (vesting June 29, 2017) (LT members do not receive RSUs under the LT PSU Plan)	39,232 PSU (vesting August 26, 2018) (LT members do not receive RSUs under the LT PSU Plan)	34,561 PSU (vesting August 31, 2019) (LT members do not receive RSUs under the LT PSU Plan)
Allocations to Members of Leadership Team in percentage of the Group's issued share capital (net of treasury shares) on an outstanding basis at the date of the shareholder approval and assuming Maximum conversion of PSUs into shares	Less than 0.18%	Less than 0.08%	Less than 0.08%	Less than 0.08%
Performance criteria for PSU Plans	50% weighting: Total Shareholder Return ('TSR') compared to a peer group of companies, and 50% weighting: Earnings Per Share ('EPS') compared to a peer group of companies	50% weighting: Total Shareholder Return ('TSR') compared to a peer group of companies, and 50% weighting: Earnings Per Share ('EPS') compared to a peer group of companies	50% weighting: Total Shareholder Return ('TSR') compared to a peer group of companies, and 50% weighting: Earnings Per Share ('EPS') compared to a peer group of companies	50% weighting: Total Shareholder Return ('TSR') compared to a peer group of companies, and 50% weighting: Earnings Per Share ('EPS') compared to a peer group of companies

**Note:**

LT = Leadership Team (formerly named Management Committee = MC)

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

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

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

#### **PSU Plans - Cumulative performance criteria:**

The performance criteria of the Performance Share Unit Plans defined in the section Long-term Incentives: Equity Based Incentives are as follows:

- > 50% of the criteria is based on the Total Shareholder Return ("TSR") defined as the share price at the end of the period minus the share price at start of the period plus any dividend paid divided by the share price at the start of the period compared to a peer group of companies.
- > The other 50% of the criteria to be met to trigger vesting of the PSUs is based on the development of Earnings Per Share ("EPS"), defined as the amount of earnings per share outstanding compared to a peer group of companies.
- > The applicable peer group of companies is described in greater detail below.

The tables below summarise the progress of meeting the vesting criteria on each grant anniversary date for the Performance Share Unit (PSU) Plans.

#### **PSU Plan under the May 8, 2013, shareholder authorisation**

*Awards under the LT PSU Plan are subject to the fulfillment of the cumulative performance criteria defined above over a three-year period from the date of the PSU grant.*

*The value of the grant at grant date will equal 35% of the year base salary for the Chief Executive Officer and for the other LT members. Each PSU may give right to up to two shares of the Group.*

*Vesting:*

*No vesting will take place for performance below 80% of the median compared to the peer group over three years. The percentage of PSUs vesting will be 50% for achieving 80% of the median TSR, 100% for achieving the median TSR, 150% for achieving 120% of the median TSR, and up to a maximum of 200% for an achievement above the upper quartile. The percentage of PSUs vesting will be 50% for achieving 80% of the median EPS, 100% for achieving the median EPS, 150% for achieving 120% of the median EPS, and up to a maximum 200% for an achievement above the upper quartile.*

*Grant date: August 5, 2013*

*Vesting date: August 5, 2016*

*Progress at yearly anniversary grant dates:*

Performance criteria	% Weighting of criteria	Percentage of achievement at review at first grant anniversary date (August 5, 2014)	Percentage of achievement at review at second grant anniversary date (August 5, 2015)	Percentage of achievement at review at third grant anniversary date (August 5, 2016)
TSR	50%	Above the upper quartile: 200%	Above the upper quartile: 200%	Above the upper quartile: 200%
EPS	50%	Above the upper quartile: 200%	Above the upper quartile: 200%	183%

**PSU Plan under the May 8, 2014, shareholder authorisation**

Awards under the LT PSU Plan are subject to the fulfilment of the cumulative performance criteria defined above over a three-year period from the date of the PSU grant.

The value of the grant at grant date will equal 45% of the year base salary for the Chief Executive Officer and for the other LT members. Each PSU may give right to up to one and half shares of the Company.

Vesting:

No vesting will take place for performance below 80% of the median compared to the peer group over three years. The percentage of PSUs vesting will be 50% for achieving 80% of the median TSR, 100% for achieving the median TSR and up to a maximum of 150% for achieving 120% of the median TSR. The percentage of PSUs vesting will be 50% for achieving 80% of the median EPS, 100% for achieving the median EPS and up to a maximum of 150% for achieving 120% of the median EPS.

Grant date: June 29, 2014

Vesting date: June 29, 2017

Progress at yearly anniversary grant dates:

Performance criteria	% Weighting of criteria	Percentage of achievement at review at first grant anniversary date (June 29, 2015)	Percentage of achievement at review at second grant anniversary date (June 29, 2016)
TSR	50%	Above 120% of median:150%	Above 120% of median:150%
EPS	50%	Above 120% of median:150%	Above 120% of median:150%

**PSU Plan under the May 5, 2015, shareholder authorisation**

Awards under the LT PSU Plan are subject to the fulfilment of the cumulative performance criteria defined above over a three year period from the date of the PSU grant.

The value of the grant at grant date will equal 45% of the year base salary for the Chief Executive Officer and for the other LT members. Each PSU may give right to up to one and half shares of the Company.

Vesting:

No vesting will take place for performance below 80% of the median compared to the peer group over three years. The percentage of PSUs vesting will be 50% for achieving 80% of the median TSR, 100% for achieving the median TSR and up to a maximum of 150% for achieving 120% of the median TSR. The percentage of PSUs vesting will be 50% for achieving 80% of the median EPS, 100% for achieving the median EPS and up to a maximum of 150% for achieving 120% of the median EPS.

Grant date: August 26, 2015

Vesting date: August 26, 2018

Progress at yearly anniversary grant dates:

Performance criteria	% Weighting of criteria	Percentage of achievement at review at first grant anniversary date (August 26, 2016)
TSR	50%	Above 120% of median: 150%
EPS	50%	Above 120% of median:150%

**PSU Plan under the May 4, 2016, shareholder authorisation**

Awards under the LT PSU Plan are subject to the fulfilment of the cumulative performance criteria defined above over a three year period from the date of the PSU grant.

The value of the grant at grant date will equal 45% of the year base salary for the Chief Executive Officer and for the other LT members. Each PSU may give right to up to one and half shares of the Company.

**Vesting:**

No vesting will take place for performance below 80% of the median compared to the peer group over three years. The percentage of PSUs vesting will be 50% for achieving 80% of the median TSR, 100% for achieving the median TSR and up to a maximum of 150% for achieving 120% of the median TSR. The percentage of PSUs vesting will be 50% for achieving 80% of the median EPS, 100% for achieving the median EPS and up to a maximum of 150% for achieving 120% of the median EPS.

Grant date: August 31, 2016

Vesting date: August 31, 2019

Progress at yearly anniversary grant dates: No anniversary grant date yet reached.

**PSU Plan - Peer Group of companies:**

The table below lists the applicable group of companies used for the comparative performance as part of the Leadership Team PSU Plan submitted to shareholder approval on May 4, 2016. The group of companies consists of three stainless steel companies, five steel companies and one mining company. These companies have been retained by the Board of Directors based on industry classification, size and on correlation of Total Shareholder Return performance in order to identify whether this group is sound from a statistical viewpoint.

Company	Industry	Market Capitalisation <sup>(1)</sup>	Correlation <sup>(2)</sup>
ArcelorMittal	Steel	6,704	0.57
Acerinox	Stainless steel	2,647	0.67
Outokumpu	Stainless steel	1,167	0.66
Thyssen-Krupp	Steel, Stainless steel & downstream	10,754	0.59
Voestalpine	Steel	5,170	0.51
Salzgitter	Steel	1,470	0.61
SSAB	Steel	1,346	0.50
AK Steel	Stainless steel	418	0.31
Eramet	Mining	801	0.44

**Notes:**

(1) At January 1, 2016, in million U.S. dollars.

(2) Correlation calculated from 01/01/2015 to 01/01/2016 on the basis of the evolution of the respective shares prices

# Remuneration policy

## Board Oversight

The Board is responsible for ensuring that the Group's remuneration arrangements are equitable and aligned with the long-term interests of the Company and its shareholders. It is therefore critical that the Board remains independent of management when making decisions affecting remuneration of the Chief Executive Officer and its direct reports.

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

The definition of the independence criteria that applies to the Directors is described in greater detail under the section Corporate Governance - Board of Directors of this Management Report.

The members are appointed by the Board of Directors each year after the annual general meeting of shareholders. The members have relevant expertise or experience relating to the purposes of the committee.

The RNCG Committee makes decisions by a simple majority with no member having a casting vote. The RNCG Committee is chaired by Mr. Romain Bausch, Lead Independent Director. The primary function of the RNCG Committee as well as its functioning is described in greater detail on pages 59 and 60 of the report.

## Remuneration Strategy

### Scope

Aperam's remuneration philosophy and framework apply to the following group of senior managers:

- > the Chief Executive Officer; and
- > the 8 other members of the Leadership Team.

The remuneration philosophy and governing principles also apply, with certain limitations, to a wider group of employees including General Managers and Managers.

## Remuneration Philosophy

Aperam's remuneration philosophy for its senior managers is based on the following principles:

- > provide total remuneration competitive with executive remuneration levels of a peer group composed of a selection of industrial companies of a similar size and scope;
- > encourage and reward performance that will lead to long-term enhancement of shareholder value;
- > promote internal pay equity and provide "market" median (determined by reference to its identified peer group) base pay levels for Aperam's senior managers with the possibility to move up to the third quartile of the market base pay levels, depending on performance over time; and
- > promote internal pay equity and target total direct remuneration (base pay, bonus, and long term incentives) levels for senior managers at up to 75 percent of the market median depending on performance over time.

## Remuneration Framework

The RNCG Committee develops proposals on senior management remuneration annually for consideration by the Board of Directors. Such proposals include the following components:

- > fixed annual salary;
- > short-term incentives (i.e., performance-based bonuses); and
- > long-term incentives (i.e., RSUs and PSUs stock options (ArcelorMittal plans prior to the creation of Aperam in January 2011)). The decision was taken by the Board of Directors not to allocate any RSUs and PSUs to the members of Leadership Team between May 2012 and May 2013. Since May 2013, Leadership Team members only receive PSUs as equity based incentives (RSUs are only granted to employees below the Leadership Team level).



## Fixed Annual Salary

Base salary levels are reviewed annually and compared to the market to ensure that Aperam remains competitive with market median base pay levels.

## Short-term Incentives

### Annual Performance Bonus Plan

Aperam has a short-term incentive plan consisting of a performance-based bonus plan. Bonus calculations for each employee reflect the performance of the Aperam Group as a whole, the performance of the relevant business units, the achievement of objectives specific to the department and the individual employee's overall performance.

The calculation of Aperam's 2016 performance bonus is aligned with its strategic objectives of improving health and safety, financial performance and overall competitiveness and the following principles:

- > no performance bonus will be triggered if the achievement level of the performance measures is less than the threshold of 80%;
- > achievement of 100% of the performance measure yields 100% of the performance bonus pay-out; and
- > achievement of more than 100% and up to 120% of the performance measure generates a higher performance bonus pay-out, except as explained below. The performance bonus for each individual is expressed as a percentage of his or her annual base salary.

For an initial performance bonus target of 30%, performance target may range from 15% of the base pay for achievement of performance measures at the threshold (80%) to up to 45% for an achievement at or in excess of the ceiling of 120%. Between the 80% threshold and the 120% ceiling, the performance bonus is calculated on a proportional, straight-line basis.

For the Chief Executive Officer and the Members of the Leadership Team, the 2016 bonus formula is based on:

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

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

Compared to previous year, the weight of Quantified specific measures has been increased from 30% to 40%, whereas a separate weight to Health and Safety accounting for 10% has been removed. Health and Safety being the Group's top priority it was decided to adopt a more fundamental approach than driven by financial incentives and to take the necessary actions that a "Safety First" attitude is a "conditio sine qua non" for employment at Aperam. It is reminded that Health & Safety is already a primary target in the Individual performance and potential assessment ratings (see below) of the employees and plays already an important role in the final evaluation.

The achievement level of performance for performance bonus is summarised as follow:

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

**Note:**

VP = Vice-President

Individual performance and potential assessment ratings define the individual bonus multiplier that will be applied to the performance bonus calculated based on actual performance against the performance measures. Those individuals who consistently perform at expected levels will have an individual multiplier of 1. For outstanding performers, an individual multiplier of up to 1.5 may cause the performance bonus pay-out to be higher than 90% of the target bonus, up to 135% of target bonus being the absolute maximum. Similarly, a reduction factor will be applied for those at the lower end.

The principles of the performance bonus plan, with different weights for performance measures and different levels of target bonuses, are applicable to approximately 1,000 employees worldwide.

In exceptional cases, there are some entitlements to a retention bonus or a business specific bonus.

At the end of the financial year, achievement against the measures is assessed by the RNCG Committee and the Board and the short-term incentive award is determined.

The 2015 Performance Bonus Plan with respect to senior management and paid out in 2016 was structured as follows:

2015 Measures	% Weighting for the Chief Executive Officer and LT members	Assessment
EBITDA	40%	Incentive attributed to this metric
Free Cash Flow	20%	Incentive attributed to this metric
Health and Safety	10%	Incentive attributed to this metric
Quantified specific measures	30%	Incentive attributed to this metric

The February 2017 Remuneration, Nomination and Corporate Governance Committee proposed to link the 2017 Performance Bonus Plan also to strategic objectives.

### Other Benefits

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

## Long-term Incentives: Equity Based Incentives

### Share Unit Plans

The first shareholders' meeting after the creation of Aperam of July 12, 2011 approved a equity-based incentive. The plan comprises a Restricted Share Unit Plan ("RSU Plan") and a Performance Share Unit Plan ("PSU Plan") designed to incentivise employees, improve the Group's long-term performance and retain key employees. Both the RSU Plan and the PSU Plan are intended to align the interests of the Company's shareholders and eligible employees by allowing them to participate in the success of the Company.

The maximum number of Restricted Share Units (each, an "RSU") and Performance Share Units (each, a "PSU") available for grant during any given year is subject to the prior approval of the Company's shareholders at the annual general meeting.

The table page 67 summarises the key characteristics of the shareholders approved equity based incentives.

### RSU Plan

The aim of the RSU Plan is to provide a retention incentive to eligible employees. It is subject to "cliff vesting" after three years, with 100% of the grant vesting on the third anniversary of the grant contingent upon the continued active employment of the eligible employee within the Aperam Group. The RSUs are an integral part of the Company's remuneration framework.

The May 8, 2012 annual general meeting of shareholders authorised the Board of Directors to issue, during the period between the 2012 and the 2013 annual general meeting, to key employees of Aperam a maximum of 70,000 RSUs corresponding to up to 70,000 of Aperam shares. The decision was taken by the Board of Directors not to grant any RSUs to the members of the Leadership Team under the May 2012 shareholder authorisation and not to submit to shareholders' approval RSU grants under the next equity incentives. In April 2013, a total of 40,000 RSUs under the RSU Plan were granted to a total of 27 employees at a fair value of U.S.\$12.16 per share, all grants were for employees below the level of the Leadership Team. In April 2016, a total of 35,000 shares were vested and allocated to qualifying employees.

The May 8, 2013 annual general meeting of shareholders authorised the Board of Directors to issue, during the period between the 2013 and the 2014 annual general meeting, to key employees of Aperam a maximum of 220,000 of the Company's shares for grants under the Management Committee PSU Plan and other retention based grants below the level of the Leadership Team. In August 2013, a total of 44,000 RSUs were granted to a total of 28 employees at a fair value of U.S.\$13.40 per share, all grants were for employees below the level of the 36,000 shares were allocated to qualifying employees. In September 2016, a total of 36,000 shares were vested and allocated to qualifying employees.

The May 8, 2014 annual general meeting of shareholders authorised the Board of Directors to issue, during the period between the 2014 and the 2015 annual general meeting, to key employees of Aperam a maximum of 220,000 of the Company's shares for grants under the Management Committee PSU Plan and other retention based grants below the level of the Leadership Team. In September 2014, a total of 48,000 RSUs were granted to a total of 32 employees at a fair value of U.S.\$31.97 per share, all grants were for employees below the level of the Leadership Team.

The May 5, 2015 annual general meeting of shareholders authorised the Board of Directors to issue, during the period between the 2015 and the 2016 annual general meeting, to key employees of Aperam a maximum of 220,000 of the Company's shares for grants under the Leadership Team PSU Plan and other retention based grants below the level of the Leadership Team. In August 2015, a total of 27,500 RSUs were granted to a total of 32 employees at a fair value of U.S.\$32.19 per share, all grants were for employees below the level of the Leadership Team.

The May 4, 2016 annual general meeting of shareholders authorised the Board of Directors to issue, during the period between the 2016 and the 2017 annual general meeting, to key employees of Aperam a maximum of 220,000 of the Company's shares for grants under the Leadership Team PSU Plan and other retention based grants below the level of the Leadership Team. In August 2016, a total of 33,550 RSUs were granted to a total of 44 qualifying employees at a fair value of U.S.\$39.14 per share, all grants were for employee below the level of the Leadership Team.

The allocation of RSUs to employees below the Leadership Team level is reviewed by the RNCG Committee, comprised of three independent directors, which makes a recommendation to the full Board of Directors. The Committee also decides the criteria for granting RSUs and makes its recommendation to the Board of Directors.

The February 2017 Remuneration, Nomination and Corporate Governance Committee proposed that none RSUs are granted anymore as from the next shareholder authorization of May 2017 onward.

## PSU Plan

The PSU Plan's main objective is to be an effective performance-enhancing scheme based on the employee's contribution to the eligible achievement of the Group's strategy. Awards under the PSU Plan are subject to the fulfilment of cumulative performance criteria over a three-year period from the date of the PSU grant. The target group for PSU grants is primarily the Chief Executive Officer and the other members of the Leadership Team. Each PSU may give right to up to two shares of the Company under the 2013 plan and up to one and half for the 2014 plan and following plans. The LT PSU Plan provides for cliff vesting on the third year anniversary of the grant date, under the condition that the relevant LT member continues to be actively employed by the Aperam Group on that date. If the LT member is retired on that date or in case of an early retirement by mutual consent, the relevant LT member will not automatically forfeit PSUs and pro rata vesting will be considered at the end of the vesting period at the sole discretion of the Company. The value of the grant at grant date is to equal 45% of the year base salary for the Chief Executive Officer and for the other Leadership Team members. The two sets of performance criteria to be met for vesting of the PSUs under this LT PSU Plan are Total Shareholder Return and Earnings Per Share versus a peer group. Each performance measure has a weighting of 50%. No vesting will take place for performance below 80% of the median compared to the peer group.

The May 8, 2013 annual general meeting of shareholders authorised the Board of Directors to issue, during the period between the 2013 and the 2014 annual general meeting, to key employees of Aperam a maximum of 220,000 of the Company's shares for grants under the Management Committee PSU Plan and other retention based grants below the level of the Leadership Team. In August 2013, a total of 87,592 PSUs were granted to a total of 35 employees at a fair value of U.S.\$13.40 per share (out of which 66,792 PSUs for the 7 Members of the Leadership Team). In August and September 2016, a total of 70,290 shares were vested and allocated to qualifying employees (out of which 52,466 for Members of the Leadership Team).

The May 8, 2014 annual general meeting of shareholders authorised the Board of Directors to issue, during the period between the 2014 and the 2015 annual general meeting, to key employees of Aperam a maximum of 220,000 of the Company's shares for grants under the Management Committee PSU Plan and other retention based grants below the level of the Leadership Team. In June 2014 and September 2014, a total of 63,839 PSUs were granted to a total of 40 employees at a fair value of respectively U.S.\$33.97 per share and U.S.\$31.97 per share (out of which 41,439 PSUs for the 8 Members of the Leadership Team).

The May 5, 2015 annual general meeting of shareholders authorised the Board of Directors to issue, during the period between the 2015 and the 2016 annual general meeting, to key employees of Aperam a maximum of 220,000 of the Company's shares for grants under the Leadership Team PSU Plan and other retention based grants below the level of the Leadership Team. In August 2015, a total of 49,232 PSUs were granted to a total of 42 employees at a fair value of U.S.\$32.19 per share (out of which 39,232 PSUs for the 10 Members of the Leadership Team).

The May 4, 2016 annual general meeting of shareholders authorised the Board of Directors to issue, during the period between the 2016 and the 2017 annual general meeting, to key employees of Aperam a maximum of 220,000 of the Company's shares for grants under the Leadership Team PSU Plan and other retention based grants below the level of the Leadership Team. In August 2016, a total of 46,761 PSUs were granted to a total of 54 employees at a fair value of U.S.\$39.14 per share (out of which 34,561 PSUs for the 10 Members of the Leadership Team).

The tables on pages 68 to 70 summarise the detailed target definitions for the PSU plans as well as the progress of meeting the vesting criteria on each grant anniversary date. The peer group is described on page 70 of the Management Report. The allocation of PSUs is reviewed by the RNCG Committee, comprised of three independent directors, which makes a recommendation to the full Board of Directors. The RNCG Committee also reviews the proposed grants of PSUs to eligible employees other than the members of the Leadership Team and the principles governing their proposed allocation. The Committee also decides the criteria for granting PSUs and makes its recommendation to the Board of Directors.

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

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

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

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

As at December 31, 2016 there were no more Aperam shares locked under the ESPP Plans.

### Stock option plan

For historical reasons, certain of the Group's employees participate in stock based compensation plans sponsored by ArcelorMittal. These plans provide employees with stock or options to purchase stock in ArcelorMittal. For the years ended December 31, 2016 and 2015, the amount of outstanding options was 332,850 and 338,850 respectively. The amount of exercisable options was 332,850 and 338,850 respectively for the years ended December 31, 2016 and 2015. Exercise prices of ArcelorMittal stock options vary from U.S.\$30.66 to U.S.\$78.44. Weighted average contractual life of the options varies from 1.6 to 4.6 years.

## Share ownership

As of December 31, 2016, the aggregate beneficial share ownership of Aperam directors and senior management totalled 68,386 Aperam shares (excluding shares owned by Aperam's Significant shareholder). Other than the Significant shareholder, no director and member of senior management beneficially owns more than 1% of Aperam's shares. See definition of Significant shareholder in the section Share Capital of this Management Report.

The allocation of Aperam equity incentives to senior management is described in the section Share Capital of this Management Report.

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

## Share capital

**As of December 31, 2016, the Company's authorised share capital, including the issued share capital, consisted of 96,216,785 shares without nominal value. The Company's issued share capital was represented by 78,049,730 fully paid-up shares without nominal value.**

The following table sets forth information as of December 31, 2016 with respect to the beneficial ownership and voting rights in the Company by each person who is known to be the beneficial owner of 2.5% or more of the Company's issued share capital.

	Shares	% of Issued Rights	% of Voting Rights
Significant shareholder <sup>(1)</sup>	31,880,253	40.85%	40.99%
Treasury shares	278,381	0.36%	0.00%
Other public shareholders	45,891,096	58.79%	59.01%
<b>Total issued shares</b>	<b>78,049,730</b>	<b>100.00%</b>	<b>100.00%</b>
of which: Prudential plc <sup>(2)</sup>	2,289,758	2.93%	2.94%
of which: Directors and Senior Management <sup>(3) (4)</sup>	68,386	0.09%	0.09%

### Notes:

(1) The term «Significant shareholder» means the trust (HSBC Trust (C.I.) Limited, as trustee) of which Mr. Lakshmi N. Mittal, Ms. Usha Mittal and their children are the beneficiaries, holding Aperam shares through the following two companies: Nuavam Investments Sàrl and Lumen Investments Sàrl. For purposes of this table, ordinary shares owned directly by Mr. Lakshmi Mittal and his wife, Ms. Usha Mittal are aggregated with those ordinary shares beneficially owned by the Significant Shareholder. At December 31, 2016, Mr. Lakshmi Mittal and his wife, Ms. Usha Mittal, had direct ownership of Aperam ordinary shares and indirect ownership, through the Significant Shareholder, of two holding companies that own Aperam ordinary shares—Nuavam Investments S.à r.l. ("Nuavam") and Lumen Investments S.à r.l. ("Lumen"). Nuavam, a limited liability company organised under the laws of Luxembourg, was the owner of 5,616,913 Aperam ordinary shares. Lumen, a limited liability company organised under the laws of Luxembourg, was the owner of 26,250,000 Aperam ordinary shares. Mr. Mittal was the direct owner of 11,090 Aperam ordinary shares. Ms. Mittal was the direct owner of 2,250 Aperam ordinary shares. Mr. Mittal, Ms. Mittal and the Significant Shareholder shared indirect beneficial ownership of 100% of each of Nuavam and Lumen. Accordingly, Mr. Mittal was the beneficial owner of 31,878,003 Aperam ordinary shares, Ms. Mittal was the beneficial owner of 31,869,163 Aperam ordinary shares and the Significant Shareholder was the beneficial owner of 31,880,253 ordinary shares.

(2) According to the Company's Articles of Association, a shareholder owning 2.5% or more of the share capital must notify the Company. The only shareholders owning 2.5% or more but less than 5% of the share capital of Aperam at 31 December 2016 was Prudential plc with 2,289,758 shares representing 2.93% of the total issued share capital.

(3) Includes shares beneficially owned by directors and members of senior management listed in the sections "Board of Directors" and "Senior Management"; Excludes shares beneficially owned by Mr. Mittal.

(4) These 68,386 Aperam common shares are included in the shares owned by Other public shareholders in the table above.

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

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

At December 31, 2016, there were 2,130 shareholders other than the Significant shareholder holding an aggregate of 442,003 Aperam common shares registered in Aperam's shareholder register, representing approximately 0.57% of the common shares issued. At December 31, 2016, there were 69 U.S. shareholders holding an aggregate of 363,603 New York Registry Shares, representing approximately 0.46% of the common shares issued. Aperam's knowledge of the number of New York Registry Shares held by U.S. holders is based solely on the records of Citibank. At December 31, 2016, there were 45,377,211 Aperam common shares being held through the Euroclear clearing system in The Netherlands, France and Luxembourg. Euroclear is a Belgium based financial services company that specialises in the settlement of securities transactions as well as the safekeeping and asset servicing of these securities.

## Shareholding notification with reference to Transparency Law requirements

With reference to the law and grand ducal regulation of January 11, 2008, on transparency requirements for issuers of securities ("Transparency Law") and to shareholding notifications for crossing the threshold of 5% voting rights, such notifications are available in the Luxembourg Stock Exchange's electronic database OAM on [www.bourse.lu](http://www.bourse.lu) and on the Company's web site [www.aperam.com](http://www.aperam.com) under Corporate Governance, Shareholding structure.

There were no such notifications in 2016.

## Related Party Transactions

We are engaged in certain commercial and financial transactions with related parties. Please refer to Note 22 to the Consolidated Financial Statements for further details.

At the end of December 2016, the Company held 278,381 treasury shares, representing 0,36% of the issued share capital and a par value of EUR 1,458,160. In 2016, 181,153 shares were allocated to qualifying employees under the Long Term Incentive Plans, representing 0,23% of issued share capital, for a total consideration of 5,478,413 EUR and representing a par value of EUR 948,879. In November 2015, Aperam had bought at market price a total of 420,601 treasury shares from CBA Investment, a fully owned subsidiary of ArcelorMittal, to serve upcoming long term incentive plans, representing 0.54% of the issued share capital and a par value of EUR 2,203,108. The share purchase price was EUR 12,880,695, or EUR 30.6245 per share.

## Agreements with ArcelorMittal post Spin-Off

In connection with the spin-off of its stainless steel division into a separately focused company, Aperam SA ("Aperam"), which was completed on January 25, 2011, ArcelorMittal entered into several agreements with Aperam and/ or certain Aperam subsidiaries.

These agreements include a Master Transitional Services Agreement dated January 25, 2011, (the "Transitional Services Agreement") for support for/from corporate activities, a purchasing services agreement for negotiation services from ArcelorMittal Purchasing (the "Purchasing Services Agreement"), a sourcing services agreement for negotiation services from ArcelorMittal Sourcing (the "Sourcing Services Agreement"), certain commitments regarding cost-sharing in Brazil and certain other ancillary arrangements governing the relationship between Aperam and ArcelorMittal following the spin-off, as well as certain agreements relating to financing.

The Transitional Services Agreement between ArcelorMittal and Aperam expired at year-end 2012. The parties agreed to renew a very limited number of services where expertise and bargain powers create values for each party. ArcelorMittal will continue to provide certain services during 2017 relating to areas including environmental and technical support and the administration of the shareholders register.

In the area of research and development, Aperam entered into a frame arrangement with ArcelorMittal to establish a structure for future cooperation in relation to certain ongoing or new research and development programs. Currently, only limited research and development support for existing projects are implemented through the agreement, but new collaborative endeavors are foreseen in 2017.

The purchasing and sourcing of raw materials generally were not covered by the Transitional Services Agreement. Aperam is responsible for the sourcing of its key raw materials, including nickel, chromium, molybdenum and stainless steel scrap. However, under the terms of the 2011 Purchasing Services Agreement, Aperam still relies on ArcelorMittal for services in relation to the negotiation of certain contracts with global or large regional suppliers, including those relating to the following key categories: operating materials (rolls, electrodes, and refractory materials), spare parts, industrial products and services. The Purchasing Services Agreement also permits Aperam to avail itself of the services and expertise of ArcelorMittal for certain capital expenditure items. The Purchasing Services Agreement and the Sourcing Services Agreement were each entered into for an initial term of two years, which was to expire on January 24, 2013. However, since that date, the Purchasing Services Agreement has been extended successively, while the Sourcing Services Agreement was limited to IT services as of October 2013. The term of the Purchasing Services Agreement was further extended until January 25, 2017, and is expected to be extended with a revised scope for an additional year. As from January 1, 2016, purchasing services for metallics (carbon scrap) were removed from the Purchasing Services Agreement. The Sourcing Service Agreement (already limited to IT services) was ended by mutual agreement of the parties on December 31, 2014, when Aperam Sourcing SCA switched to its own IT system. New specific IT service agreements are being put in place with Aperam, one for Asset Reliability Maintenance Program (ARMP) in its Brazilian entities, and two others for the use in Europe of ARMP and for the use of the global wide area network (WAN). In Europe, Aperam purchased most of its electricity and natural gas through energy supply contracts put in place for the period 2014-2019 with ArcelorMittal Energy SCA and ArcelorMittal Purchasing SCA. Purchasing activities will continue to be provided to Aperam pursuant to existing contracts with ArcelorMittal entities that it has specifically elected to assume.

In addition, in September 2016, a services term sheet agreement has been concluded between ArcelorMittal Shared Service Center Europe Sp z.o.o. Sp.k. and Aperam according to which ArcelorMittal Shared Service Center Europe Sp z.o.o. Sp.k. SSC Poland will prepare in close cooperation with Aperam, transfer pricing documentation for the given financial years 2015, 2016 and 2017 for specific Aperam entities. The transfer pricing documentation shall be compliant with OECD transfer pricing guidelines and in line with country specific legal requirements as well as respecting the country specific deadlines. The work shall include also the update of benchmark studies.

In connection with the spin-off, management also renegotiated an existing Brazilian cost-sharing agreement between ArcelorMittal Brasil and Aperam Inox América do Sul S.A. (formerly known as ArcelorMittal Inox Brasil), pursuant to which, starting as of April 1, 2011, ArcelorMittal Brasil continued to perform purchasing, insurance and real estate activities for the benefit of certain of Aperam's Brazilian subsidiaries, with costs being shared on the basis of cost allocation parameters agreed between the parties. From the demerger of ArcelorMittal BioEnergia Ltda on July 1, 2011, its payroll functions were also handled by ArcelorMittal Brasil. The real estate, insurance activities and payroll functions of Aperam's Brazilian subsidiaries have not been handled by ArcelorMittal Brasil since January 1, 2013, June 30, 2013, and June 27, 2014, respectively.

# Shareholder information

## The company

The Company is a Luxembourg public limited liability company ("société anonyme") incorporated on September 9, 2010 to hold the assets which comprise the stainless and specialty steels businesses historically held by 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 B155.908.

## Listing and Indexes

The Company's ordinary shares are admitted to trading on the Luxembourg Stock Exchange's regulated market and listed on the Official List of the Luxembourg Stock Exchange (symbol "APAM") and are traded on the Euronext Single Order Book with Amsterdam as the Market of Reference (symbol "APAM" and Euronext code NSCNL00APAM5).

The ordinary shares were admitted to listing and trading on the regulated market of the Luxembourg Stock Exchange, Euronext Amsterdam and Euronext Paris on January 31, 2011, and Euronext Brussels on February 16, 2017.

The ordinary shares of the Company are accepted for clearance through Euroclear and Clearstream Luxembourg under common code number 056997440.

The Aperam shares are also traded as New York registry shares on the OTC under the symbol APEMY.

The Company is a member of the different indexes, including SBF 120, NEXT 150, CAC MID 60, AMX.



*Euronext Brussels, Listing Ceremony, February 16, 2017*



## Investor relations

At Aperam, we attach a high importance to providing clear, high-quality, regular and transparent communication with institutional investors and other financiers and providers of capital, and rating agencies. We aim to be the first choice for investors in the stainless steel sector. To achieve this objective and provide the most relevant information fitting the needs of the financial community, Aperam implements an active and broad investor communications policy: conference calls, roadshows, regular participation at investor conferences and plant visits.

To contact the Investor Relations Department: [Investor.Relations@aperam.com](mailto:Investor.Relations@aperam.com)

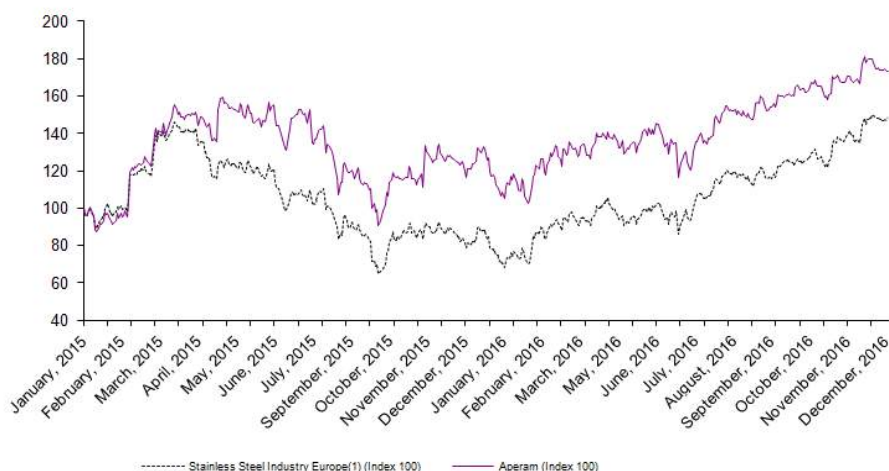
## Socially responsible investors

Aperam attaches a great importance to Sustainability and has been issuing yearly Sustainability Reports since its creation in 2011. The Sustainability team is in charge of the information to socially responsible investors and rating agencies assessing Aperam according to social, environmental, economic and governance criteria. In 2016, we were happy to see our efforts recognised by the Prime label awarded by rating agency Oekom.

To contact the Sustainability Team: [sustainability@aperam.com](mailto:sustainability@aperam.com)

## Share performance

The Graph below shows the share price performance of Aperam and the European Stainless Steel Industry<sup>1</sup> from January 1, 2015, to December 31, 2016 in index base 100:



### Note:

(1) European Stainless Steel Industry : Average Acerinox, Aperam, Outokumpu share price in index 100

## Financial Calendar

### Earnings calendar<sup>(1)</sup>

- > May 10, 2017: Earnings for 1st quarter 2017
- > July 26, 2017: Earnings for 2nd quarter 2017 and 6 months 2017
- > November 8, 2017: Earnings for 3rd quarter 2017 and 9 months 2017

### Note:

(1) Earnings are issued after the closing of the European stock exchanges on which the Aperam share is listed

### General meeting of shareholders

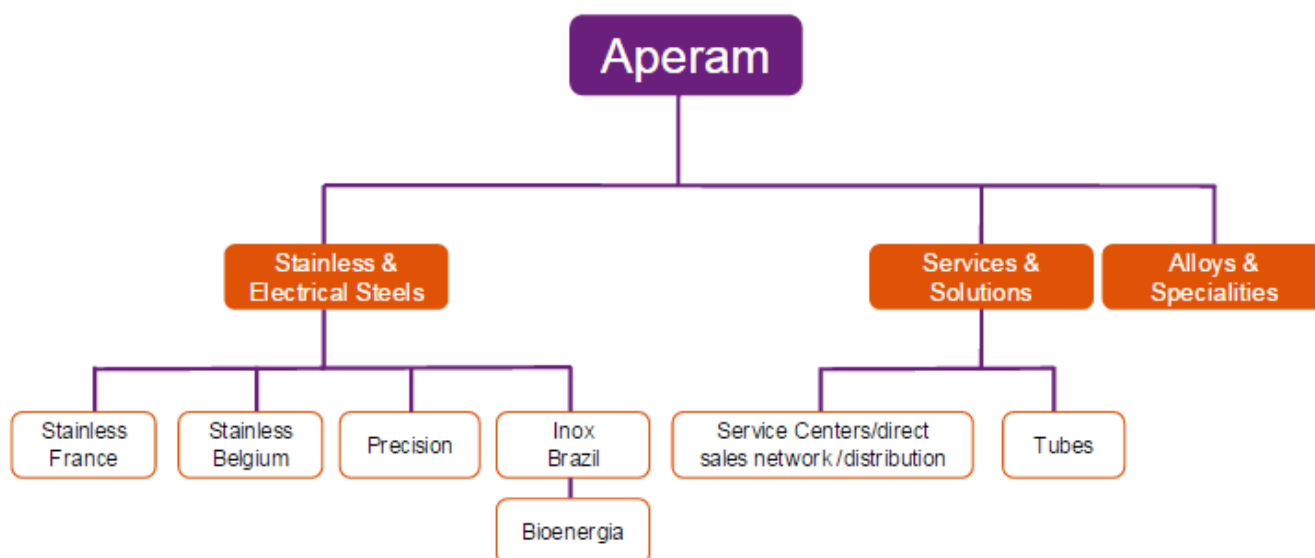
- > May 10, 2017: Annual general meeting of shareholders, Luxembourg

## Dividend Schedule

Please refer to the section "Liquidity" of this Management Report for further details with respect to the Company's detailed dividend schedule for the year 2017.

## Organisational Structure

Aperam is a holding company with no business operations of its own. All of its significant operating subsidiaries are owned directly or indirectly through intermediate holding companies. The following chart represents its current operational structure. See Note 26 to the Consolidated Financial Statements for a list of the Group's significant subsidiaries.



## Contacts

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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.

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Aperam Media contact is:  
Laurent Beauloye: +352 27 36 27 103

# Financial Statements 2016

# Aperam, Société Anonyme

## Consolidated financial statements

As of and for the year ended December 31, 2016

**Aperam S.A.**  
**Société Anonyme**

12C, rue Guillaume Kroll  
L-1882 Luxembourg  
R.C.S. Luxembourg B155.908



**Philharmonie, Paris - France**  
Ateliers Jean Nouvel / Metra & Associés  
© William Beaucardet  
Aperam 316L with Uginox Bright finish

# Responsibility statement

We confirm to the best of our knowledge that:

1. the consolidated financial statements of Aperam presented in this Annual Report and established in conformity with International Financial Reporting Standards as adopted in the European Union give a true and fair view of the assets, liabilities, financial position and results of Aperam and the undertakings included within the consolidation taken as a whole; and
2. the annual accounts of Aperam presented in this Annual Report and established in conformity with the Luxembourg legal and regulatory requirements relating to the preparation of annual accounts give a true and fair view of the assets, liabilities, financial position and results of the Company; and
3. the management report presented in this Annual Report includes a fair review of the development and performance of the business and position of Aperam and the undertakings included within the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

On behalf of the Board of Directors  
Philippe Darmayan



Chief Executive Officer  
Timoteo Di Maulo



Chief Financial Officer  
Sandeep Jalan



## Aperam

## Consolidated Statement of Operations

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

	Year ended December 31,	
	2016	2015
Sales (Note 3) (including 65 and 131 of sales to related parties in 2016 and 2015, respectively (Note 22))	4,265	4,716
Cost of sales (including depreciation and impairment of 175 and 174 (Note 3), and purchases from related parties of 189 and 165 for 2016 and 2015, respectively (Note 22))	(3,755)	(4,191)
<b>Gross margin</b>	<b>510</b>	<b>525</b>
Selling, general and administrative expense	(193)	(198)
<b>Operating income (Note 3)</b>	<b>317</b>	<b>327</b>
Loss from other investments	—	(15)
Interest income (Note 5)	4	4
Interest expense and other net financing costs (Note 5)	(44)	(88)
<b>Income before taxes and non-controlling interests</b>	<b>277</b>	<b>228</b>
Income tax expense (Note 6)	(63)	(55)
<b>Net income (including non-controlling interests)</b>	<b>214</b>	<b>173</b>
Net income attributable to Equity holders of the parent	214	172
Non-controlling interests	—	1
<b>Net income (including non-controlling interests)</b>	<b>214</b>	<b>173</b>
<b>Earnings per common share (in U.S. dollars):</b>		
Basic	2.75	2.21
Diluted	2.59	2.09
<b>Weighted average common shares outstanding (in thousands) (Note 20):</b>		
Basic	77,667	77,967
Diluted	87,043	87,416

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

## Aperam

## Consolidated Statement of Comprehensive Income / (Loss)

(in millions of U.S. dollars)

	Year ended December 31,	
	2016	2015
<b>Net income (including non-controlling interests)</b>	<b>214</b>	<b>173</b>
<b>Items that cannot be recycled to the consolidated statement of operations:</b>		
Remeasurement of defined benefit obligation during the period, net of tax expense of 6 and nil for 2016 and 2015, respectively	5	1
<b>Items that can be recycled to the consolidated statement of operations:</b>		
Available-for-sale investments:		
Gain arising during the period, net of tax expense of nil and nil for 2016 and 2015, respectively	17	—
Cash flow hedges:		
Gain (loss) arising during the period, net of tax (expense) benefit of (16) and 10 for 2016 and 2015, respectively	29	(22)
Reclassification adjustments for (gain) loss included in the statement of operations, net of tax expense (benefit) of 3 and (2) for 2016 and 2015, respectively	(7)	6
Total cash flow hedges	22	(16)
Exchange differences arising on translation of foreign operations, net of tax benefit of nil and 27 for 2016 and 2015, respectively	100	(601)
<b>Total other comprehensive income (loss)</b>	<b>144</b>	<b>(616)</b>
<b>Total other comprehensive income (loss) attributable to:</b>		
Equity holders of the parent	145	(616)
Non-controlling interests	(1)	—
<b>Total other comprehensive income (loss)</b>	<b>144</b>	<b>(616)</b>
<b>Net comprehensive income (loss)</b>	<b>358</b>	<b>(443)</b>
<b>Net comprehensive income (loss) attributable to:</b>		
Equity holders of the parent	359	(444)
Non-controlling interests	(1)	1
<b>Net comprehensive income (loss)</b>	<b>358</b>	<b>(443)</b>

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



## Aperam

## Consolidated Statement of Financial Position

(in millions of U.S. dollars)

	December 31, 2016	December 31, 2015
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents (Note 7)	325	148
Trade accounts receivable (Note 8)	238	248
Inventories (Note 9)	1,226	1,121
Prepaid expenses and other current assets (Note 10)	84	128
Income tax receivable	5	12
Assets held for sale (Note 4)	24	—
<b>Total current assets</b>	<b>1,902</b>	<b>1,657</b>
<b>Non-current assets:</b>		
Goodwill and intangible assets (Note 11)	565	556
Biological assets <sup>(1)</sup> (Note 12)	48	45
Property, plant and equipment <sup>(1)</sup> (Note 13)	1,643	1,607
Other investments (Note 14)	37	18
Deferred tax assets (Note 6)	285	285
Other assets (Note 15)	195	131
<b>Total non-current assets</b>	<b>2,773</b>	<b>2,642</b>
<b>Total assets</b>	<b>4,675</b>	<b>4,299</b>

Note:

(1) Amounts for December 31, 2015 have been revised in accordance with IAS 16 and IAS 41 implementation on "Bearer Plants" — see Note 1 below

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

## Aperam

## Consolidated Statement of Financial Position

(in millions of U.S. dollars)

	December 31, 2016	December 31, 2015
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Short-term debt including current portion of long-term debt (Note 16)	204	14
Trade accounts payable	905	849
Short-term provisions (Note 17)	19	30
Accrued expenses and other liabilities (Note 18)	261	298
Income tax liabilities	9	3
Liabilities held for sale (Note 4)	24	—
<b>Total current liabilities</b>	<b>1,422</b>	<b>1,194</b>
<b>Non-current liabilities:</b>		
Long-term debt, net of current portion (Note 16)	275	450
Deferred tax liabilities (Note 6)	171	126
Deferred employee benefits (Note 19)	173	184
Long-term provisions (Note 17)	49	46
Other long-term obligations	100	77
<b>Total non-current liabilities</b>	<b>768</b>	<b>883</b>
<b>Total liabilities</b>	<b>2,190</b>	<b>2,077</b>
<b>Equity (Note 20):</b>		
Common shares (no par value, 96,216,785 and 96,216,785 shares authorised, 78,049,730, and 78,049,730 shares issued and 77,771,349 and 77,590,196 shares outstanding as of December 31, 2016 and December 31, 2015, respectively)	547	547
Treasury shares (278,381 and 459,534 common shares as of December 31, 2016 and December 31, 2015, respectively)	(9)	(15)
Additional paid-in capital	1,595	1,599
Retained earnings	1,282	1,165
Other comprehensive loss	(961)	(1,106)
Option premium on convertible bonds	27	27
<b>Equity attributable to the equity holders of the parent</b>	<b>2,481</b>	<b>2,217</b>
Non-controlling interests	4	5
<b>Total equity</b>	<b>2,485</b>	<b>2,222</b>
<b>Total liabilities and equity</b>	<b>4,675</b>	<b>4,299</b>

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

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

	Other Comprehensive Income (Loss)											Equity attributable to the equity holders of the parent	Non-controlling interests	Total Equity
	Shares <sup>(1)</sup>	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Foreign currency translation adjustments	Unrealised gains (losses) on derivatives financial instruments	Unrealised gains on available for sale securities	Recognised actuarial gains (losses)	Option premium on convertible bonds				
<b>Balance at December 31, 2014</b>	<b>78,005</b>	<b>547</b>	<b>(2)</b>	<b>1,599</b>	<b>991</b>	<b>(459)</b>	<b>(8)</b>	<b>—</b>	<b>(23)</b>	<b>27</b>	<b>2,672</b>	<b>4</b>	<b>2,676</b>	
Net income	—	—	—	—	172	—	—	—	—	—	172	1	173	
Other comprehensive (loss) income	—	—	—	—	—	(601)	(16)	—	1	—	(616)	—	(616)	
Total comprehensive (loss) income	—	—	—	—	172	(601)	(16)	—	1	—	(444)	1	(443)	
Purchase of treasury shares (Note 19)	(421)	—	(14)	—	—	—	—	—	—	—	(14)	—	(14)	
Recognition of share based payments	6	—	1	—	2	—	—	—	—	—	3	—	3	
<b>Balance at December 31, 2015</b>	<b>77,590</b>	<b>547</b>	<b>(15)</b>	<b>1,599</b>	<b>1,165</b>	<b>(1,060)</b>	<b>(24)</b>	<b>—</b>	<b>(22)</b>	<b>27</b>	<b>2,217</b>	<b>5</b>	<b>2,222</b>	
<b>Balance at December 31, 2015</b>	<b>77,590</b>	<b>547</b>	<b>(15)</b>	<b>1,599</b>	<b>1,165</b>	<b>(1,060)</b>	<b>(24)</b>	<b>—</b>	<b>(22)</b>	<b>27</b>	<b>2,217</b>	<b>5</b>	<b>2,222</b>	
Net income	—	—	—	—	214	—	—	—	—	—	214	—	214	
Other comprehensive income (loss)	—	—	—	—	—	101	22	17	5	—	145	(1)	144	
Total comprehensive income	—	—	—	—	214	101	22	17	5	—	359	(1)	358	
Treasury stock	—	—	6	—	—	—	—	—	—	—	6	—	6	
Recognition of share based payments	181	—	—	(4)	—	—	—	—	—	—	(4)	—	(4)	
Dividends	—	—	—	—	(97)	—	—	—	—	—	(97)	—	(97)	
<b>Balance at December 31, 2016</b>	<b>77,771</b>	<b>547</b>	<b>(9)</b>	<b>1,595</b>	<b>1,282</b>	<b>(959)</b>	<b>(2)</b>	<b>17</b>	<b>(17)</b>	<b>27</b>	<b>2,481</b>	<b>4</b>	<b>2,485</b>	

<sup>(1)</sup> Number of shares denominated in thousands, excludes treasury shares.

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

## Aperam

## Consolidated Statement of Cash Flows

(in millions of U.S. dollars)

	Year ended December 31,	
	2016	2015
<b>Operating activities:</b>		
Net income (including non-controlling interests)	214	173
<b>Adjustments to reconcile net income to net cash provided by operations and payments:</b>		
Depreciation, amortisation and impairment (Note 3)	175	174
Net interest expense (Note 5)	36	50
Income tax expense (Note 6)	63	55
Net write-downs of inventories to net realisable value	4	14
Labor agreements and separation plans	2	—
Impairment of financial assets	—	15
Unrealised (gains)/ losses on derivative instruments (Note 5)	1	(10)
Unrealised foreign exchange effects, other provisions and non-cash operating expenses, (net)	(31)	(41)
<b>Changes in operating working capital:</b>		
Trade accounts receivable	4	2
Trade accounts payable	69	(3)
Inventories	(99)	(2)
<b>Changes in other operating assets, liabilities and provisions:</b>		
Interest paid, (net)	(10)	(26)
Income taxes paid	(8)	(18)
Other working capital movements and provisions movements	(3)	9
<b>Net cash provided by operating activities</b>	<b>417</b>	<b>392</b>
<b>Investing activities:</b>		
Acquisition of property, plant and equipment, intangible and biological assets (CAPEX)	(130)	(132)
Other investing activities, (net)	1	6
<b>Net cash used in investing activities</b>	<b>(129)</b>	<b>(126)</b>
<b>Financing activities:</b>		
Net payments from short-term debt (Note 16)	(12)	(32)
Proceeds from long-term debt, net of debt issuance costs	—	3
Payments of long-term debt	—	(250)
Purchase of treasury stock	—	(14)
Dividends paid (Note 20)	(97)	—
Other financing activities (net) (Note 16)	(1)	(3)
<b>Net cash used in financing activities</b>	<b>(110)</b>	<b>(296)</b>
Effect of exchange rate changes on cash	(1)	(19)
Net increase / (decrease) in cash and cash equivalents	177	(49)
<b>Cash and cash equivalents (Note 7):</b>		
At the beginning of the year	148	197
At the end of the year	325	148

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

## SUMMARY OF NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Note 1:** Nature of business, basis of presentation and consolidation

**Note 2:** Summary of significant accounting policies, critical accounting judgements and change in accounting estimates

**Note 3:** Segment and geographic information

**Note 4:** Assets and liabilities held for sale

**Note 5:** Financial income and expense

**Note 6:** Income tax

**Note 7:** Cash and cash equivalents

**Note 8:** Trade accounts receivable

**Note 9:** Inventories

**Note 10:** Prepaid expenses and other current assets

**Note 11:** Goodwill and intangible assets

**Note 12:** Biological assets

**Note 13:** Property, plant and equipment

**Note 14:** Other investments

**Note 15:** Other assets

**Note 16:** Short-term and long-term debt

**Note 17:** Provisions

**Note 18:** Accrued expenses and other liabilities

**Note 19:** Deferred employee benefits

**Note 20:** Equity

**Note 21:** Financial instruments

**Note 22:** Balances and transactions with related parties

**Note 23:** Commitments

**Note 24:** Contingencies

**Note 25:** Employees and key management personnel

**Note 26:** List of significant subsidiaries as of December 31, 2016

**Note 27:** Auditor's fees and services

**Note 28:** Subsequent events

## NOTE 1: NATURE OF BUSINESS, BASIS OF PRESENTATION AND CONSOLIDATION

### Nature of business

Aperam Société Anonyme (“Aperam”) was incorporated in Luxembourg on September 9, 2010 to own certain operating subsidiaries of ArcelorMittal Société Anonyme (“ArcelorMittal”) which primarily comprised ArcelorMittal’s stainless steel and nickel alloys business. This business was transferred to Aperam prior to the distribution of all its outstanding common shares to shareholders of ArcelorMittal on January 26, 2011. Collectively, Aperam together with its subsidiaries are referred to in these consolidated financial statements as the “Company”. The Company’s shares have been trading on the European stock exchanges of Amsterdam, Paris (Euronext) and Luxembourg since January 31, 2011, and Brussels (Euronext) since February 16, 2017.

These consolidated financial statements were authorised for issuance on February 22, 2017 by Aperam’s Board of Directors.

Aperam is a global stainless steel producer with an annual capacity of 2.5 million tonnes in 2016. The Company’s production activities are concentrated in six main plants in Brazil, Belgium and France. Its worldwide-integrated distribution network is comprised of 14 service centres, 8 transformation facilities, and 20 sales offices including customer support.

The Company produces a broad range of stainless steel products and high value added products including electrical steel (grain oriented, non-grain oriented and non-grain oriented semi-processed steel), nickel alloys and specialties. The Company sells its products in local markets to a diverse range of customers, including automotive, construction, catering, medicine, oil and gas, aerospace, industrial processes, electronics and electrical engineering.

Note 26 provides an overview of the Company’s principal operating subsidiaries.

### Basis of presentation

The consolidated financial statements of Aperam (or the “Company”) 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 realisable value or cost.

The consolidated financial statements as at and for the year ended December 31, 2016 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted in the European Union (“EU”). They are presented in U.S. dollars with all amounts rounded to the nearest million, except for share and per share data.

### *Adoption of new IFRS standards, amendments and interpretations applicable in 2016*

- > IFRS 14 “Regulatory Deferral Accounts” (issued January 2014) that is mandatory for annual periods beginning on or after January 1, 2016, but has not yet been endorsed by the EU. This IFRS has no impact on Aperam’s financial statements.
- > Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations” (issued May 2014) that is mandatory for annual periods beginning on or after January 1, 2016. This amendment has no impact on Aperam’s financial statements.
- > Amendment to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortisation” (issued May 2014) that is mandatory for annual periods beginning on or after January 1, 2016. This amendment has no impact on Aperam’s financial statements.
- > Amendment to IAS 16 and IAS 41 “Agriculture: Bearer Plants” (issued June 2014) that is mandatory for annual periods beginning on or after January 1, 2016. The amendment stipulates that assets meeting the definition of “Bearer Plants” should fall within the scope of IAS 16 “Property, Plant and Equipment” and hence should be measured at cost less depreciation. Therefore, starting January 1, 2016, the accounting of the Company’s eucalyptus plantations is split in two parts:
  - The roots of the plantations which meet the definition of bearer plants are accounted for at cost as Property, Plant & Equipment and depreciated accordingly;
  - The remaining part of the plantations are still accounted for at fair value as biological assets.

The sole impact of the amendment on our financial statements as of January 1, 2015, is a reclassification from Biological Assets to Property, Plant & Equipment for an amount of U.S.\$34 million.

- > Amendment to IAS 27 “Equity Method in Separate Financial Statements” (issued August 2014) that is mandatory for annual periods beginning on or after January 1, 2016. This amendment has no impact on Aperam’s financial statements.
- > Annual improvements to IFRSs (2012-2014) (issued September 2014) that are mandatory for annual periods beginning on or after January 1, 2016. These improvements have either no impact on Aperam’s financial statements or are already being applied.
- > Amendment to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception” (issued December 2014) that is mandatory for annual periods beginning on or after January 1, 2016, but has not yet been endorsed by the EU. This amendment has no impact on Aperam’s financial statements.
- > Amendment to IAS 1 “Disclosure Initiatives” (issued December 2014) that is mandatory for annual periods beginning on or after January 1, 2016. This amendment has no impact on Aperam’s financial statements.

### ***New IFRS standards and interpretations applicable from 2016 onwards***

Unless otherwise indicated below, the Company does not expect the adoption of the following new standards, amended standards, or interpretations to have a significant impact on the consolidated financial statements of Aperam in future periods.

- > Amendment to IAS 7 “Statement of cash flows” (issued January 2016) that is mandatory for annual periods beginning on or after January 1, 2017, but has not yet been endorsed by the EU. This amendment is already applied in Note 16.
- > Amendment to IAS 12 “Income Taxes” (issued January 2016) that is mandatory for annual periods beginning on or after January 1, 2017, but has not yet been endorsed by the EU. Aperam does not expect that the adoption of these amendments will have a material impact to its consolidated financial statements.
- > Annual improvements to IFRSs (2014-2016) (issued December 2016) that are mandatory for annual periods beginning on or after January 1, 2017. These improvements have no impact on Aperam’s financial statements.
- > IFRS 15 “Revenue from Contracts with Customers” (issued May 2014) that is mandatory for annual periods beginning on or after January 1, 2018. Aperam has assessed its current accounting policies and based on the assessment expects that the adoption will have no material impact on the quantitative information or on the presentation in the consolidated financial statements.
- > IFRS 9 “Financial Instruments” (issued July 2014) that is mandatory for annual periods beginning on or after January 1, 2018. The new standard’s impact will be dependent on the financial instruments that the Group holds and economic conditions at that time. Based on the current assessment, the new standard would impact the measurement of Group’s application of hedge accounting.
- > Amendments to IFRS 2 “Share-based payment” (issued June 2016) that is mandatory for annual periods beginning on or after January 1, 2018, but has not yet been endorsed by the EU. This amendment has no impact on Aperam’s financial statements.
- > Amendments to IFRS 4 “Insurance contracts” (issued September 2016) that is mandatory for annual periods beginning on or after January 1, 2018, but has not yet been endorsed by the EU. This amendment has no impact on Aperam’s financial statements.
- > Amendments to IAS 40 “Investment Property” (issued December 2016) that is mandatory for annual periods beginning on or after January 1, 2018, but has not yet been endorsed by the EU. This amendment has no impact on Aperam’s financial statements.
- > IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (issued December 2016) that is mandatory for annual periods beginning on or after January 1, 2018, but has not yet been endorsed by the EU. This IFRIC has no impact on Aperam’s financial statements.

> IFRS 16 “Leases” (issued January 16) that is mandatory for annual periods beginning on or after January 1, 2019, but has not yet been endorsed by the EU. The standard will increase Aperam’s non-current assets and non-current and current debt.

### **Basis of consolidation**

The consolidated financial statements include the accounts of the Company, its subsidiaries, and its respective interest in associated companies. Subsidiaries are consolidated from the date the Company obtains control until the date control ceases. Company controls an entity when it is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Associated companies are those companies over which the Company has the ability to exercise significant influence on the financial and operating policy decisions, which are not operating subsidiaries. Generally, significant influence is presumed to exist when the Company holds more than 20% of the voting rights. In addition, joint ventures are arrangements where the Company has joint control under a contractual agreement and has the right to the net assets of the arrangement. The financial statements include the Company’s share of the total recognised gains and losses of associates and joint ventures on an equity accounted basis from the date that significant influence commences until the date significant influence ceases, adjusted for any impairment loss. Adjustments to the carrying amount may also be necessary for changes in the Company’s proportionate interest in the investee arising from changes in the investee’s equity that have not been recognised in the investee’s profit or loss. The Company’s share of those changes is recognised directly in equity.

Other investments are classified as available for sale and are stated at fair value when their fair value can be reliably measured. When fair value cannot be measured reliably, the investments are carried at cost less impairment.

While there are certain limitations on the Company’s operating and financial flexibility arising from the restrictive and financial covenants of the Company’s principal credit facilities described in Note 16, there are no significant restrictions resulting from borrowing agreements or regulatory requirements on the ability of consolidated subsidiaries, associates and jointly controlled entities to transfer funds to the parent in the form of cash dividends to pay commitments as they come due.

Intra-company balances and transactions, including income, expenses and dividends, are eliminated in the preparation of the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Company and are presented separately in the statement of operations and within equity in the consolidated statement of financial position.



## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND CHANGE IN ACCOUNTING ESTIMATES

### Significant accounting policies

#### *Translation of financial statements denominated in foreign currency*

The functional currency of each of the major operating subsidiaries is the local currency. Transactions in currencies other than the functional currency of a subsidiary are recorded at the rates of exchange prevailing at the date of the transaction.

Monetary assets and liabilities in currencies other than the functional currency are remeasured at the rates of exchange prevailing at the statement of financial position date and the related transaction gains and losses are reported in the consolidated statement of operations.

Non-monetary items that are carried at cost are translated using the rate of exchange prevailing at the date of the transaction. Non-monetary items that are carried at fair value are translated using the exchange rate prevailing when the fair value was determined and the related transaction gains and losses are reported in the consolidated statement of comprehensive income.

Upon consolidation, the results of operations of the Company's subsidiaries and associates whose functional currency is other than the U.S. dollar are translated into the U.S. dollar, the Company's presentation currency, at the monthly average exchange rates and assets and liabilities are translated at the year-end exchange rates. Translation adjustments are recognised directly in other comprehensive income and are reclassified in income or loss in the statement of operations only upon sale or liquidation of the underlying foreign subsidiary or associate.

Exchange differences arising from the translation of the net investment in foreign subsidiaries at the year-end exchange rate are recorded as part of the shareholders' equity under "Foreign currency translation adjustments". When a foreign entity is sold, such exchange differences are recognised in the consolidated statement of operations as part of the gain or loss on sale.

#### *Cash and cash equivalents*

Cash and cash equivalents consist of cash and short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less at the time of purchase and are carried at cost plus accrued interest, which approximates fair value.

#### *Trade accounts receivable*

Trade accounts receivable are initially recorded at their nominal amount which approximately equals fair value and do not bear interest. The Company maintains an allowance for doubtful accounts at an amount that it considers to be a sufficient estimate of losses resulting from the inability of its customers to make required payments.

An allowance is recorded and charged to expense when an account is deemed to be uncollectible. In judging the adequacy of the allowance for doubtful accounts, the Company considers multiple factors including historical bad debt experience, the current economic environment and the aging of the receivables.

Recoveries of trade receivables previously reserved in the allowance for doubtful accounts are recorded as gains in the statement of operations. The Company's policy is to provide for all receivables outstanding over 180 days, because historical experience is such that receivables that are past due beyond 180 days are generally not recoverable. Trade receivables between 60 days and 180 days are provided for based on estimated unrecoverable amounts from the sale of goods and/or services, determined by reference to past default experience.

#### *Inventories*

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the average cost method. Costs of production in process and finished goods include the purchase costs of raw materials and conversion costs such as direct labour and an allocation of fixed and variable production overheads. Raw materials and spare parts are valued at cost inclusive of freight and shipping and handling costs. Net realisable value represents the estimated selling price at which the inventories can be realised in the normal course of business after allowing for the cost of conversion from their existing state to a finished condition and for the cost of marketing, selling, and distribution. Costs incurred when production levels are abnormally low are partially capitalised as inventories and partially recorded as a component of cost of sales in the statement of operations.

**Goodwill**

The goodwill recorded by the Company includes an allocation of the goodwill arising from the acquisition of Arcelor by Mittal Steel on August 1, 2006. Goodwill arising on acquisitions subsequent to January 1, 2007, is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. After initial recognition, Goodwill shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Goodwill is allocated to those groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose and in all cases is at the operating segment level which represents the lowest level at which goodwill is monitored for internal management purposes.

Goodwill is tested annually for impairment as of October 31 or whenever changes to the circumstances indicate that the carrying amount may not be recoverable.

Whenever the cash generating units comprising the operating segments are tested for impairment at the same time as goodwill, the cash generating units are tested first and any impairment of the assets is recorded prior to the testing of goodwill. The recoverable amounts of the cash generating units are determined from the higher of fair value less cost to sell or value in use calculations, as described below in the "Impairment of Tangible and Intangible Assets" section. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market rates for investments of similar risk. The growth rates are based on the Company's growth forecasts which are in line with industry trends. Changes in selling prices and direct costs are based on historical experience and expectations of future changes in the market.

Cash flow forecasts are derived from the most recent financial forecasts for the next five years. Beyond the specifically forecasted period, the Company extrapolates cash flows for the remaining years based on an estimated growth rate. This rate does not exceed the average long-term growth rate for the relevant markets. Once recognised, impairment losses recognised for goodwill are not reversed. On disposal of a subsidiary, any residual amount of goodwill is included in the determination of the profit or loss on disposal.

In a business combination in which the fair value of the identifiable net assets acquired exceeds the cost of the acquired business, the Company reassesses the fair value of the assets acquired. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess (bargain purchase) is recognised immediately in the statement of operations.

**Intangible assets**

Intangible assets recorded by the Company include customer relationships, trademarks and technology acquired in connection with the acquisition of Arcelor by Mittal Steel on August 1, 2006. Those intangible assets acquired in a business combination are recorded at fair value, and are amortised on a straight-line basis. They have residual useful lives between one and three years.

Concessions, patents and licenses are recognised only when it is probable that the expected future economic benefits attributable to the assets will flow to the Company and the cost can be reliably measured. They are recorded at cost and are amortised on a straight-line basis over their estimated economic useful lives which typically are not to exceed five years.

Amortisation is included in the statement of operations as part of depreciation.

**Biological assets**

The Company classifies eucalyptus plantations (except for the roots of the plantation which are qualified as bearer plants, see below) as biological assets. The purpose of such plantations is to produce charcoal to be used in the production process.

Biological assets are measured at fair value, net of estimated costs to sell at the time of harvest, with any change therein recognised in statement of operations.

The fair value is determined based on the discounted cash flow method, taking into consideration the cubic volume of wood, segregated by plantation year, and the equivalent sales value of standing trees. The average market price was estimated based on domestic market prices.

**Property, plant and equipment**

Property, plant and equipment is recorded at cost less accumulated depreciation and impairment. Cost includes professional fees and, for assets constructed by the Company, any related works to the extent that these are directly attributable to the acquisition or construction of the asset. Property, plant and equipment except land are depreciated using the straight-line method over the useful lives of the related assets which are presented in the table below. The Company reviews the residual value, the useful lives and the depreciation method of its property, plant and equipment at least annually.

<b>Asset Category</b>	<b>Useful Life Range</b>
Land	Not depreciated
Buildings	10 to 50 years
Steel plant equipment	15 to 30 years
Auxiliary facilities	15 to 30 years
Other facilities 5 to 20 years	5 to 20 years
Bearer plants	14 years

Major improvements, which add to productive capacity or extend the life of an asset, are capitalised, while repairs and maintenance are charged to expense as incurred. Where a tangible fixed asset comprises major components having different useful lives, these components are accounted for as separate items.

Property, plant and equipment under construction are recorded as construction in progress until they are ready for their intended use; thereafter they are transferred to the related category of property, plant and equipment and depreciated over their estimated useful lives. Interest incurred during construction is capitalised. Gains and losses on retirement or disposal of assets are reflected in the statement of operations.

Property, plant and equipment acquired by way of finance leases are stated at an amount equal to the lower of the fair value and the present value of the minimum lease payments at the inception of the lease. Each lease payment is allocated between the finance charges and a reduction of the lease liability. The interest element of the finance cost is charged to the statement of operations over the lease period so as to achieve a constant rate of interest on the remaining balance of the liability.

The residual values and useful lives of property, plant and equipment are reviewed at each reporting date and adjusted if expectations differ from previous estimates. Depreciation methods applied to property, plant and equipment are reviewed at each reporting date and changed if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset.

**Investment in associates and other entities**

Investments in associates, in which the Company has the ability to exercise significant influence, are accounted for under the equity method.

The investment is carried at the cost at the date of acquisition, adjusted for the Company's share in undistributed earnings or losses since acquisition, less dividends received and impairment.

Any excess of the cost of the acquisition over the Company's share of the net fair value of the identifiable assets, liabilities, and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included in the carrying amount of the investment and is evaluated for impairment as part of the investment.

The Company reviews all of its investments in associates at each reporting date to determine whether there is an indicator that the investment may be impaired.

If objective evidence indicates that the investment is impaired, the Company calculates the amount of the impairment of the investments as being the difference between the higher of the fair value less costs to sell or its value in use and its carrying value. The amount of any impairment is included in the overall income from investments in associated companies in the statement of operations.

Investments in other entities, over which the Company and/or its operating subsidiaries do not have the ability to exercise significant influence and have a readily determinable fair value, are accounted for at fair value with any resulting gain or loss included in equity. To the extent that these investments do not have a readily determinable fair value, they are accounted for under the cost method.

#### *Deferred employee benefits*

Defined contribution plans are those plans where the Company pays fixed contributions to an external life insurance or pension fund for certain categories of employees. Contributions are paid in return for services rendered by the employees during the period. They are expensed as they are incurred in line with the treatment of wages and salaries. No provisions are established in respect of defined contribution plans, as they do not generate future commitments for the Company.

Defined benefit plans are those plans that provide guaranteed benefits to certain categories of employees, either by way of contractual obligations or through a collective agreement. For defined benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation less the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

Current service cost, which is the increase of the present value of the defined benefit obligation resulting from the employee service in the current period, is recorded as an expense as part of cost of sales and selling, general and administrative expenses in the consolidated statements of operations.

The net interest cost, which is the change during the period in the net defined benefit liability or asset that arises from the passage of time, is recognised as part of net financing costs in the consolidated statements of operations. The discount rate used is determined by reference to market yields at the end of the reporting period on high quality corporate bonds.

The Company recognises gains and losses on the curtailment of a defined benefit plan when the curtailment occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, any related actuarial gains and losses. Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or a curtailment. Past service cost is recognised immediately in the consolidated statements of operations in the period in which it arises.

Voluntary retirement plans primarily correspond to the practical implementation of social plans or are linked to collective agreements signed with certain categories of employees. Early retirement plans are those plans that primarily correspond to terminating an employee's contract before the normal retirement date. Early retirement plans are considered effective when the affected employees have formally been informed and when liabilities have been determined using an appropriate actuarial calculation.

Liabilities relating to the early retirement plans are calculated annually on the basis of the effective number of employees likely to take early retirement and are discounted using an interest rate which corresponds to that of highly rated bonds that have maturity dates similar to the terms of the Company's early retirement obligations. Termination benefits are provided in connection with voluntary separation plans. The Company recognises a liability and expense when it has a detailed formal plan which is without realistic possibility of withdrawal and the plan has been communicated to employees or their representatives.

Other long-term employee benefits include various plans that depend on the length of service, such as long service and sabbatical awards, disability benefits and long term compensated absences such as sick leave.

The amount recognised as a liability is the present value of benefit obligations at the statement of financial position date, and all changes in the provision (including actuarial gains and losses or past service costs) are recognised in the statement of operations.

### ***Provisions and accruals***

Aperam recognises provisions for liabilities and probable losses that have been incurred when it has a present legal or constructive obligation as a result of past events and it is probable that the Company will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a financing cost. Provisions for onerous contracts are recorded in the statement of operations when it becomes known that the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Provisions for restructuring relate to the estimated costs of initiated reorganisations that have been approved by the Aperam Management Committee, and which involve the realignment of certain parts of the industrial and commercial organisation. When such reorganisations require discontinuance and/or closure of lines or activities, the anticipated costs of closure or discontinuance are included in restructuring provisions. A liability is recognised for those costs only when the Company has a detailed formal plan for the restructuring and has raised a valid expectation with those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

### ***Environmental costs***

Environmental costs that relate to current operations are expensed or capitalised as appropriate. Environmental costs that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation or cost reduction, are expensed. Liabilities are recorded when environmental assessments and or remedial efforts are probable and the cost can be reasonably estimated based on ongoing engineering studies, discussions with the environmental authorities and other assumptions relevant to the nature and extent of the remediation that may be required. The ultimate cost to the Company is dependent upon factors beyond its control such as the scope and methodology of the remedial action requirements to be established by environmental and public health authorities, new laws or government regulations, rapidly changing technology and the outcome of any potential related litigation.

Environmental liabilities are discounted if the aggregate amount of the obligation and the amount and timing of the cash payments are fixed or reliably determinable.

### ***Income taxes***

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of operations because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

The Company's expense for current tax is calculated using tax rates that have been enacted or substantively enacted as of the statement of financial position date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the taxable temporary difference arises from the initial recognition of goodwill or if the differences arise from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### ***Fair value measurement***

The Company classifies the bases used to measure certain assets and liabilities at their fair value. Assets and liabilities carried or measured 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 that the entity can access at the measurement date;

**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.

#### ***Financial instruments***

##### ***Derivative financial instruments***

See critical accounting judgments.

##### ***Non-derivative financial instruments***

Non-derivative financial instruments include cash and cash equivalents, trade and other receivables, investments in equity securities, trade and other payables and debt and other liabilities. These instruments are recognised initially at fair value when the Company becomes a party to the contractual provisions of the instrument. They are derecognised if the Company's contractual rights to the cash flows from the financial instruments expire or if the Company transfers the financial instruments to another party without retaining control or substantially all risks and rewards of the instruments.

The Company classifies its investments in equity securities that have readily determinable fair values as available-for-sale which are recorded at fair value. Unrealised holding gains and losses, net of the related tax effect, on available-for-sale equity securities are reported as a separate component of other comprehensive income until realised. Realised gains and losses from the sale of available-for-sale securities are determined on a first-in, first-out basis.

Debt and liabilities, other than provisions, are stated at amortised cost. However, loans that are hedged under a fair value hedge are remeasured for the changes in the fair value that are attributable to the risk that is being hedged.

##### ***Impairment of financial assets***

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Estimated future cash flows are determined using various assumptions and techniques, including comparisons to published prices in an active market and discounted cash flow projections using projected growth rates, weighted average cost of capital, and inflation rates. In the case of available-for-sale securities, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. The Company considers a significant or prolonged decline in fair value as objective evidence of impairment. The decline is considered as significant if it exceeds 50% of cost or as prolonged if it continues for eighteen months or more. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised in the statement of operations is removed from equity and recognised in the statement of operations. If objective evidence indicates that cost-method investments need to be tested for impairment, calculations are based on information derived from business plans and other information available for estimating their value in use. Any impairment loss is charged to the statement of operations.

An impairment loss related to financial assets is reversed if and to the extent there has been a change in the estimates used to determine the recoverable amount. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised. Reversals of impairment are recognised in the statement of operations except for reversals of impairment of available-for-sale equity securities, which are recognised in other comprehensive income.

#### ***Emission rights***

The Company's industrial sites which are regulated by the European Directive 2003/87/EC of October 13, 2003 on carbon dioxide emission rights, effective as of January 1, 2005, are located in Belgium and France. The emission rights allocated to the Company on a no-charge basis pursuant to the annual national allocation plan are recorded in the statement of financial position at nil and purchased emission rights are recorded at cost.

#### ***Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns and other similar allowances. Revenue from the sale of goods is recognised when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, no longer retains control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### ***Shipping and handling costs***

The Company records amounts billed to a customer in a sale transaction for shipping and handling costs as sales and the related shipping and handling costs incurred as cost of sales.

#### ***Financing costs***

Financing costs include interest income and expense, amortisation of discounts or premiums on borrowings, amortisation of costs incurred in connection with the arrangement of borrowings, and unrealised gains and losses on foreign exchange and raw material derivative contracts.

#### ***Earnings per common share***

Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed by dividing income available to equity holders and assumed conversion by the weighted average number of common shares and potential common shares from restricted share units and performance share units as well as potential common shares from the conversion of convertible bonds whenever the conversion results in a dilutive effect.

#### ***Assets held for sale and distribution***

Non-current assets and disposal groups that are classified as held for sale and distribution are measured at the lower of carrying amount and fair value less costs to sell or to distribute. Assets and disposal groups are classified as held for sale and for distribution if their carrying amount will be recovered through a sale or a distribution transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset, or disposal group, is available for immediate sale or distribution in its present condition and is marketed for sale at a price that is reasonable in relation to its current fair value. Assets held for sale and distribution are presented separately on the consolidated statements of financial position and are not depreciated.

#### ***Equity settled share based payments***

Aperam issues equity-settled share-based payments consisting in restricted share units to key employees of the Company. Prior the spinoff, ArcelorMittal issued equity settled share based payments consisting of stock options to certain Aperam employees. Equity settled share based payments issued to Aperam employees are measured at fair value (excluding the effect of non market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity settled share based payments is expensed on a graded vesting basis over the vesting period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non market based vesting conditions. The expected life used in the calculation has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line method over the vesting period and adjusted for the effect of non-market-based vesting conditions.

### **Segment reporting**

Operating segments are components of the Company that engage in business activities from which they may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Company), for which discrete financial information is available and whose operating results are evaluated regularly by the Chief Operating Decision Maker (“CODM”) to make decisions about resources to be allocated to the segment and assess its performance. Aperam management identified the Chief Executive Officer and Chief Financial Officer of the Company as its CODM, which is the individual or body of individuals responsible for the allocation of resources and assessment of performance of the operating segments.

The CODM manages the business according to three operating segments: Stainless & Electrical Steel, Alloys & Specialties and Services & Solutions.

These segments include attributable goodwill, intangible assets, property, plant and equipment, and equity method investments. They do not include other investments, other non-current receivables, cash and short-term deposits, short term investments, tax assets, and other current financial assets. Segment liabilities are also those resulting from the normal activities of the segment, excluding tax liabilities and indebtedness but including post retirement obligations where directly attributable to the segment. Financing items are managed centrally for the Company as a whole and so are not directly attributable to individual operating segments.

Geographical information is separately disclosed and represents the Company’s most significant regional markets. Attributed assets are operational assets employed in each region and include items such as pension balances that are specific to a country. Attributed assets exclude attributed goodwill, deferred tax assets, other investments or other non-current receivables and other noncurrent financial assets. Attributed liabilities are those arising within each region, excluding indebtedness. Financing items are managed centrally for the Company as a whole and so are not directly attributable to individual geographical areas.

### **Critical accounting judgments**

The critical accounting judgments and significant assumptions made by management in the preparation of these financial statements are provided below.

#### **Deferred Tax Assets**

The Company records deferred tax assets and liabilities based on the differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases. Deferred tax assets are also recognised for the estimated future effects of tax losses carried forward.

The Company reviews the deferred tax assets in the different jurisdictions in which it operates periodically to assess the possibility of realising such assets based on projected taxable profit, the expected timing of the reversals of existing temporary differences, the carry forward period of temporary differences and tax losses carried forward and the implementation of tax-planning strategies.

Note 6 describes the total deferred tax assets recognised in the consolidated statements of financial position. As of December 31, 2016, the amount of future income required to recover the Company’s deferred tax assets was approximately U.S.\$979 million at certain operating subsidiaries.

#### **Deferred Employee Benefits**

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

> Discount rates. The discount rate is based on several high quality corporate bond indexes in the appropriate jurisdictions (rated AA or higher by a recognised rating agency). Nominal interest rates vary worldwide due to exchange rates and local inflation rates.

> Rate of compensation increase. The rate of compensation increase reflects actual experience and the Company’s long-term outlook, including contractually agreed upon wage rate increases for represented hourly employees.

> Mortality and retirement rates. Mortality and retirement rates are based on actual and projected plan experience. Actuarial gains or losses resulting from experience and changes in assumptions are recognised in the Company’s statement of other comprehensive income in the period in which they arise.



Note 19 details the net liabilities of pension plans and other post-employment benefits including a sensitivity analysis illustrating the effects of changes in assumptions.

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

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

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

The estimates of loss contingencies for environmental matters and other contingencies are based on various judgments and assumptions including the likelihood, nature, magnitude and timing of assessment, remediation and/ or monitoring activities and the probable cost of these activities.

In some cases, judgments and assumptions are made relating to the obligation or willingness and ability of third parties to bear a proportionate or allocated share of cost of these activities, including third parties who sold assets to the Company or purchased assets from the Company subject to environmental liabilities. The Company also considers, among other things, the activity to date at particular sites, information obtained through consultation with applicable regulatory authorities and third party consultants and contractors and its historical experience with other circumstances judged to be comparable. Due to the numerous variables associated with these judgments and assumptions, and the effects of changes in governmental regulation and environmental technologies, both the precision and reliability of the resulting estimates of the related contingencies are subject to substantial uncertainties. As estimated costs to remediate change, the Company will reduce or increase the recorded liabilities through credits or expenses in the statement of operations.

The Company does not expect these environmental issues to affect the utilisation of its plants, now or in the future.

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

##### *Tangible and Intangible Assets*

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

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

In the case of permanently idled assets, the impairment is measured at the individual asset level on the basis of salvage value. Otherwise, it is not possible to estimate the recoverable amount of the individual asset because the cash flows are not independent from that of the cash generating unit to which it belongs.

Accordingly, the Company's assets are measured for impairment at the cash generating unit level. In certain instances, the cash generating unit is an integrated manufacturing facility which may also be an operating subsidiary. Furthermore, a manufacturing facility may be operated together with another facility with neither facility generating cash flows that are largely independent from the cash flows of the other. In this instance, the two facilities are combined for purposes of testing for impairment. As of December 31, 2015, the Company had determined it has six cash generating units.

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

#### *Goodwill*

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

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

#### *Derivative financial instruments*

The Company enters into derivative financial instruments principally to manage its exposure to fluctuation in exchange rates and prices of raw materials. Derivative financial instruments are classified as current assets or liabilities based on their maturity dates and are accounted for at trade date. Embedded derivatives are separated from the host contract and accounted for separately if required by IAS 39, "Financial Instruments: Recognition and Measurement". The Company measures all derivative financial instruments based on fair values derived from market prices of the instruments or from option pricing models, as appropriate.

See Note 21 for analysis of the Company's sensitivity to changes in certain of these inputs. Gains or losses arising from changes in the fair value of derivatives are recognised in the statement of operations, except for derivatives that are highly effective and qualify for cash flow hedge accounting.

The effective portion of changes in the fair value of a derivative that is designated and that qualifies as a cash flow hedge are recorded in other comprehensive income. Amounts deferred in other comprehensive income are recorded in the statement of operations in the periods when the hedged item is recognised in the statement of operations and within the same line item. Any ineffective portion of changes in the fair value of the derivative is recognised directly in the statement of operations.

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

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

#### *Use of estimates*

The preparation of financial statements in conformity with IFRS recognition and measurement principles and, in particular, making the aforementioned critical accounting judgments require the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on an ongoing basis using currently available information. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates.

**NOTE 3: SEGMENT AND GEOGRAPHIC INFORMATION**

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

The following table summarises certain financial data relating to Aperam's operations in its different segments:

<i>(in millions of U.S. dollars)</i>	<b>Stainless &amp; Electrical Steel</b>	<b>Services &amp; Solutions</b>	<b>Alloys &amp; Specialties</b>	<b>Others / Eliminations<sup>(1)</sup></b>	<b>Total</b>
<b>Year ended December 31, 2016</b>					
Sales to external customers	1,964	1,892	409	—	<b>4,265</b>
Intersegment sales <sup>(3)</sup>	1,546	72	6	(1,624)	—
Operating income (loss)	265	60	24	(32)	<b>317</b>
Depreciation and Impairment	(145)	(22)	(6)	(2)	<b>(175)</b>
Capital expenditures	(112)	(7)	(9)	(2)	<b>(130)</b>

<i>(in millions of U.S. dollars)</i>	<b>Stainless &amp; Electrical Steel</b>	<b>Services &amp; Solutions</b>	<b>Alloys &amp; Specialties</b>	<b>Others / Eliminations<sup>(1)</sup></b>	<b>Total</b>
<b>Year ended December 31, 2015<sup>(2)</sup></b>					
Sales to external customers	2,208	1,947	561	—	<b>4,716</b>
Intersegment sales <sup>(3)</sup>	1,598	77	5	(1,680)	—
Operating income (loss)	290	24	38	(25)	<b>327</b>
Depreciation and Impairment	(148)	(18)	(6)	(2)	<b>(174)</b>
Capital expenditures	(102)	(15)	(12)	(3)	<b>(132)</b>

**Notes:**

(1) Others / Eliminations includes all other operations than mentioned above, together with inter-segment elimination, and/or non-operational items which are not segmented.

(2) Due to the transfer of the Business Unit "Precision" from the segment "Services & Solutions" to the segment "Stainless & Electrical Steel" as from January 1, 2016, segmented figures for the year ended December 31, 2015 have been restated as shown in the below reconciliation.

(3) Transactions between segments are conducted on the same basis of accounting as transactions with third parties.

Due to a reorganisation at the level of business units, it has been decided to transfer the Business Unit "Precision" from the segment "Services & Solutions" to the segment "Stainless & Electrical Steel" as from January 1, 2016. Figures for 2015 have been restated as follows:

<i>(in millions of U.S. dollars)</i>	<b>Stainless &amp; Electrical Steel</b>	<b>Services &amp; Solutions</b>	<b>Alloys &amp; Specialties</b>	<b>Others / Eliminations</b>	<b>Total</b>
<b>Year ended December 31, 2015, as published</b>					
Sales to external customers	2,107	2,048	561	—	<b>4,716</b>
Intersegment sale	1,657	75	5	(1,737)	—
Operating income (loss)	291	23	38	(25)	<b>327</b>
Depreciation and Impairment	(147)	(19)	(6)	(2)	<b>(174)</b>
Capital expenditures	(99)	(18)	(12)	(3)	<b>(132)</b>

<i>(in millions of U.S. dollars)</i>	<b>Stainless &amp; Electrical Steel</b>	<b>Services &amp; Solutions</b>	<b>Alloys &amp; Specialties</b>	<b>Others / Eliminations</b>	<b>Total</b>
<b>Year ended December 31, 2015, restatement impacts</b>					
Sales to external customers	101	(101)	—	—	—
Intersegment sales	(59)	2	—	57	—
Operating income (loss)	(1)	1	—	—	—
Depreciation and Impairment	(1)	1	—	—	—
Capital expenditures	(3)	3	—	—	—

The Company does not regularly provide assets for each reportable segment to the CODM. The table which follows presents the reconciliation of segment assets to total assets as required by IFRS 8.

*(in millions of U.S. dollars)*

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Assets allocated to segments	3,833	3,717
Cash and cash equivalents	325	148
Investments	37	18
Deferred tax assets	285	285
Other unallocated assets	195	131
<b>Total assets</b>	<b>4,675</b>	<b>4,299</b>

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

*(in millions of U.S. dollars)*

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Operating income</b>	<b>317</b>	<b>327</b>
Loss from other investments and associates	—	(15)
Interest income	4	4
Interest expense and other net financing costs	(44)	(88)
<b>Income before taxes</b>	<b>277</b>	<b>228</b>
Income tax expense	(63)	(55)
<b>Net income (including non-controlling interests)</b>	<b>214</b>	<b>173</b>

## Geographical information

## Sales (by destination)

<i>(in millions of U.S. dollars)</i>	Year ended December 31,	
	2016	2015
<b>Americas</b>		
Brazil	741	707
United States	251	290
Argentina	68	102
Others	62	67
<b>Total Americas</b>	<b>1,122</b>	<b>1,166</b>
<b>Europe</b>		
Germany	970	1,067
Italy	503	566
France	294	361
Poland	162	159
Belgium	113	139
Spain	93	115
United Kingdom	88	93
Netherlands	85	97
Turkey	90	99
Others	436	485
<b>Total Europe</b>	<b>2,834</b>	<b>3,181</b>
<b>Asia &amp; Africa</b>		
China	90	103
South Korea	85	113
India	32	36
United Arab Emirates	20	19
Vietnam	25	22
Others	57	76
<b>Total Asia &amp; Africa</b>	<b>309</b>	<b>369</b>
<b>Total</b>	<b>4,265</b>	<b>4,716</b>

Non-current assets<sup>(1)</sup> per significant country

<i>(in millions of U.S. dollars)</i>	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Americas</b>		
Brazil	537	453
Others	13	20
<b>Total Americas</b>	<b>550</b>	<b>473</b>
<b>Europe</b>		
Belgium	667	677
France	442	432
Germany	20	20
Poland	13	15
Czech Republic	12	15
Italy	11	11
Others	13	5
<b>Total Europe</b>	<b>1,178</b>	<b>1,175</b>
<b>Asia &amp; Africa</b>		
India	3	3
China	1	1
<b>Total Asia &amp; Africa</b>	<b>4</b>	<b>4</b>
Unallocated assets	1,041	990
<b>Total</b>	<b>2,773</b>	<b>2,642</b>

Note:

(1) Non-current assets do not include goodwill (as it is not allocated to the geographic regions), deferred tax assets, other investments or receivables and other non-current financial assets. Such assets are presented under the caption "Unallocated assets".

**NOTE 4: ASSETS AND LIABILITIES HELD FOR SALE**

On January 9, 2017, Aperam announced its intention to divest Aperam Stainless Services & Solutions Tubes Europe, its French stainless steel welded tubes activities, after consideration of a binding offer it received on December 30, 2016. These entities, located in Ancerville (manufacturing plant) and Annecy (distribution center) in France, are part of the "Services & Solutions" reportable segment. The Company expects to close the transaction during the first half of 2017. At December 31, 2016, assets and liabilities subject to the transaction were classified as held for sale and the Company recorded in cost of sales and in income tax expense an impairment charge of U.S.\$(19) million (including U.S.\$(8) million in depreciation and impairment) and U.S.\$(3) million, respectively, to write their carrying amount down to the expected net proceeds from the sale. The fair value measurement of the Services & Solutions entities was determined using the contract price, a Level 3 unobservable input.

The table below provides details of the assets and liabilities held for sale after elimination of intra-group balances in the consolidated statements of financial position:

*(in millions of U.S. dollars)*

	<b>Aperam Stainless Services &amp; Solutions Tubes Europe</b>	<b>Aperam Stainless Services &amp; Solutions Tubes France</b>	<b>Total</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Trade accounts receivable	6	2	8
Inventories	14	2	16
<b>Total current assets</b>	<b>20</b>	<b>4</b>	<b>24</b>
<b>Total assets</b>	<b>20</b>	<b>4</b>	<b>24</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade accounts payable	3	2	5
Short-term provisions	10	2	12
Accrued expenses and other liabilities	4	—	4
<b>Total current liabilities</b>	<b>17</b>	<b>4</b>	<b>21</b>
<b>Non-current liabilities</b>			
Deferred employee benefits	3	—	3
<b>Total non-current liabilities</b>	<b>3</b>	<b>—</b>	<b>3</b>
<b>Total liabilities</b>	<b>20</b>	<b>4</b>	<b>24</b>

**NOTE 5: FINANCIAL INCOME AND EXPENSE**

	Year ended December 31,	
	2016	2015
<i>(in millions of U.S. dollars)</i>		
<b>Recognised in the statement of operations</b>		
<b>Interest income</b>	<b>4</b>	<b>4</b>
Interest expense	(40)	(54)
Result on disposal of financial assets	(6)	1
Unrealised gains/(losses) on derivative instruments	(1)	10
Net foreign exchange result	10	(18)
Others <sup>(1)</sup>	(7)	(27)
<b>Total interest expense and other net financing costs</b>	<b>(44)</b>	<b>(88)</b>
<b>Recognised in the statement of comprehensive income (Company share)</b>		
Net change in fair value of available-for-sale financial assets	17	—
Effective portion of changes in fair value of cash flow hedge	22	(16)
Foreign currency translation differences for foreign operations	101	(601)
<b>Total</b>	<b>140</b>	<b>(617)</b>

**Note:**

(1) Others mainly include expenses related to True Sale of Receivables ("TSR"), discount charges on provisions for other liabilities and charges, bank fees, interest cost on deferred employee benefits plans and other financing costs.

Unrealised gains/(losses) on derivative instruments are mainly related to the fair value adjustments of raw material financial instruments and foreign exchange instruments which do not qualify for hedge accounting.

**NOTE 6: INCOME TAX***Income tax expense*

The breakdown of the income tax expense for each of the years ended December 31, 2016 and 2015, respectively, is summarised as follows:

	Year Ended December 31,	
	2016	2015
<i>(in millions of U.S. dollars)</i>		
Current tax expense	(24)	(31)
Deferred tax expense	(39)	(24)
<b>Total income tax expense</b>	<b>(63)</b>	<b>(55)</b>

The following table reconciles the income tax expense to the statutory tax expense as calculated:

	Year Ended December 31,	
	2016	2015
<i>(in millions of U.S. dollars)</i>		
<b>Net income</b>	<b>214</b>	<b>172</b>
Non-controlling interest	—	1
Income tax expense	(63)	(55)
<b>Income before tax:</b>	<b>277</b>	<b>228</b>
Tax expense at domestic rates applicable to countries where income was generated	(74)	(63)
Tax exempt revenues	6	11
Net change in measurement of deferred tax assets	(88)	(28)
Tax deductible write-down on shares	95	8
Tax credits	2	3
Change in tax rate	(7)	(1)
Other permanent difference	3	15
<b>Income tax expense</b>	<b>(63)</b>	<b>(55)</b>



The weighted average statutory tax expense was U.S.\$(74) million and U.S.\$(63) million in 2016 and 2015, respectively.

Tax exempt revenues of U.S.\$6 million in 2016 and U.S.\$11 million in 2015 mainly relate to 80% exemption of the net income derived from the intra-group licensing of the Aperam trademark.

Net change in measurement of deferred tax assets of U.S.\$(88) million in 2016 mainly relates to tax expense of U.S.\$(95) million due to unrecognised deferred tax assets on write-down of the value of shares of a consolidated subsidiary in Luxembourg, derecognition of deferred tax assets on previous tax losses for U.S.\$(21) million in Brazil, limitation of interest deduction for U.S.\$(5) million in France and derecognition of deferred tax assets of French Tubes units for U.S.\$(3) million, partly offset by new recognition of deferred tax assets on tax losses in Luxembourg for U.S.\$32 million.

Net change in measurement of deferred tax assets of U.S.\$(28) million in 2015 mainly relates to tax expense of U.S.\$(8) million due to unrecognised deferred tax assets on write-down of the value of shares of consolidated subsidiaries in Luxembourg, derecognition of deferred tax assets on previous tax losses for U.S.\$(6) million in Brazil, limitation of interest deduction for U.S.\$(5) million in France and not capitalisation of tax losses in Brazil for U.S.\$(1) million.

Tax credits of U.S.\$2 million and U.S.\$3 million in 2016 and 2015, respectively, mainly relate to research tax credits and competitiveness and employment tax credits in France.

Other permanent difference in 2016 and 2015 consists of a reduced taxation on the financing activity, transfer pricing adjustment in Brazil, effect of foreign currency translation, taxation on dividends and adjustments for tax deductible and non-deductible items.

#### *Income tax recognised directly in equity*

Income tax recognised in equity for the years ended December 31, 2016 and 2015 is as follows:

<i>(in millions of U.S. dollars)</i>	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Deferred tax (expense) benefit</b>		
<b>Recognised in Other Comprehensive Income (Loss):</b>		
Recognised actuarial loss	(6)	—
Unrealised gain / (loss) on derivative financial instruments	(13)	8
Foreign currency translation adjustments	—	27
<b>Total</b>	<b>(19)</b>	<b>35</b>

The net deferred tax expense recorded directly to equity was U.S.\$(19) million as of December 31, 2016 and the net deferred tax benefit recorded directly to equity was U.S.\$22 million as of December 31, 2015. There was no current tax booked directly in equity in 2016 and 2015.

*Deferred tax assets and liabilities*

The origin of deferred tax assets and liabilities is as follows:

	Assets		Liabilities		Net	
	December 31,		December 31,		December 31,	
	2016	2015	2016	2015	2016	2015
<i>(in millions of U.S. dollars)</i>						
Intangible assets	2	2	(4)	(8)	(2)	(6)
Property, plant and equipment	3	3	(212)	(224)	(209)	(221)
Biological assets	—	—	(30)	(25)	(30)	(25)
Inventories	24	26	(3)	(3)	21	23
Financial instruments	10	17	(14)	(7)	(4)	10
Other assets	7	6	(12)	(5)	(5)	1
Provisions	51	57	(59)	(65)	(8)	(8)
Other liabilities	20	21	(18)	(24)	2	(3)
Tax losses carried forward	347	386	—	—	347	386
Tax credits	2	2	—	—	2	2
<b>Deferred tax assets/(liabilities)</b>	<b>466</b>	<b>520</b>	<b>(352)</b>	<b>(361)</b>	<b>114</b>	<b>159</b>
Deferred tax assets					285	285
Deferred tax liabilities					(171)	(126)

Deferred tax assets not recognised by the Company as of December 31, 2016, were as follows:

<i>(in millions of U.S. dollars)</i>	Gross amount	Total deferred tax assets	Recognised	Unrecognised
			deferred tax assets	deferred tax assets
Tax losses carried forward	2,548	721	347	374
Tax credits and other tax benefits	25	8	2	6
Other temporary differences	377	117	117	—
<b>Total</b>		<b>846</b>	<b>466</b>	<b>380</b>

Deferred tax assets not recognised by the Company as of December 31, 2015, were as follows:

<i>(in millions of U.S. dollars)</i>	Gross amount	Total deferred tax assets	Recognised	Unrecognised
			deferred tax assets	deferred tax assets
Tax losses carried forward	2,325	723	386	337
Tax credits and other tax benefits	20	7	2	5
Other temporary differences	395	132	132	—
<b>Total</b>		<b>862</b>	<b>520</b>	<b>342</b>

The Company has unrecognised deferred tax assets relating to tax losses carry forward, tax credits and other tax benefits amounting to U.S.\$380 million and U.S.\$342 million as of December 31, 2016 and 2015, respectively. As of December 31, 2016, the deferred tax assets not recognised relate to tax losses carry forward attributable to subsidiaries located in Luxembourg (U.S.\$300 million), Brazil (U.S.\$65 million), France (U.S.\$4 million), Italy (U.S.\$3 million) and the United States (U.S.\$2 million) with different statutory tax rates. Therefore, the amount of the total deferred tax assets is the aggregate amount of the various deferred tax assets recognised and unrecognised at the various subsidiaries and not the result of a computation with a blended rate. Unrecognised tax losses have no expiration date in Brazil, France, Italy and Luxembourg<sup>(1)</sup>.

**Note (1)** : Starting in 2017, tax losses generated in 2017 and onwards will have an expiry date in Luxembourg.

The utilisation of tax losses carry forward is restricted to the taxable income of the subsidiary.

At December 31, 2016, based upon the level of historical taxable income and projections for future taxable income over the periods in which the deductible temporary differences are anticipated to reverse, management believes it is probable that the Company will realise the benefits of an amount of deferred tax assets recognised for U.S.\$285 million.

The amount of future taxable income required to be generated by the Company's operating subsidiaries to utilise the total deferred tax assets is approximately U.S.\$979 million. Historically, the Company has been able to generate taxable income in sufficient amounts to permit it to utilise tax benefits associated with net operating losses carry forward and other deferred tax assets that have been recognised in its consolidated financial statements. However, the amount of the deferred tax assets considered realisable could be adjusted in the future if estimates of taxable income are revised.

The Company has not recorded any deferred income tax liabilities on the undistributed earnings of its foreign subsidiaries for income tax due if these earnings would be distributed. For investments in subsidiaries, branches, associates and investments, that are not expected to reverse in the foreseeable future, no deferred tax liability has been recognised at December 31, 2016.

#### *Tax losses carry forward*

At December 31, 2016, the Company had total estimated net tax losses carry forward of U.S.\$2,548 million.

Such amount includes net operating losses of U.S.\$5 million related to Aperam Stainless Services & Solutions USA in the United States which expire as follows:

<b>Year expiring</b>	<b>Amount</b> <i>(in millions of U.S. dollars)</i>
2017	—
2018	—
2019	—
2020	—
2021	—
2022 - 2036	5
<b>Total</b>	<b>5</b>

The remaining tax losses carry forward of U.S.\$2,543 million are indefinite and attributable to the Company's operations in Belgium, Brazil, France, Italy and Luxembourg. Tax losses carry forward are denominated in the currency of the countries in which the respective subsidiaries are located and operate. Fluctuations in currency exchange rates could reduce the U.S. dollar equivalent value of these tax losses carry forward in future years.

## **NOTE 7: CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consisted of the following:

<i>(in millions of U.S. dollars)</i>	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Bank current accounts	290	114
Term accounts (initial maturity < 3 months)	35	34
<b>Total</b>	<b>325</b>	<b>148</b>

**NOTE 8: TRADE ACCOUNTS RECEIVABLE**

Trade accounts receivable and allowance for doubtful accounts are as follows:

<i>(in millions of U.S. dollars)</i>	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Gross amount	246	256
Allowance for doubtful accounts	(8)	(8)
<b>Total</b>	<b>238</b>	<b>248</b>

See Note 22 for information regarding trade accounts receivable from related parties.

Before accepting any new customer, the Company requests a credit limit authorisation from credit insurance companies or uses an internally developed credit scoring system to assess the potential customer's credit quality and to define credit limits by customer. For all significant customers, the credit terms must be approved by relevant credit committees. Limits and scoring attributed to customers are reviewed periodically. There are no customers which represent more than 10% of the total balance of trade accounts receivable and revenues.

Included in the Company's trade accounts receivable balance are debtors with a carrying amount of U.S.\$219 million and U.S.\$227 million as of December 31, 2016 and 2015, respectively, which were not past due at the reporting date.

The amount of trade accounts receivable pledged as collateral was U.S.\$42 million and U.S.\$50 million as of December 31, 2016 and 2015, respectively. Pledges mainly aim at securing the borrowing base revolving credit facility entered into by the Company as described in Note 16.

*Exposure to credit risk by operating segment*

The maximum exposure to credit risk for trade accounts receivable by operating segment is:

<i>(in millions of U.S. dollars)</i>	<b>December 31,</b>			
	<b>2016</b>	<b>2015, as restated</b>	<b>Transfer <sup>(1)</sup></b>	<b>2015, as published</b>
Stainless & Electrical Steel	73	104	(4)	108
Alloys & Specialties	32	32	—	32
Services & Solutions	133	112	4	108
<b>Total</b>	<b>238</b>	<b>248</b>	<b>—</b>	<b>248</b>

Note:

(1) Due to the transfer of the Business Unit "Precision" from the segment "Services & Solutions" to the segment "Stainless & Electrical Steel" as from January 1, 2016, segmented figures for the year ended December 31, 2015 have been restated.

*Exposure to credit risk by geography*

The maximum exposure to credit risk for trade accounts receivable by geographical area is:

<i>(in millions of U.S. dollars)</i>	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Europe	139	143
South America	68	78
North America	27	26
Asia	4	1
<b>Total</b>	<b>238</b>	<b>248</b>

*Aging of trade accounts receivable*

The aging of trade accounts receivable is as follows:

	2016		December 31, 2015	
	Gross	Allowance	Gross	Allowance
<i>(in millions of U.S. dollars)</i>				
Not past due	213	—	227	—
Past due 0-30 days	16	—	13	—
Past due 31-180 days	9	—	8	—
More than 180 days	8	(8)	8	(8)
<b>Total</b>	<b>246</b>	<b>(8)</b>	<b>256</b>	<b>(8)</b>

The movement in the allowance for doubtful accounts in respect of trade accounts receivable during the year is as follows:

Balance as of December 31, 2014	Additions	Deductions/ Releases	Other Movements (primarily exchange rate changes)	Balance as of December 31, 2015
10	2	(2)	(2)	8

Balance as of December 31, 2015	Additions	Deductions/ Releases	Other Movements (primarily exchange rate changes)	Balance as of December 31, 2016
8	2	(2)	—	8

The Company has established sales without recourse of trade accounts receivable program with financial institutions, referred to as True Sales of Receivables ("TSR"). The maximum combined amount of the programs that could be utilised were €280 million and €280 million as of December 31, 2016 and 2015, respectively. Through the TSR program, certain operating subsidiaries of Aperam surrender control, risks and the benefits associated with the accounts receivable sold. Therefore, the amount of receivables sold is recorded as a sale of financial assets and the balances are removed from the statement of financial position at the moment of the sale.

The total amount of receivables sold under the TSR program and derecognised in accordance with IAS 39 for the years ended December 31, 2016 and 2015 were U.S.\$1.4 billion and U.S.\$1.6 billion, respectively. Expenses incurred under the TSR program (reflecting the discount granted to the acquirers of the accounts receivable) are recognised in the consolidated statement of operations as financing costs and amounted to U.S.\$6 million and U.S.\$9 million in 2016 and 2015, respectively.

**NOTE 9: INVENTORIES**

Inventories, net of provision for obsolescence, slow-moving inventories and excess of cost over net realisable value of U.S.\$85 million and U.S.\$109 million as of December 31, 2016 and December 31, 2015, respectively, are comprised of the following:

<i>(in millions of U.S. dollars)</i>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Finished products	449	469
Production in process	440	363
Raw materials	208	164
Manufacturing supplies, spare parts and other	129	125
<b>Total</b>	<b>1,226</b>	<b>1,121</b>

There are no inventories which are carried at fair value less cost to sell.

The amount of inventory pledged as collateral was U.S.\$802 million and U.S.\$657 million as of December 31, 2016 and 2015, respectively. Pledges mainly aim at securing the borrowing base revolving credit facility entered into by the Company as described in Note 16.

The movement in the allowance for obsolescence is as follows:

*(in millions of U.S. dollars)*

<b>Balance as of December 31, 2014</b>	<b>Additions</b>	<b>Deductions/ Releases</b>	<b>Other Movements</b>	<b>Balance as of December 31, 2015</b>
116	30	(24)	(13)	109

*(in millions of U.S. dollars)*

<b>Balance as of December 31, 2015</b>	<b>Additions</b>	<b>Deductions/ Releases</b>	<b>Other Movements</b>	<b>Balance as of December 31, 2016</b>
109	15	(30)	(9)	85

The amount of write-down of inventories to net realisable value recognised as an expense was U.S.\$15 million and U.S.\$30 million in 2016 and 2015, respectively, and was reduced by U.S.\$30 million and U.S.\$24 million in 2016 and 2015, respectively, due to normal inventory consumption.

The amount of inventories recognised as an expense (due to normal inventory consumption) was U.S.\$0,906 million and U.S.\$1,965 million during the year ended December 31, 2016, and 2015, respectively.

**NOTE 10: PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets consist of the following:

<i>(in millions of U.S. dollars)</i>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Value added tax (VAT) and other amount receivable from tax authorities	40	89
Prepaid expenses and accrued receivables	13	12
Derivative financial assets (Note 21)	9	9
Other	22	18
<b>Total</b>	<b>84</b>	<b>128</b>

**NOTE 11: GOODWILL AND INTANGIBLE ASSETS**

Goodwill and intangible assets consist of the following:

<i>(in millions of U.S. dollars)</i>	<b>Goodwill on acquisition</b>	<b>Customer relationships, trade marks &amp; technology</b>	<b>Concessions, patents and licenses</b>	<b>Total</b>
<b>Cost</b>				
At December 31, 2014	634	217	113	964
Acquisitions	—	3	6	9
Foreign exchange differences	(122)	(40)	(21)	(183)
<b>At December 31, 2015</b>	<b>512</b>	<b>180</b>	<b>98</b>	<b>790</b>
<b>Accumulated amortisation and impairment losses</b>				
At December 31, 2014	—	(180)	(88)	(268)
Amortisation charge	—	(11)	(7)	(18)
Foreign exchange differences	—	34	18	52
<b>At December 31, 2015</b>	<b>—</b>	<b>(157)</b>	<b>(77)</b>	<b>(234)</b>
<b>Carrying amount</b>				
<b>At December 31, 2015</b>	<b>512</b>	<b>23</b>	<b>21</b>	<b>556</b>
<b>Cost</b>				
At December 31, 2015	512	180	98	790
Acquisitions	—	2	4	6
Transfer in assets held for sale (Note 4)	(4)	—	—	(4)
Foreign exchange differences	25	(1)	5	29
<b>At December 31, 2016</b>	<b>533</b>	<b>181</b>	<b>107</b>	<b>821</b>
<b>Accumulated amortisation and impairment losses</b>				
At December 31, 2015	—	(157)	(77)	(234)
Amortisation charge	—	(11)	(5)	(16)
Impairment loss	(4)	—	—	(4)
Transfer in assets held for sale (Note 4)	4	—	—	4
Foreign exchange differences	—	(2)	(4)	(6)
<b>At December 31, 2016</b>	<b>—</b>	<b>(170)</b>	<b>(86)</b>	<b>(256)</b>
<b>Carrying amount</b>				
<b>At December 31, 2016</b>	<b>533</b>	<b>11</b>	<b>21</b>	<b>565</b>

As a result of the acquisition of Arcelor by Mittal Steel on August 1, 2006, associated goodwill, intangible assets, and certain fair value adjustments were recorded.

The Company identified three operating segments. As a result, goodwill acquired in business combinations was allocated to these operating segments based on the relative fair values of the operating segments. Goodwill is allocated as follows to each of the Company's operating segments:

<i>(in millions of U.S. dollars)</i>	<b>Net value December 31, 2015, as published</b>	<b>Transfer <sup>(1)</sup></b>	<b>Net value December 31, 2015, as restated</b>	<b>Impairment loss</b>	<b>Foreign exchange differences</b>	<b>Net value December 31, 2016</b>
Stainless & Electrical Steel	418	5	423	—	27	450
Alloys & Specialties	22	—	22	—	(1)	21
Services & Solutions	72	(5)	67	(4)	(1)	62
<b>Total</b>	<b>512</b>	<b>—</b>	<b>512</b>	<b>(4)</b>	<b>25</b>	<b>533</b>

**Note:**

(1) Due to the transfer of the Business Unit "Precision" from the segment "Services & Solutions" to the segment "Stainless & Electrical Steel" as from January 1, 2016, segmented figures for the year ended December 31, 2015 have been restated.

Goodwill is tested at the Group of cash-generating unit ("GCGU") level for impairment annually or whenever changes in circumstances indicate that its carrying amount may not be recoverable. For 2016, goodwill was tested at the GCGU level for impairment as of October 31. The GCGU is at the operating segment level of Aperam, which represents the lowest level at which goodwill is monitored for internal management purposes. The recoverable amounts of the GCGUs are determined based on their value in use. The Company determined to calculate value in use for purposes of its impairment testing and, accordingly, did not determine the fair value of the GCGUs as the carrying value of the GCGUs was lower than their value in use.

The key assumptions for the value in use calculations are primarily the pre-tax discount rates, the terminal growth rate and the expected changes to raw material margin, shipments and added costs during the period. The impairment tests did not result in impairment for any periods presented in these consolidated financial statements.

The value in use of the GCGUs was determined by estimating cash flows for a period of five years.

Assumptions for raw material margin and shipments were based on historical experience and expectations of future changes in the market. Cash flow forecasts were derived from the most recent financial budget approved by the Board of Directors. Beyond the specifically forecasted period of five years, the Company extrapolated cash flows for the remaining years based on an estimated constant growth rate of 1.5% in Europe and 2% in South America. These rates did not exceed the average long-term growth rate for the relevant markets.

For purposes of the 2016 impairment test, the Company estimated shipments on the basis of the analysis of the markets where the Company is active in as well as on the basis of projections provided by external sources.

The nickel price estimate for the next 5 years was determined by the management based on internal analysis giving due consideration to forecasts published by external sources.

Management estimated discount rates using pretax rates that reflected current market rates for investments of similar risk. The discount rate for the GCGUs was estimated from the weighted average cost of capital of producers which operate a portfolio of assets similar to those of the Company's assets.

	<b>Stainless &amp; Electrical Steel</b>	<b>Alloys &amp; Specialties</b>	<b>Services &amp; Solutions</b>
GCGU weighted average pre-tax discount rate used in 2015	13.1%	14.6%	13.1%
GCGU weighted average pre-tax discount rate used in 2016	11.7%	13.2%	12.4%

When estimating GCGU's average selling price for the purpose of 2016 impairment test, the Company used an average price per tonne (based on Stainless steel/CR304 2B 2mm coil transaction price/Southern European domestic delivered prices derived from Steel Business Briefing ("SBB")).



The results of the goodwill impairment test of 2015 and 2016 for each GCGU did not result in an impairment of goodwill as the value in use exceeded the carrying value of the GCGU.

In validating the value in use determined for the GCGU, key assumptions used in the discounted cash-flow model (such as discount rates, raw material margins, shipments and terminal growth rate) were sensitised to test the resilience of value in use.

The analysis did not result in any scenarios whereby a reasonable possible change in the aforementioned key assumptions would result in a recoverable amount for the GCGU which is inferior to the carrying value.

#### *Research and development costs*

Research and development costs do not meet the criteria for capitalisation and are expensed and included in selling, general and administrative expenses within the consolidated statement of operations. These costs amounted to U.S.\$18 million and U.S.\$18 million in the years ended December 31, 2016, and 2015, respectively. There were no research and development costs capitalised during any of the periods presented.

## NOTE 12: BIOLOGICAL ASSETS

The reconciliation of changes in the carrying value of biological assets between the beginning and the end of the year is as follows:

<i>(in millions of U.S. dollars)</i>	<b>Biological assets</b>
Balance at January 1, 2015 <sup>(1)</sup>	63
Additions	12
Change in fair value <sup>(2)</sup>	8
Harvested tree	(19)
Foreign exchange differences	(19)
<b>At December 31, 2015</b>	<b>45</b>
Balance at January 1, 2016	45
Additions	12
Change in fair value <sup>(2)</sup>	4
Harvested trees	(21)
Foreign exchange differences	8
<b>At December 31, 2016</b>	<b>48</b>

#### Notes:

(1) Due to the application of the IFRS amendment IAS 41 "Agriculture : Bearer Plants" the roots of the Company's eucalyptus plantations have been reclassified as Property Plant and Equipment as of date January 1, 2015.

(2) Recognised in cost of sales in the consolidated statements of operations.

The Company's biological assets comprise eucalyptus forests cultivated and planted in order to supply raw materials for the production of charcoal. The total area of 126 thousand hectares is composed of eucalyptus forest reserves in Brazil. These areas are managed by Aperam BioEnergia Ltda that provides planting and coal production services.

In order to determine the fair value of biological assets, a discounted cash flow model was used, with the harvest cycle of six to seven years. Fair value measurement of biological assets is categorised within level 3 of fair value hierarchy. The projected cash flows are consistent with area's growing cycle. The volume of eucalyptus production to be harvested was estimated considering the average productivity in cubic meters of wood per hectare from each plantation at the time of harvest. The average productivity varies according to the genetic material, climate and soil conditions and the forestry management programs. The projected volume is based on the average annual growth which at the end of 2016 was equivalent to 33m<sup>3</sup>/ha/year.

The projected cash flows are consistent with area's growing cycle. The volume of eucalyptus production to be harvested was estimated considering the average productivity in cubic meters of wood per hectare from each plantation at the time of harvest.

The average net sales price of 41 Brazilian real per m<sup>3</sup> was projected based on the estimated price for eucalyptus in the local market, through a market study and research of actual transactions, adjusted to reflect the price of standing trees by region. The average estimated cost considers expenses for felling, chemical control of growing, pest control, composting, road maintenance, inputs and labour services. Tax effects based on current rates of 34% in 2016, as well as the contribution of other assets, such as property, plant and equipment and land were considered in the estimation based on average rates of return for those assets.

The valuation model considers the net cash flows after income tax and the post-tax discount rate used of 12.60%. Discount rate is calculated using a Capital Asset Pricing Model.

The following table illustrates the sensitivity to a 10% variation in each of the significant unobservable inputs used to measure the fair value of the biological assets on December 31, 2016:

*(in millions of U.S. dollars)*

<b>Significant unobservable impacts</b>	<b>Impacts on the fair value resulting from</b>	
	<b>10% increase</b>	<b>10% decrease</b>
Average annual growth	11	(11)
Average selling price	11	(11)
Discount rate	(4)	4

**NOTE 13: PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are summarised as follows:

<i>(in millions of U.S. dollars)</i>	<b>Machinery, equipment and others<sup>(1)</sup></b>	<b>Land, buildings and improvements</b>	<b>Construction in progress</b>	<b>Total<sup>(1)</sup></b>
<b>Cost</b>				
At December 31, 2014	2,621	842	76	3,539
<i>Restatement bearer plants<sup>(1)</sup></i>	34	—	—	34
At January 1, 2015	2,655	842	76	3,573
Additions	20	—	92	112
Foreign exchange differences	(426)	(142)	(13)	(581)
Disposals	(37)	(1)	—	(38)
Other movements	41	15	(66)	(10)
<b>At December 31, 2015</b>	<b>2,253</b>	<b>714</b>	<b>89</b>	<b>3,056</b>
<b>Accumulated amortisation and impairment losses</b>				
At December 31, 2014	(1,356)	(254)	—	(1,610)
Depreciation charge of the year	(119)	(18)	—	(137)
Disposals	35	1	—	36
Foreign exchange differences	211	45	—	256
Other movements	13	(7)	—	6
<b>At December 31, 2015</b>	<b>(1,216)</b>	<b>(233)</b>	<b>—</b>	<b>(1,449)</b>
<b>Carrying amount</b>				
<b>At December 31, 2015</b>	<b>1,037</b>	<b>481</b>	<b>89</b>	<b>1,607</b>
<b>Cost</b>				
At December 31, 2015	2,253	714	89	3,056
Additions	31	2	97	130
Foreign exchange differences	40	19	2	61
Disposals	(75)	(3)	—	(78)
Other movements	67	(14)	(90)	(37)
<b>At December 31, 2016</b>	<b>2,316</b>	<b>718</b>	<b>98</b>	<b>3,132</b>
<b>Accumulated amortisation and impairment losses</b>				
At December 31, 2015	(1,216)	(233)	—	(1,449)
Depreciation charge of the year	(113)	(17)	—	(130)
Impairment loss	(3)	(1)	—	(4)
Disposals	75	3	—	78
Foreign exchange differences	(19)	(7)	—	(26)
Other movements	30	12	—	42
<b>At December 31, 2016</b>	<b>(1,246)</b>	<b>(243)</b>	<b>—</b>	<b>(1,489)</b>
<b>Carrying amount</b>				
<b>At December 31, 2016</b>	<b>1,070</b>	<b>475</b>	<b>98</b>	<b>1,643</b>

**Note:**

(1) Due to the application of the IFRS amendment IAS 41 "Agriculture : Bearer Plants" the roots of the Company's eucalyptus plantations have been reclassified as Property, Plant and Equipment as of date January 1, 2015.

Other movements represent mostly transfers from construction in progress to other categories.

As of December 31, 2016, and 2015, temporarily idle assets included in the Stainless & Electrical Steel segment were U.S.\$7 million and U.S.\$8 million, respectively. There were no temporarily idle assets included in the other segments as of any of the periods presented.

As of December 31, 2016, the property, plant & equipment of the entities Aperam Stainless Services & Solutions Tubes Europe and Aperam Stainless Services & Solutions Tubes France have been classified as Assets Held for Sale and as such an impairment loss of U.S.\$(4) million was recognised as an expense as part of operating result in the consolidated statement of operations for the year ended December 31, 2016 (see Note 4).

During the year ended December 31, 2016, and in conjunction with its testing of goodwill for impairment, the Company analysed the recoverable amount of its property, plant and equipment. Property, plant and equipment were tested at the Cash Generating Unit ("CGU") level. In certain instances, the CGU is an integrated manufacturing facility which may also be an operating subsidiary. Furthermore, a manufacturing facility may be operated together with another facility, with neither facility generating cash flows that are largely independent from the cash flows in the other. In this instance, the two facilities are combined for purposes of testing for impairment. As of December 31, 2016, the Company had determined it has six CGUs. The recoverable amounts of the CGUs are determined based on value in use calculation and follow similar assumptions as those used for the test on impairment for goodwill.

The Company estimated discount rates using pre-tax rates that reflect current market rates for investments of similar risk. The rate for each CGU was estimated from the weighted average cost of capital of producers which operate a portfolio of assets similar to those of Aperam's assets. Aside from the impairments described above due to Held for Sale classification, no impairment of property, plant and equipment was recorded for the year ended December 31, 2016, and December 31, 2015.

The carrying amount of property, plant and equipment includes U.S.\$2 million and U.S.\$3 million of finance leases as of December 31, 2016, and 2015, respectively. The carrying amount of these finance leases is included in machinery and equipment. These finance lease arrangements are mainly equipment related to the scrap and slab yard in Belgium for a carrying amount of U.S.\$2 million which can be purchased for their book value at the end of the remaining leasing period.

The amount of property, plant and equipment pledged as collateral was U.S.\$3 million and U.S.\$2 million as of December 31, 2016, and 2015, respectively.

## NOTE 14: OTHER INVESTMENTS

The Company holds the following other investments:

<i>(in millions of U.S. dollars)</i>	Location	Ownership % at December 31, 2016	Fair value December 31,	
			2016	2015
Available-for-sale securities (at fair value)				
General Moly Inc.	U.S.	7.46%	2	2
Gerdau S.A.	Brazil	0.53%	30	11
<b>Total available-for-sale securities</b>			<b>32</b>	<b>13</b>
Investments accounted for at cost				
Exeltium S.A.S.	France	2.05%	4	4
Other			1	1
<b>Total investments accounted for at cost</b>			<b>5</b>	<b>5</b>
<b>Total</b>			<b>37</b>	<b>18</b>

The fair value (applying a Level 1 fair value measurement) of Aperam's stake in Gerdau amounted to U.S.\$30 million and U.S.\$11 million as of December 31, 2016, and December 31, 2015, respectively. The increase of U.S.\$19 million over the period is due to the increase in the market price of the shares from R\$4.65 as of December 31, 2015, to R\$10.80 as of December 31, 2016.

The fair value of Aperam's stake in General Moly, amounted to U.S.\$2 million and U.S.\$2 million as of December 31, 2016, and December 31, 2015, respectively.

The Company reviewed the investments in Gerdau and General Moly for impairment and didn't recorded any impairment loss in the statement of operations for the year ended December 31, 2016, compared to an impairment loss of U.S.\$13 million and U.S.\$2 million respectively as a loss from other investments in the statements of operations for the year ended December 31, 2015. The Company considers a significant or prolonged decline in fair value as objective evidence of impairment.

## NOTE 15: OTHER ASSETS

Other assets consisted of the following:

(in millions of U.S. dollars)

	December 31,	
	2016	2015
Call options on Aperam shares <sup>(1)</sup>	92	65
Cash guarantees and deposits	33	26
Long-term VAT receivables	29	20
Pension fund assets <sup>(2)</sup>	17	—
Reimbursement rights <sup>(2)</sup>	3	3
Tax indemnification from ArcelorMittal Bioflorestas	2	4
Long-term receivables from sale of tangible assets	—	1
Other long-term assets	19	12
<b>Total</b>	<b>195</b>	<b>131</b>

### Notes:

(1) On June 27, 2014, Aperam acquired call options of its own shares. See Note 21: Financial instruments

(2) See Note 19 : Deferred Employee Benefits

## NOTE 16: SHORT-TERM AND LONG-TERM DEBT

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

(in millions of U.S. dollars)

	December 31,	
	2016	2015
Short-term bank loans and other credit facilities	5	4
Current portion of long-term debt	198	9
Lease obligations	1	1
<b>Total</b>	<b>204</b>	<b>14</b>

### Secured borrowing base revolving credit facility

On March 6, 2015, Aperam signed a U.S.\$500 million secured borrowing base revolving credit facility ("The Facility") with a group of nine banks. The Facility, which refinanced the existing Borrowing Base Facility of U.S.\$400 million, is structured as a three-year revolving credit facility and includes a one-year extension option. It will be used for liquidity and working capital purposes. On December 1, 2015, Aperam cancelled a U.S.\$100 million of commitments leading to a remaining U.S.\$400 million secured borrowing base revolving credit facility. On May 26, 2016, Aperam extended the credit facility until March 5, 2019.

The 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 Group's most recent corporate rating by Standard & Poor's or Moody's or both) for the relevant interest period, which may be below one, one, two, three or six months or any other period agreed between the parties. The Facility also charges a utilisation fee on the drawn portion of the total facility amount and a commitment fee on the undrawn and uncanceled portion of the total facility amount, payable quarterly in arrears.

The Facility is secured by first-ranking, second-ranking, third-ranking and fourth-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 Facility may not exceed a borrowing base value equal to 70% to 100% of the book 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 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 U.S.\$2.2 billion; and
- > a maximum consolidated total debt of 70% of consolidated tangible net worth.

On December 31, 2016, these financial covenants were fully met.

Long-term debt is comprised of the following:

<i>(in millions of U.S. dollars)</i>	<b>Year of maturity</b>	<b>Type of Interest</b>	<b>Interest rate<sup>(1)</sup></b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
300 Convertible Bonds	2019/2021 <sup>(2)</sup>	Fixed	0.625%	269	256
200 Convertible Bonds	2017/2020 <sup>(3)</sup>	Fixed	2.625%	191	180
Loans in Brazil	2017-2026	Fixed/Floating	2.50%-11.5%	11	21
<b>Total</b>				<b>471</b>	<b>457</b>
Less current portion of long-term debt				(198)	(9)
Total long-term debt (excluding lease obligations)				273	448
Lease obligations <sup>(4)</sup>				2	2
<b>Total long-term debt, net of current portion</b>				<b>275</b>	<b>450</b>

**Notes:**

- (1) Rates applicable to balances outstanding at December 31, 2016.
- (2) Convertible bonds maturity is on July 8, 2021 but bonds are puttable by the bondholders on January 8, 2019.
- (3) Convertible bonds maturity is on September 30, 2020 but bonds are puttable by the bondholders on September 30, 2017.
- (4) Net of current portion of U.S.\$1 million and U.S.\$1 million as of December 31, 2016 and December 31, 2015 respectively.

### *Convertible Bonds*

On September 19, 2013, Aperam issued a U.S.\$200 million convertible and/or exchangeable debt instrument with a contractual maturity of 7 years. These bonds bear interest at 2.625% per annum payable semi-annually on March 30 and September 30 of each year, commencing on March 30, 2014. The bonds are puttable by the bondholders on September 30, 2017 at the principal amount (plus accrued interests).

At inception, the Company determined the bonds met the definition of a compound financial instrument in accordance with IFRS. The conversion option premium is recognised as an equity component. The Company determined the fair value of the financial liability component of the bonds was U.S.\$158 million on the date of issuance.

On July 8, 2014, Aperam issued a U.S.\$300 million convertible and/or exchangeable debt instrument with a contractual maturity of 7 years. These bonds bear interest at 0.625% per annum payable semi-annually on January 8, and July 8, of each year, commencing on January 8, 2015. The bonds are puttable by the bondholders on January 8, 2019, at the principal amount (plus accrued interests).

At inception, the Company determined the bonds met the definition of a compound financial instrument in accordance with IFRS. The Company determined the fair value of the financial liability component of the bonds was U.S.\$237 million on the date of issuance. Conversion option is recognised as a derivative financial liability.

Scheduled maturities of short-term and long-term debt are as follows:

<i>(in millions of U.S. dollars)</i>	<b>December 31, 2016</b>
2017	204
2018	3
2019	270
2020	—
2021	—
Subsequent years	2
<b>Total</b>	<b>479</b>

The following table presents the structure of the Company's debt and cash in original currencies:

<i>(in millions of U.S. dollars)</i>	<b>In USD equivalent as of December 31, 2016</b>				
	<b>Total USD</b>	<b>EUR</b>	<b>USD</b>	<b>BRL</b>	<b>Others</b>
Short-term debt and current portion of long-term debt	204	1	191	10	2
Long-term debt	275	2	269	3	1
Cash	325	272	17	24	12

<i>(in millions of U.S. dollars)</i>	<b>In USD equivalent as of December 31, 2015</b>				
	<b>Total USD</b>	<b>EUR</b>	<b>USD</b>	<b>BRL</b>	<b>Others</b>
Short-term debt and current portion of long-term debt	14	1	—	11	2
Long-term debt	450	3	436	11	—
Cash	148	103	15	22	8

The following tables summarise the Company's bases used to measure its debt at fair value. Fair value measurement has been classified into three levels based upon a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

<i>(in millions of U.S. dollars)</i>	<b>As of December 31, 2016</b>				
	<b>Carrying Amount</b>	<b>Fair Value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Instruments payable bearing interest at fixed rates	472	677	12	—	689
Instruments payable bearing interest at variable rates	7	—	7	—	7
<b>Total</b>	<b>479</b>	<b>677</b>	<b>19</b>	<b>—</b>	<b>696</b>

<i>(in millions of U.S. dollars)</i>	<b>As of December 31, 2015</b>				
	<b>Carrying Amount</b>	<b>Fair Value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Instruments payable bearing interest at fixed rates	450	579	14	—	593
Instruments payable bearing interest at variable rates	14	—	13	—	13
<b>Total</b>	<b>464</b>	<b>579</b>	<b>27</b>	<b>—</b>	<b>606</b>

Instruments payable classified as Level 1 refer to the Company's listed bonds quoted in active markets. The total fair value is the official closing price as defined by the exchange on which the instrument is most actively traded on the last trading day of the period, multiplied by the number of units held without consideration of transaction costs.

Instruments payable classified as Level 2 refer to all debt instruments not classified as Level 1. Fixed rate debt is based on estimated future cash flows which are discounted using current zero coupon rates for the relevant maturities and currencies as well as Aperam's credit spread quotations for the relevant maturities.

The following table summarise the movements on financial liabilities between financing cash flows impacts and other non-cash impacts :

	<b>Short-term debt and current portion of long-term debt</b>	<b>Long-term debt, net of current portion</b>
<i>(in millions of U.S. dollars)</i>		
Balance at December 31, 2015	14	450
<b>Changes from financing cash flows</b>		
Proceeds and repayments from short term debt	(12)	—
Proceeds and repayments from finance lease	(1)	—
<b>Total changes from financing cash flows</b>	<b>(13)</b>	<b>—</b>
Effect of changes in foreign exchange rates	2	1
Amortisation of borrowing costs and equity component on convertible notes	3	22
Reclassification between non-current and current debt	198	(198)
<b>Balance at December 31, 2016</b>	<b>204</b>	<b>275</b>

## NOTE 17: PROVISIONS

The movements by provision were as follows:

	<b>Balance at December 31, 2014</b>	<b>Additions</b>	<b>Provisions used during the year</b>	<b>Provisions reversed during the year</b>	<b>Effects of Foreign Exchange and other movements</b>	<b>Balance at December 31, 2015</b>
<i>(in millions of U.S. dollars)</i>						
Litigation (Note 24)	54	9	(5)	(4)	(16)	38
Environmental (Note 24)	26	1	(1)	(7)	(3)	16
Restructuring	2	1	(2)	—	—	1
Voluntary separation plans	3	—	(1)	—	(1)	2
Other	26	10	(6)	(4)	(7)	19
<b>Total</b>	<b>111</b>	<b>21</b>	<b>(15)</b>	<b>(15)</b>	<b>(27)</b>	<b>76</b>
Short-term provisions	43					30
Long-term provisions	68					46
<b>Total</b>	<b>111</b>					<b>76</b>

	<b>Balance at December 31, 2015</b>	<b>Additions</b>	<b>Provisions used during the year</b>	<b>Provisions reversed during the year</b>	<b>Effects of Foreign Exchange and other movements</b>	<b>Balance at December 31, 2016</b>
<i>(in millions of U.S. dollars)</i>						
Litigation (Note 24)	38	10	(1)	(9)	6	44
Environmental (Note 24)	16	—	(1)	—	—	15
Restructuring	1	—	(1)	—	—	—
Voluntary separation plans	2	1	(2)	—	—	1
Other	19	3	(12)	(1)	(1)	8
<b>Total</b>	<b>76</b>	<b>14</b>	<b>(17)</b>	<b>(10)</b>	<b>5</b>	<b>68</b>
Short-term provisions	30					19
Long-term provisions	46					49
<b>Total</b>	<b>76</b>					<b>68</b>



There are uncertainties regarding the timing and amount of the provisions above. Changes in underlying facts and circumstances for each provision could result in differences in the amounts above and the actual outflows. Due to the uncertainties regarding the timing of the provisions or the short period of their expected use, they are presented on a non-discounted basis.

Provisions for litigation related to probable losses that have been incurred due to a present legal or constructive obligation are expected to be settled in a period of one to four years. Discussion regarding legal matters is provided in Note 24.

Environmental provisions are related to probable environmental assessments and/or remedial efforts and are expected to be used for up to 20 years.

Other includes provisions for technical warranties, guarantees as well as other disputes.

## NOTE 18: ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses were comprised of the following as of:

*(in millions of U.S. dollars)*

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Accrued payroll and employee related expenses	119	122
Payable from acquisition of intangible & tangible assets	46	28
Cash collected from sold trade receivables	42	54
VAT and other amounts due to public authorities	21	39
Revaluation of derivative instruments (Note 21)	7	27
Accrued interests	3	4
Unearned revenue and accrued payables	2	2
Other creditors	21	22
<b>Total</b>	<b>261</b>	<b>298</b>

**NOTE 19: DEFERRED EMPLOYEE BENEFITS**

The total net employee benefits as of December 31, 2016 and 2015 are presented as follows in the below table:

(in millions of U.S. dollars)

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Pension fund assets (Note 15)	17	—
Deferred Employee Benefits liabilities	(173)	(184)
<b>Total Net Employee Benefits</b>	<b>(156)</b>	<b>(184)</b>

The Company's operating subsidiaries have different types of pension plans for its employees. Also, some of the operating subsidiaries offer other post-employment benefits, principally retirement indemnities. Limited health care benefits are also offered to some employees in Belgium. The expense associated with these pension plans and employee benefits, as well as the carrying amount of the related liability / asset on the statements of financial position are based on a number of assumptions and factors such as the discount rate, expected compensation increases, actual return on plan assets and market value of the underlying assets.

*Statement of Financial Position*

Together with plans and obligations that do not constitute pension or other post-employment benefits, the total deferred employee benefits are as follows :

(in millions of U.S. dollars)

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
<i>Pension plan benefits liabilities</i>	(98)	(100)
<i>Pension fund assets (Note 15)</i>	17	—
Net Pension Plan	(81)	(100)
Other post-employment benefits	(54)	(57)
Early retirement benefits	(20)	(26)
Other long-term employee benefits	(1)	(1)
<b>Total Net Employee Benefits</b>	<b>(156)</b>	<b>(184)</b>
Reimbursement rights (Note 15)	3	3
<b>Total Net Employee Benefits and reimbursement rights</b>	<b>(153)</b>	<b>(181)</b>

**Pension Plans**

A summary of the significant defined benefit pension plans is as follows:

*Brazil*

The primary defined benefit plans, financed through trust funds, have been closed to new entrants. Brazilian entities have all established defined contribution plans that are financed by employer and employee contributions.

As from 2016, Aperam decided to reduce the contributions to the funds due to the existence of a reversion fund hold by ACEPREV. Indeed, ACEPREV has a reversion fund (Fundo de Reversão - art 37) generated with the amount of provisions from participants that left the plan before retirement date. These participants were not able to receive part of the contributions done by the sponsor (Aperam) and it was reverted to this fund in accordance with the regulation. This fund can be used by the sponsor to reduce future contributions. Aperam is not allowed to receive this amount in cash. As a consequence, Aperam decided to reduce contributions from 2016 onwards. The percentage of reduction is revised annually. Due to Aperam's decision to reduce future contributions, an asset of R\$56 million (U.S.\$17 million) has been recognised on the balance sheet.

### *Europe*

Certain European operating subsidiaries maintain primarily unfunded defined benefit pension plans for a certain number of employees. Benefits are based on such employees' length of service and applicable pension table under the terms of individual agreements. Some of these unfunded plans have been closed to new entrants and replaced by defined contribution pension plans for active members financed by employer and employee contributions.

The majority of the funded defined benefit payments described earlier provide benefit payments from trustee-administered funds. Aperam also sponsors a number of unfunded plans where the Company meets the benefit payment obligation as it falls due. Plan assets held in trusts are legally separated from the Company and are governed by local regulations and practice in each country, as is the nature of the relationship between the Company and the governing bodies and their composition. In general terms, governing bodies are required by law to act in the best interest of the plan members and are responsible for certain tasks related to the plan (e.g. setting the plan's investment policy).

The Belgian defined contribution pension plans are by law subject to minimum guaranteed rates of return. In the past the minimum guaranteed rates were 3.25% on employer contributions and 3.75% on employee contributions. As from December 2015 new Belgian legislation modifies the minimum guaranteed rates of return applicable to Belgian Defined Contribution Plans. For insured plans, the rates of 3.25% on employer contributions and 3.75% on employee contributions will continue to apply to the accumulated pre-2016 contributions.

For contributions paid as from 2016, January, 1, a new variable minimum guaranteed rate of return will apply. Best estimate for the 2016 contributions being 1.75%. This change in legislation results into minimum guaranteed benefits at the date of leaving or retirement. Those plans, which are funded through group insurances, were basically accounted for as defined contribution plans. At 31 December 2016, the minimum guaranteed reserves were lower than the actual accumulated reserves. The contributions paid during 2016 for those plans amounted to U.S.\$4 million. The plan assets at 31 December 2016 consisted of U.S.\$58 million.

The following tables detail the reconciliation of defined benefit obligation, plan assets and statement of financial position.

<i>(in millions of U.S. dollars)</i>	Year Ended December 31, 2016		
	Total	Brazil	Europe
<b>Change in benefit obligation</b>			
Benefit obligation at beginning of the year	(154)	(53)	(101)
Service cost	—	—	—
Interest cost	(10)	(8)	(2)
Actuarial gain / (loss)	(18)	(15)	(3)
<i>Demographic assumptions</i>	—	—	—
<i>Financial assumptions</i>	(17)	(11)	(6)
<i>Experience adjustments</i>	(1)	(4)	3
Benefits paid	11	6	5
Obligations transfer	—	—	—
Foreign currency exchange rate differences and other movements	(10)	(12)	2
<b>Benefit obligation at end of the year</b>	<b>(181)</b>	<b>(82)</b>	<b>(99)</b>
<i>Actives</i>	(6)	(4)	(2)
<i>Terminated vested</i>	(5)	—	(5)
<i>Retirees</i>	(170)	(78)	(92)
<b>Benefit obligation at end of the year</b>	<b>(181)</b>	<b>(82)</b>	<b>(99)</b>
<b>Change in plan assets</b>			
Fair value of plan assets at beginning of the year	104	103	1
Interest income on plan assets	15	15	—
Return on plan assets greater/(less) than discount rate	16	16	—
Obligation transfer	—	—	—
Benefits paid	(6)	(6)	—
Foreign currency exchange rate differences and other movements	22	22	—
<b>Fair value of plan assets at end of the year</b>	<b>151</b>	<b>150</b>	<b>1</b>
Present value of wholly or partly funded obligation	92	82	10
Fair value of plan assets	151	150	1
<b>Net present value of wholly or partly funded obligation</b>	<b>59</b>	<b>68</b>	<b>(9)</b>
Present value of unfunded obligation	(89)	—	(89)
Prepaid due to unrecoverable surpluses	(51)	(51)	—
<b>Recognised net liabilities</b>	<b>(81)</b>	<b>17</b>	<b>(98)</b>
<b>Change in unrecoverable surplus</b>			
Unrecoverable surplus at beginning of the year	(50)	(50)	—
Interest cost on unrecoverable surplus	(5)	(5)	—
Change in unrecoverable surplus in excess of interest	13	13	—
Exchange rates changes	(9)	(9)	—
<b>Unrecoverable surplus at end of the year</b>	<b>(51)</b>	<b>(51)</b>	<b>—</b>

<i>(in millions of U.S. dollars)</i>	Year Ended December 31, 2015		
	Total	Brazil	Europe
<b>Change in benefit obligation</b>			
Benefit obligation at beginning of the year	(204)	(90)	(114)
Service cost	—	—	—
Interest cost	(10)	(8)	(2)
Actuarial gain / (loss)	11	13	(2)
<i>Demographic assumptions</i>	—	—	—
<i>Financial assumptions</i>	13	10	3
<i>Experience adjustments</i>	(2)	3	(5)
Benefits paid	10	5	5
Obligations transfer	—	—	—
Foreign currency exchange rate differences and other movements	39	27	12
<b>Benefit obligation at end of the year</b>	<b>(154)</b>	<b>(53)</b>	<b>(101)</b>
<i>Actives</i>	(5)	(3)	(2)
<i>Terminated vested</i>	(4)	—	(4)
<i>Retirees</i>	(145)	(50)	(95)
<b>Benefit obligation at end of the year</b>	<b>(154)</b>	<b>(53)</b>	<b>(101)</b>
<b>Change in plan assets</b>			
Fair value of plan assets at beginning of the year	150	149	1
Interest income on plan assets	14	14	—
Return on plan assets greater/(less) than discount rate	(6)	(6)	—
Obligation transfer	—	—	—
Benefits paid	(5)	(5)	—
Foreign currency exchange rate differences and other movements	(49)	(49)	—
<b>Fair value of plan assets at end of the year</b>	<b>104</b>	<b>103</b>	<b>1</b>
Present value of wholly or partly funded obligation	63	53	10
Fair value of plan assets	104	103	1
<b>Net present value of wholly or partly funded obligation</b>	<b>41</b>	<b>50</b>	<b>(9)</b>
Present value of unfunded obligation	(91)	—	(91)
Prepaid due to unrecoverable surpluses	(50)	(50)	—
<b>Recognised net liabilities</b>	<b>(100)</b>	<b>—</b>	<b>(100)</b>
<b>Change in unrecoverable surplus</b>			
Unrecoverable surplus at beginning of the year	(59)	(59)	—
Interest cost on unrecoverable surplus	(6)	(6)	—
Change in unrecoverable surplus in excess of interest	(5)	(5)	—
Exchange rates changes	20	20	—
<b>Unrecoverable surplus at end of the year</b>	<b>(50)</b>	<b>(50)</b>	<b>—</b>

#### Asset ceiling

In accordance with IFRS, assets recognised for a defined benefit plan are limited to the present value of any economic benefit available in the form of refunds from the plan or reductions in future contributions to the plan. The amount not recognised in the fair value of plan assets due to the asset ceiling was U.S.\$51 million and U.S.\$50 million at December 31, 2016, and 2015, respectively.

The following tables detail the components of net periodic pension cost:

<i>(in millions of U.S. dollars)</i>	<b>Year Ended December 31, 2016</b>		
	<b>Total</b>	<b>Brazil</b>	<b>Europe</b>
<b>Net periodic pension cost</b>			
Service cost	—	—	—
Net Interest (cost) / income on net (liability) / asset	—	2	(2)
Administration costs	(1)	(1)	—
<b>Total</b>	<b>(1)</b>	<b>1</b>	<b>(2)</b>

<i>(in millions of U.S. dollars)</i>	<b>Year Ended December 31, 2015</b>		
	<b>Total</b>	<b>Brazil</b>	<b>Europe</b>
<b>Net periodic pension cost</b>			
Service cost	—	—	—
Net Interest (cost) / income on net (liability) / asset	(2)	—	(2)
Administration costs	(1)	(1)	—
<b>Total</b>	<b>(3)</b>	<b>(1)</b>	<b>(2)</b>

*Other post-employment benefits*

The Company's principal operating subsidiaries provide Other Post-Employment Benefits ("OPEB"), including life insurance benefits, to retirees. Summary of changes in the other post-employment benefit obligation and the change in plan assets.

<i>(in millions of U.S. dollars)</i>	Year Ended December 31, 2016		
	Total	Brazil	Europe
<b>Change in post-employment benefit obligation</b>			
Benefit obligation at beginning of year	(57)	(1)	(56)
Service cost	(2)	—	(2)
Interest cost	(1)	—	(1)
Actuarial (gain)/loss	(2)	—	(2)
<i>Demographic assumptions</i>	—	—	—
<i>Financial assumptions</i>	(4)	—	(4)
<i>Experience adjustments</i>	2	—	2
Benefits paid	4	—	4
Curtailments	—	—	—
Foreign currency exchange rate changes and other movements	1	—	—
Benefits obligation classified as held for sale (Note 4)	3	—	3
<b>Benefits obligation at end of year</b>	<b>(54)</b>	<b>(1)</b>	<b>(53)</b>
<i>Actives</i>	(54)	(1)	(53)
<i>Terminated vested</i>	—	—	—
<i>Retirees</i>	—	—	—
<b>Benefit obligation at end of the year</b>	<b>(54)</b>	<b>(1)</b>	<b>(53)</b>
Fair value of assets	—	—	—
Present value of funded obligation	—	—	—
Fair value of plan assets	—	—	—
Net present value of funded obligation	—	—	—
Present value of unfunded obligation	54	1	53
<b>Recognised liabilities</b>	<b>(54)</b>	<b>(1)</b>	<b>(53)</b>

<i>(in millions of U.S. dollars)</i>	Year Ended December 31, 2015		
	Total	Brazil	Europe
<b>Change in post-employment benefit obligation</b>			
Benefit obligation at beginning of period	(66)	(1)	(65)
Service cost	(2)	—	(2)
Interest cost	(1)	—	(1)
Actuarial (gain)/loss	3	—	3
<i>Demographic assumptions</i>	—	—	—
<i>Financial assumptions</i>	1	—	1
<i>Experience adjustments</i>	2	—	2
Benefits paid	3	—	3
Curtailments	—	—	—
Foreign currency exchange rate changes and other movements	6	—	6
<b>Benefits obligation at end of period</b>	<b>(57)</b>	<b>(1)</b>	<b>(56)</b>
<i>Actives</i>	(57)	(1)	(56)
<i>Terminated vested</i>	—	—	—
<i>Retirees</i>	—	—	—
<b>Benefit obligation at end of the period</b>	<b>(57)</b>	<b>(1)</b>	<b>(56)</b>
Fair value of assets	—	—	—
Present value of funded obligation	—	—	—
Fair value of plan assets	—	—	—
Net present value of funded obligation	—	—	—
Present value of unfunded obligation	57	1	56
<b>Recognised liabilities</b>	<b>(57)</b>	<b>(1)</b>	<b>(56)</b>

The following tables detail the components of net periodic other post-employment cost:

<i>(in millions of U.S. dollars)</i>	Year Ended December 31, 2016		
	Total	Brazil	Europe
<b>Components of net periodic OPEB benefit</b>			
Service cost	(2)	—	(2)
Past service cost – Curtailments	—	—	—
Net Interest (cost)/income on net (liability)/asset	(1)	—	(1)
Actuarial gains/(losses) recognised during the year	(1)	—	(1)
<b>Total</b>	<b>(4)</b>	<b>—</b>	<b>(4)</b>

<i>(in millions of U.S. dollars)</i>	Year Ended December 31, 2015		
	Total	Brazil	Europe
<b>Components of net periodic OPEB benefit</b>			
Service cost	(2)	—	(2)
Past service cost – Curtailments	—	—	—
Net Interest (cost)/income on net (liability)/asset	(1)	—	(1)
Actuarial gains/(losses) recognised during the year	—	—	—
<b>Total</b>	<b>(3)</b>	<b>—</b>	<b>(3)</b>



*Reimbursement rights*

Reimbursement rights arising from reinsurance contracts covering retirement pensions, death and disability benefits in Germany amount to U.S.\$3 million as of December 31, 2016 and U.S.\$3 million as of December 31, 2015.

*Plan Assets*

The weighted average asset allocations by asset category in Brazil were as follows:

	<b>At December 31,</b>	
	<b>2016</b>	<b>2015</b>
Equity Securities	—	2%
<i>Asset classes that have a quoted market price in an active market</i>	—	2%
<i>Asset classes that do not have a quoted market price in an active market</i>	—	—
Fixed Income (including cash)	97%	94%
<i>Asset classes that have a quoted market price in an active market</i>	97%	94%
<i>Asset classes that do not have a quoted market price in an active market</i>	—	—
Real Estate	3%	2%
<i>Asset classes that do not have a quoted market price in an active market</i>	3%	2%
<i>Asset classes that have a quoted market price in an active market</i>	—	—
Other	—	2%
<b>Total</b>	<b>100%</b>	<b>100%</b>

The assets related to the funded defined benefit pension plans in Europe represented U.S.\$1 million and U.S.\$1 million as of December 31, 2016 and 2015, respectively, and were invested in guaranteed insurance contracts. These assets do not include any direct investment in Aperam or in property or other assets occupied or used by Aperam. This does not exclude Aperam shares included in mutual fund investments. The invested assets produced an actual return of U.S.\$31 million and U.S.\$8 million in 2016 and 2015, respectively.

The Remuneration Committee of the Board of Directors for the respective operating subsidiaries has general supervisory authority over the respective trust funds. This committee has established the following asset allocation targets. These targets are considered benchmarks and are not mandatory.

	<b>BRAZIL</b>	<b>EUROPE</b>
Equity Securities	3%	—
Fixed Income (including cash)	93%	—
Real Estate	2%	—
Other	2%	100%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**Weighted average assumptions used to determine benefit obligations:**

	Pension Plans		Other Post-Employment Benefits	
	December 31,		December 31,	
	2016	2015	2016	2015
	<b>Discount rate</b>			
Range	1.45%-11.2%	2.00%-13.3%	1.45%-11.2%	1.75%-13.3%
Weighted average	5.88%	5.89%	1.52%	2.08%
	<b>Rate of compensation increase</b>			
Range	2.00%-8.03%	2.00%-8.03%	3.05%-8.03%	3.05%-8.03%
Weighted average	5.17%	4.61%	3.11%	3.11%
	<b>Average longevity at retirement age for current pensioners (years)</b>			
Males	21.783	22.338	18.898	18.458
Females	24.881	25.568	22.066	21.830
	<b>Average longevity at retirement age for future pensioners (years)</b>			
Males	22.871	24.148	18.898	18.458
Females	26.062	27.430	22.066	21.830

**Cash Contributions and maturity profile of the plans**

In 2017, the Company expects its cash contributions to amount to U.S.\$5 million for pension plans, U.S.\$4 million for other post-employment benefits plans and U.S.\$7 million for the defined contribution plans. Cash contributions to the defined contribution plans, sponsored by the Company, were U.S.\$7 million and U.S.\$9 million in 2016 and 2015, respectively. At December 31, 2016, the weighted average durations of the pension and other post-employment benefits plans were 11 years and 9 years, respectively.

**Risks associated with defined benefit plans**

Through its defined benefit pension plans and OPEB plans, Aperam is exposed to a number of risks, the most significant of which are detailed below:

**Change in bond yields**

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plan's bond holdings.

**Investment risk**

The present value of the defined plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. For Aperam's funded plans, plan assets hold a significant portion of equities, which are expected to outperform corporate bond in the long-term while providing volatility and risk in the short-term. Due to the long-term nature of the plan liabilities, the Company considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the plans.

**Longevity risk**

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

**Salary risk**

The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

**Sensitivity analysis**

The following information illustrates the sensitivity to a change in certain assumptions related to the Company's operating subsidiaries' pension plans (as of December 31, 2016, the defined benefit obligation ("DBO") for pension plans was U.S.\$181 million):

<i>(in millions of U.S. dollars)</i>	<b>Effect on 2017 Pre-Tax Pension Expense (sum of service cost and interest cost)<sup>1</sup></b>	<b>Effect of December 31, 2016 DBO</b>
<b>Change in assumption</b>		
100 basis point decrease in discount rate	1	(22)
100 basis point increase in discount rate	—	19
100 basis point decrease in rate of compensation	—	1
100 basis point increase in rate of compensation	—	(1)
1-year increase of the expected life of the beneficiaries	—	(13)

**Note:**

(1) Effects of change in assumptions on 2016 Pre-Tax pension expense were below U.S.\$ 1 million.

The following table illustrates the sensitivity to a change in the discount rate assumption related to the Company's operating subsidiaries' OPEB plans (as of December 31, 2016 the DBO for post-employment benefit plans was U.S.\$54 million):

<i>(in millions of U.S. dollars)</i>	<b>Effect on 2017 Pre-Tax Pension Expense (sum of service cost and interest cost)<sup>(1)</sup></b>	<b>Effect of December 31, 2016 DBO</b>
<b>Change in assumption</b>		
100 basis point decrease in discount rate	—	(6)
100 basis point increase in discount rate	—	5
100 basis point decrease in rate of compensation	—	5
100 basis point increase in rate of compensation	—	(6)
1-year increase of the expected life of the beneficiaries	—	—

**Note:**

(1) Effects of change in assumptions on 2016 OPEB expense were below U.S.\$1 million.

The above sensitivities reflect the effect of changing one assumption at a time. Actual economic factors and conditions often affect multiple assumptions simultaneously, and the effects of changes in key assumptions are not necessarily linear.

**NOTE 20: EQUITY****Authorised shares**

On May 8, 2014, the Extraordinary General Meeting resolved to increase the authorised share capital by €54,279,543, equivalent to 10,362,482 shares, or approximately 13% of Aperam's outstanding shares. Following this approval, which is valid for five years, the total authorised share capital (including its issued share capital) was €503,991,548, represented by 96,216,785 shares without nominal value.

**Share capital**

On September 9, 2010, the Company's subscribed share capital was fixed in the sum of U.S.\$40,000 represented by 4,000 shares without par value.

On December 6, 2010, the Company's subscribed share capital was converted from USD into EUR (€31,000).

On January 25, 2011, the Company allotted the 78,045,730 newly issued shares without par value as fully paid up to the shareholders of ArcelorMittal S.A. in proportion of their holding of ArcelorMittal S.A. shares based on the exchange ratio set out in the spin-off proposal.

On December 31, 2016, the Company has 78,049,730 shares issued and 77,771,349 shares outstanding, with no par value, for a total amount of U.S.\$547 million.

## Treasury shares

In March 2015, a total of 4,104 shares were allocated to qualifying employees under the PSU plan granted in March 2012. In June 2015, a total of 1,173 shares were allocated to qualifying employees under the RSU plan granted in September 2013. In November 2015, a total of 420,601 treasury shares were bought to serve upcoming long term incentive plans and a total of 978 shares were allocated to qualifying employees under the PSU plan granted in September 2013.

In January 2016, a total of 782 shares were allocated to qualifying employees under the RSU plan granted in August 2013. In April 2016, a total of 35,817 shares were allocated to qualifying employees under the RSU plan granted in April 2013. In August and September 2016, a total of 144,554 shares were allocated to qualifying employees under the RSU and PSU plans granted in August and September 2013.

Aperam held 278,381 and 459,534 treasury shares as of December 31, 2016 and 2015, respectively. Refer to Note 22 "Balance and Transactions with Related Parties" for additional information.

## Dividends

On May 5, 2015, the shareholders approved at the annual general meeting of shareholders to continue paying no dividend in 2015 in order to further reduce the Company's cost of debt.

On May 4, 2016, the shareholders approved at the annual general meeting of shareholders a gross dividend per share of U.S.\$1.25 (gross) per share. The dividend were paid in four equal quarterly instalments of U.S.\$0.3125 (gross) per share.

On February 9, 2017, Aperam announced a proposal to increase its base dividend from U.S.\$1.25 (gross) per share to U.S.\$1.50 (gross) per share, subject to shareholder approval at the Annual General Meeting of May 10, 2017.

## Stock Option Plans

For historical reasons, certain of the Group's employees participate in stock based compensation plans sponsored by ArcelorMittal. These plans provide employees with stock or options to purchase stock in ArcelorMittal.

For the years ended December 31, 2016 and 2015, the amount of outstanding options was 332,850 and 338,850 respectively. The amount of exercisable options was 332,850 and 338,850 respectively for the years ended December 31, 2016 and 2015.

Exercise prices of ArcelorMittal stock options vary from U.S.\$30.66 to U.S.\$78.44. Weighted average contractual life of the options varies from 1.6 to 4.6 years.

## Share Unit Plan

On July 12, 2011, the ordinary general meeting of shareholders approved an equity-based incentive plan to key employees of Aperam. The plan comprises a Restricted Share Unit Plan ("RSU Plan") and a Performance Share Unit Plan ("PSU Plan") designed to incentivise the targeted employees, to improve the long-term performance of the Company and to retain key employees. Both the RSU Plan and the PSU Plan are intended to promote the alignment of interests between the company's shareholders and eligible employees by allowing them to participate in the success of the Company.

The RSU and PSU plans shall vest in full on the three-year anniversary of the date on which the award was granted contingent upon the continued active employment of the employee within the Group. The aim of the RSU Plan is to provide a retention incentive to eligible employees. The RSUs are an integral part of the Company's remuneration framework in which it serves the specific objective of medium-term and long-term retention.

The main objective of the PSU Plan is to be an effective performance-enhancing scheme based on the achievement of the Company's strategy.

The maximum number of shares available for grant is subject to the prior approval of the Company's shareholders at the annual general meeting, such approval being valid until the next annual general meeting.

The allocation of equity based incentives to eligible employees under the RSU Plan and the PSU Plan is reviewed by the Remuneration, Nomination and Corporate Governance Committee of the Board of Directors, which makes a proposal and recommendation to the full Board of Directors.

The May 8, 2012 annual general meeting of shareholders authorised the Board of Directors to issue, during the period between the 2012 and the 2013 annual general meeting, to key employees of Aperam a maximum of 70,000 RSUs corresponding to up to 70,000 of Aperam shares. The decision was taken by the Board of Directors not to grant any RSUs to the members of the Leadership Team under the May 2012 shareholder authorisation and not to submit to shareholders' approval RSU grants under the next equity incentives. In April 2013, a total of 40,000 RSUs under the RSU Plan were granted to a total of 27 employees at a fair value of U.S.\$12.16 per share, all grants were for employees below the level of the Leadership Team. In April 2016, a total of 35,000 shares were vested and allocated to qualifying employees.

The May 8, 2013 annual general meeting of shareholders authorised the Board of Directors to issue, during the period between the 2013 and the 2014 annual general meeting, to key employees of Aperam a maximum of 220,000 of the Company's shares for grants under the Management Committee PSU Plan and other retention based grants below the level of the Leadership Team. In August 2013, a total of 44,000 RSUs were granted to a total of 28 employees at a fair value of U.S.\$13.40 per share, all grants were for employees below the level of the Leadership Team. In August 2013, a total of 87,592 PSUs were granted to a total of 35 employees at a fair value of U.S.\$13.40 per share (out of which 66,792 PSUs for the 7 Members of the Leadership Team). In September 2016, a total of 36,000 shares linked to RSU plan were vested and allocated to qualifying employees. In August and September 2016, a total of 70,290 shares linked to PSU plan were vested and allocated to qualifying employees (out of which 52,466 for Members of the Leadership Team).

The May 8, 2014 annual general meeting of shareholders authorised the Board of Directors to issue, during the period between the 2014 and the 2015 annual general meeting, to key employees of Aperam a maximum of 220,000 of the Company's shares for grants under the Management Committee PSU Plan and other retention based grants below the level of the Leadership Team. In September 2014, a total of 48,000 RSUs were granted to a total of 32 employees at a fair value of U.S.\$31.97 per share, all grants were for employees below the level of the Leadership Team. In June 2014 and September 2014, a total of 63,839 PSUs were granted to a total of 40 employees at a fair value of respectively U.S.\$33.97 per share and U.S.\$31.97 per share (out of which 41,439 PSUs for the 8 Members of the Leadership Team).

The May 5, 2015 annual general meeting of shareholders authorised the Board of Directors to issue, during the period between the 2015 and the 2016 annual general meeting, to key employees of Aperam a maximum of 220,000 of the Company's shares for grants under the Leadership Team PSU Plan and other retention based grants below the level of the Leadership Team. In August 2015, a total of 27,500 RSUs were granted to a total of 32 employees at a fair value of U.S.\$32.19 per share, all grants were for employees below the level of the Leadership Team. In August 2015, a total of 49,232 PSUs were granted to a total of 42 employees at a fair value of U.S.\$32.19 per share (out of which 39,232 PSUs for the 10 Members of the Leadership Team).

The May 4, 2016 annual general meeting of shareholders authorised the Board of Directors to issue, during the period between the 2016 and the 2017 annual general meeting, to key employees of Aperam a maximum of 220,000 of the Company's shares for grants under the Leadership Team PSU Plan and other retention based grants below the level of the Leadership Team. In August 2016, a total of 33,550 RSUs were granted to a total of 44 qualifying employees at a fair value of U.S.\$39.14 per share, all grants were for employee below the level of the Leadership Team. In August 2016, a total of 46,761 PSUs were granted to a total of 54 employees at a fair value of U.S.\$39.14 per share (out of which 34,561 PSUs for the 10 Members of the Leadership Team).

The fair value of the shares allocated to the beneficiaries is recorded as an expense in the consolidated statements of operations (selling, general and administrative expenses) over the relevant vesting or service periods. The compensation expense recognised for the restricted stock units was U.S.\$2 million and U.S.\$2 million for the year ended December 31, 2016 and 2015, respectively.

## Option premium on convertible bonds

The option premium on convertible bonds of U.S.\$39 million, net of deferred tax liability of U.S.\$12 million represents the equity component (conversion rights) of the U.S.\$200 million convertible debt instrument issued on September 19, 2013 (see Note 16).

## Earnings per common share

For the purpose of calculating earnings per common share, diluted weighted average common shares outstanding excludes approximately 7 million potential common shares coming from the assumed conversion of the U.S.\$300 million convertible bond described in Note 16 for the year ended December 31, 2016 because the potential common shares are anti-dilutive.

	Year Ended December 31,	
	2016	2015
<i>(in millions of U.S. dollars)</i>		
<b>Net income considered for the purposes of basic earnings per share</b>	<b>214</b>	<b>172</b>
Interest (expense)/income for the U.S.\$200 million Convertible Bonds issued in 2013	11	11
<b>Net income considered for the purposes of diluted earnings per share</b>	<b>225</b>	<b>183</b>
<b>Weighted average common shares outstanding (in millions) for the purposes of basic earnings per share</b>	<b>78</b>	<b>78</b>
Incremental shares from assumed conversion of stock options, restricted share units and performance share units (in millions)	—	—
Incremental shares from assumed conversion of the U.S.\$200 million Convertible Bonds issued in 2013	9	9
<b>Weighted average common shares assuming conversions (in millions) used in the calculation of diluted earnings per share</b>	<b>87</b>	<b>87</b>

## Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group monitors capital using a ratio of Net Debt divided by Equity which is called gearing ratio. Net Debt refers to long-term debt, plus short-term debt, less cash and cash equivalents (including short-term investments) and restricted cash.

The gearing ratio at end of the reporting period was as follows :

	December 31,	
	2016	2015
<i>(in millions of U.S. dollars)</i>		
Long-term debt	275	450
Short-term debt	204	14
Cash and cash equivalents	(325)	(148)
<b>Net debt</b>	<b>154</b>	<b>316</b>
Equity	2,485	2,222
<b>Gearing</b>	<b>6%</b>	<b>14%</b>

## NOTE 21: FINANCIAL INSTRUMENTS

## Fair values versus carrying amounts

The estimated fair values of certain financial instruments have been determined using available market information or other valuation methodologies that require considerable judgment in interpreting market data and developing estimates. The following table summarises assets and liabilities based on their categories as of December 31, 2016.

(in millions of U.S. dollars)	Carrying amount in statements of financial position	Non-financial assets and liabilities	Loan and receivables	Liabilities at amortised cost	Instruments at fair value		
					Fair value recognised in profit and loss	Available for sale assets	Derivatives
<b>ASSETS</b>							
<b>Current assets:</b>							
Cash and cash equivalents	325	—	325	—	—	—	—
Trade accounts receivable	238	—	238	—	—	—	—
Inventories	1,226	1,226	—	—	—	—	—
Prepaid expenses and other current assets	84	40	35	—	—	—	9
Income tax receivable	5	5	—	—	—	—	—
Assets held for sale	24	24	—	—	—	—	—
<b>Total current assets</b>	<b>1,902</b>	<b>1,295</b>	<b>598</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>9</b>
<b>Non-current assets:</b>							
Goodwill and intangible assets	565	565	—	—	—	—	—
Biological assets	48	—	—	—	48	—	—
Property, plant and equipment	1,643	1,643	—	—	—	—	—
Other investments	37	5	—	—	—	32	—
Deferred tax assets	285	285	—	—	—	—	—
Other assets	195	17	86	—	—	—	92
<b>Total non-current assets</b>	<b>2,773</b>	<b>2,515</b>	<b>86</b>	<b>—</b>	<b>48</b>	<b>32</b>	<b>92</b>
<b>Total assets</b>	<b>4,675</b>	<b>3,810</b>	<b>684</b>	<b>—</b>	<b>48</b>	<b>32</b>	<b>101</b>
<b>LIABILITIES AND EQUITY</b>							
<b>Current liabilities:</b>							
Short-term debt and current portion of long-term debt	204	—	—	204	—	—	—
Trade accounts payable	905	—	—	905	—	—	—
Short-term provisions	19	19	—	—	—	—	—
Accrued expenses and other liabilities	261	53	—	201	—	—	7
Income tax liabilities	9	9	—	—	—	—	—
Liabilities held for sale	24	24	—	—	—	—	—
<b>Total current liabilities</b>	<b>1,422</b>	<b>105</b>	<b>—</b>	<b>1,310</b>	<b>—</b>	<b>—</b>	<b>7</b>
<b>Non-current liabilities:</b>							
Long-term debt, net of current portion	275	—	—	275	—	—	—
Deferred tax liabilities	171	171	—	—	—	—	—
Deferred employee benefits	173	173	—	—	—	—	—
Long-term provisions	49	49	—	—	—	—	—
Other long-term obligations	100	4	—	4	—	—	92
<b>Total non-current liabilities</b>	<b>768</b>	<b>397</b>	<b>—</b>	<b>279</b>	<b>—</b>	<b>—</b>	<b>92</b>
<b>Equity:</b>							
Equity attributable to the equity holders of the parent	2,481	2,481	—	—	—	—	—
Non-controlling interests	4	4	—	—	—	—	—
<b>Total equity</b>	<b>2,485</b>	<b>2,485</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total liabilities and equity</b>	<b>4,675</b>	<b>2,987</b>	<b>—</b>	<b>1,589</b>	<b>—</b>	<b>—</b>	<b>99</b>

The following tables summarise the bases used to measure certain assets and liabilities at their fair value:

	As of December 31, 2016			
	Level 1	Level 2	Level 3	Total
<i>(in millions of U.S. dollars)</i>				
<b>Assets at fair value:</b>				
Biological assets	—	—	48	48
Available-for-sale financial assets	32	—	—	32
Derivative financial current assets	—	9	—	9
Derivative financial non-current assets	—	—	92	92
<b>Total assets at fair value</b>	<b>32</b>	<b>9</b>	<b>140</b>	<b>181</b>
<b>Liabilities at fair value:</b>				
Derivative financial current liabilities	—	7	—	7
Derivative financial non-current liabilities	—	—	92	92
<b>Total liabilities at fair value</b>	<b>—</b>	<b>7</b>	<b>92</b>	<b>99</b>

	As of December 31, 2015			
	Level 1	Level 2	Level 3	Total
<i>(in millions of U.S. dollars)</i>				
<b>Assets at fair value:</b>				
Biological assets <sup>(1)</sup>	—	—	45	45
Available-for-sale financial assets	13	—	—	13
Derivative financial current assets	—	9	—	9
Derivative financial non-current assets	—	—	65	65
<b>Total assets at fair value</b>	<b>13</b>	<b>9</b>	<b>110</b>	<b>132</b>
<b>Liabilities at fair value:</b>				
Derivative financial current liabilities	—	30	—	30
Derivative financial non-current liabilities	—	—	68	68
<b>Total liabilities at fair value</b>	<b>—</b>	<b>30</b>	<b>68</b>	<b>98</b>

Note:

(1) Due to the application of the IFRS amendment IAS 41 "Agriculture : Bearer Plants" the roots of the Company's eucalyptus plantations have been reclassified as Property Plant and Equipment as of date January 1, 2015.

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 foreign exchange rates and commodity prices (base metals). 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 recognised 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. Derivative financial assets classified as Level 3 refer to the call options bought end of June 2014 by the Company on its own shares which may be exercised at the conversion price of the convertible bonds issued on July 8, 2014. Derivative financial liability classified as Level 3 refers to the conversion option in the U.S.\$300 million convertible bonds. The fair valuation of Level 3 derivative instruments is established at each reporting date in relation to which an analysis is performed in respect of changes in the fair value measurement since the last period.

Aperam's valuation policies for derivatives are an integral part of its internal control procedures and have been reviewed and approved according to the Company's principles for establishing such procedures. In particular, such procedures address the accuracy and reliability of input data, the accuracy of the valuation model and the knowledge of the staff performing the valuations.

Aperam establishes the fair valuation of the call options on its own shares and the conversion option with respect to the U.S.\$300 million convertible bonds through the use of a volatility model based on a partial differential equation.



The model uses an iterative procedure to price options, allowing for the specification of nodes, or points in time, during the time span between the valuation date and the option's expiration date.

In contrast to the Black-Scholes model, which provides a numerical result based on inputs, the model allows for the calculation of the asset and the option for multiple periods along with the range of possible results for each period. Observable input data used in the valuations include zero coupon yield curves, stock market prices and Libor interest rates. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available.

The following tables summarised the reconciliation of the fair value of the assets and liabilities classified as Level 3 for the year ended December 31, 2016:

<i>(in millions of U.S. dollars)</i>	<b>U.S.\$300 million convertible bonds' conversion option</b>	<b>Call option on own shares</b>	<b>Total</b>
<b>Balance as of December 31, 2015</b>	(65)	65	—
Change in fair value <sup>(1)</sup>	(27)	27	—
<b>Balance as of December 31, 2016</b>	<b>(92)</b>	<b>92</b>	<b>—</b>

**Note:**

(1) Recognised in net financing costs in the consolidated statements of operations.

For more information on Biological assets, please refer to Note 12.

## Portfolio of Derivatives

The Company enters into derivative financial instruments to manage its exposure to fluctuations in exchange rates and the price of raw materials arising from operating, financing and investment activities.

The Company's portfolio of derivatives consists of transactions with Aperam Treasury S.C.A., which in turn enters into offsetting positions with counterparties external to Aperam. Aperam manages the counterparty risk associated with its instruments by centralising its commitments and by applying procedures which specify, for each type of transaction exposure limits based on the risk characteristics of the counterparty.

The portfolio associated with derivative financial instruments as of December 31, 2016 is as follows:

<i>(in millions of U.S. dollars)</i>	<b>Assets</b>		<b>Liabilities</b>	
	<b>Notional Amount</b>	<b>Fair Value</b>	<b>Notional Amount</b>	<b>Fair Value</b>
<b>Foreign exchange rate instruments</b>				
Forward purchase contracts	89	—	16	—
Forward sale contracts	55	2	5	—
<b>Total foreign exchange rate instruments</b>		<b>2</b>		<b>—</b>
<b>Raw materials (base metal)</b>				
Term contracts sales metals	84	4	14	(1)
Term contracts purchases metals	35	3	76	(6)
<b>Total raw materials (base metal)</b>		<b>7</b>		<b>(7)</b>
<b>Total</b>		<b>9</b>		<b>(7)</b>

The portfolio associated with derivative financial instruments as of December 31, 2015, is as follows:

(in millions of U.S. dollars)

	Assets		Liabilities	
	Notional Amount	Fair Value	Notional Amount	Fair Value
<b>Foreign exchange rate instruments</b>				
Forward purchase contracts	5	—	5	—
Forward sale contracts	23	—	60	(2)
<b>Total foreign exchange rate instruments</b>		<b>—</b>		<b>(2)</b>
<b>Raw materials (base metal)</b>				
Term contracts sales metals	64	8	46	(1)
Term contracts purchases metals	36	1	124	(27)
<b>Total raw materials (base metal)</b>		<b>9</b>		<b>(28)</b>
<b>Total</b>		<b>9</b>		<b>(30)</b>

### Exchange rate risk

The Company is exposed to fluctuations in foreign exchange rates due to a substantial portion of the Company's assets, liabilities, sales and earnings being denominated in currencies other than the U.S. dollar (its presentation currency). These currency fluctuations, especially the fluctuation of the value of the U.S. dollar relative to the Euro, Brazilian real, as well as fluctuations in the other countries' currencies in which the Company has significant operations and/or sales, could have a material impact on its results of operations.

Following its Treasury and Financial Risk Management Policy, the Company hedges its net exposure to exchange rates through spot and derivative transactions.

### Liquidity Risk

The Company's principal sources of liquidity are cash generated from its operations, bank credit lines and various working capital credit lines at its operating subsidiaries. The levels of cash, credit lines and debt are closely monitored and appropriate actions are taken in order to manage the maturity profile and currency mix.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

(in millions of U.S. dollars)

	December 31, 2016					
	Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 Years	2-5 Years	More than 5 Years
<b>Non-derivative financial liabilities</b>						
Debt over U.S.\$100 million	(460)	(511)	(207)	(2)	(302)	—
Trade payables	(905)	(905)	(905)	—	—	—
Other non-derivative financial liabilities	(19)	(20)	(14)	(3)	(2)	(1)
<b>Total</b>	<b>(1,384)</b>	<b>(1,436)</b>	<b>(1,126)</b>	<b>(5)</b>	<b>(304)</b>	<b>(1)</b>
<b>Derivative financial liabilities</b>						
Foreign exchange contracts	—	—	—	—	—	—
Other commodities contracts	(7)	(7)	(7)	—	—	—
<b>Total</b>	<b>(7)</b>	<b>(7)</b>	<b>(7)</b>	<b>—</b>	<b>—</b>	<b>—</b>

	December 31, 2015					
<i>(in millions of U.S. dollars)</i>	Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 Years	2-5 Years	More than 5 Years
<b>Non-derivative financial liabilities</b>						
Debt over U.S.\$100 million	(436)	(529)	(7)	(7)	(214)	(301)
Trade payables	(849)	(849)	(849)	—	—	—
Other non-derivative financial liabilities	(28)	(31)	(16)	(10)	(4)	(1)
<b>Total</b>	<b>(1,313)</b>	<b>(1,409)</b>	<b>(872)</b>	<b>(17)</b>	<b>(218)</b>	<b>(302)</b>
<b>Derivative financial liabilities</b>						
Foreign exchange contracts	(2)	(2)	(2)	—	—	—
Other commodities contracts	(28)	(28)	(28)	—	—	—
<b>Total</b>	<b>(30)</b>	<b>(30)</b>	<b>(30)</b>	<b>—</b>	<b>—</b>	<b>—</b>

## Cash flow hedges

The following table presents the periods in which cash flows hedges are expected to mature:

	December 31, 2016					
<i>(in millions of U.S. dollars)</i>	Carrying Amount	3 months and less	3-6 months	6-12 months	1-2 years	More than 2 years
	(outflows)/inflows					
Commodities	2	3	(1)	—	—	—
Foreign exchange contracts	(4)	(2)	(1)	(1)	—	—
<b>Total</b>	<b>(2)</b>	<b>1</b>	<b>(2)</b>	<b>(1)</b>	<b>—</b>	<b>—</b>

	December 31, 2015					
<i>(in millions of U.S. dollars)</i>	Carrying Amount	3 months and less	3-6 months	6-12 months	1-2 years	More than 2 years
	(outflows)/inflows					
Commodities	(17)	(11)	(2)	(3)	(1)	—
Foreign exchange contracts	(7)	(5)	(1)	(1)	—	—
<b>Total</b>	<b>(24)</b>	<b>(16)</b>	<b>(3)</b>	<b>(4)</b>	<b>(1)</b>	<b>—</b>

The following table presents the periods in which cash flows hedges are expected to impact the statement of operations:

<i>(in millions of U.S. dollars)</i>	December 31, 2016				
	Carrying Amount	3 months and less	3-6 months	6-12 months	(expense)/income
				1-2 years	More than 2 years
Commodities	2	3	(1)	—	—
Foreign exchange contracts	(4)	(2)	(1)	—	—
<b>Total</b>	<b>(2)</b>	<b>1</b>	<b>(2)</b>	<b>—</b>	<b>—</b>

<i>(in millions of U.S. dollars)</i>	December 31, 2015				
	Carrying Amount	3 months and less	3-6 months	6-12 months	(expense)/income
				1-2 years	More than 2 years
Commodities	(17)	(11)	(2)	(3)	—
Foreign exchange contracts	(7)	(5)	(1)	—	—
<b>Total</b>	<b>(24)</b>	<b>(16)</b>	<b>(3)</b>	<b>(4)</b>	<b>—</b>

## Raw materials

The Company utilises derivative instruments such as forwards, swaps and options to manage its exposure to commodity prices both through the purchase of commodities and through sales contracts.

Fair values of raw material instruments are as follows:

<i>(in millions of U.S. dollars)</i>	At December 31,	
	2016	2015
Base metals	—	(19)
<b>Total</b>	<b>—</b>	<b>(19)</b>
Assets associated with raw material	7	9
Liabilities associated with raw material	(7)	(28)
<b>Total</b>	<b>—</b>	<b>(19)</b>

The Company consumes large amounts of commodities (mainly nickel), the price of which is related to the London Metals Exchange price index. The Company is exposed to price volatility in respect of its purchases in the spot market and under its long-term supply contracts.

## Sensitivity analysis

### Foreign currency sensitivity

The following table details the Company's sensitivity as it relates to derivative financial instruments to a 10% variation of the U.S. dollar against the other currencies to which the Company is exposed. The sensitivity analysis does not include non-derivative foreign currency denominated monetary items. A positive number indicates an increase in statement of operations where a negative number indicates a decrease in statement of operations and other equity.

<i>(in millions of U.S. dollars)</i>	December 31, 2016	
	Income	Other Equity Cash Flow Hedging Reserves
10% appreciation in U.S. dollar	(12)	6
10% depreciation in U.S. dollar	12	(6)

*Cash flow sensitivity analysis for variable rate instruments*

The Company's sensitivity to a change of 100 basis points variation in interest rates for variable rate instruments would have an impact lower than U.S.\$1 million on profit or loss. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

*Base metals*

The following table details the Company's sensitivity to a 10% variation in the prices of base metals. The sensitivity analysis includes un-matured base metal derivative instruments

	December 31, 2016	
	Income	Other Equity Cash Flow Hedging Reserves
(in millions of U.S. dollars)		
10% appreciation in U.S. dollar	5	(1)
10% depreciation in U.S. dollar	(5)	1

**NOTE 22: BALANCES AND TRANSACTIONS WITH RELATED PARTIES**

Transactions with related parties of the Company, were as follows:

	Year Ended December 31,		December 31,	
	2016	2015	2016	2015
<b>Transactions</b>		<b>Sales</b>	<b>Included in Trade accounts receivable</b>	
ArcelorMittal and its subsidiaries	65	131	3	6
<b>Total</b>	<b>65</b>	<b>131</b>	<b>3</b>	<b>6</b>

	Year Ended December 31,		December 31,	
	2016	2015	2016	2015
<b>Transactions</b>		<b>Purchase of raw material &amp; others</b>	<b>Included in Trade accounts payable</b>	
ArcelorMittal and its subsidiaries	189	165	40	22
<b>Total</b>	<b>189</b>	<b>165</b>	<b>40</b>	<b>22</b>

The table above includes purchases of raw materials and energy from related parties as follows:

	Year Ended December 31,	
	2016	2015
(in millions of U.S. dollars)		
Raw materials	34	44
Energy supply contracts	127	72

Transactions and balances with related parties also include the following:

(in millions of U.S. dollars)

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Convertible bonds – long term debt <sup>(1)</sup>	82	82
Tax indemnification from ArcelorMittal Bioflorestas (current and non-current assets)	5	6
Other current assets	1	2
Other current liabilities	3	3

**Note:**

(1) On September 19, 2013, Aperam issued convertible and/or exchangeable bonds for a total consideration of U.S.\$200 million, of which 40.85% or U.S.\$82 million have been subscribed by Lumen Investments S.à r.l.,(which is described in the Significant shareholder definition in the Share capital section of this annual report).

(in millions of U.S. dollars)

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Selling, general and administrative expenses	4	7

In July 2014, Aperam bought at market price a total of 90,688 treasury shares from CBA Investment, a fully owned subsidiary of ArcelorMittal, to serve upcoming long term incentive plans, representing a total consideration of €2,376,932, or 0.12% of the issued share capital and a par value of €475,024.

In November 2015, Aperam bought at market price a total of 420,601 treasury shares from CBA Investment to serve upcoming long term incentive plans, representing 0,54% of the issued share capital and a par value of €2,203,108.

The share purchase price was €12,880,695, or €30.6245 per share.

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated in consolidation and are not disclosed in this note.

Refer to Note 25 for disclosure of transactions with key management personnel. The above mentioned transactions between Aperam and the respective entities were conducted on an arm's length basis.

## NOTE 23: COMMITMENTS

The Company's commitments consist of three main categories:

- > various purchase and capital expenditure commitments,
- > pledges, guarantees and other collateral instruments given to secure financial debt and credit lines,
- > non-cancellable operating leases.

### Commitments given

(in millions of U.S. dollars)

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Purchase commitments	1,587	1,406
Guarantees, pledges and other collateral	1,013	900
Operating leases	42	32
<b>Total</b>	<b>2,642</b>	<b>2,338</b>

## Purchase commitments

Purchase commitments consist of the major agreements for procuring electricity and nickel. The Company also entered into agreements for industrial gas, molybdenum, chromium, scrap and mill rolls.

## Guarantees, pledges and other collateral

Guarantees consist of guarantees of financial loans and credit lines first demand and documentary guarantees. Pledges mainly relate to inventory and trade receivables pledged to secure the borrowing base revolving credit facility (see Notes 8, 9 and 13). Other collateral include documentary credits, letters of credit and sureties.

## Operating leases

Commitments for operating leases primarily related to one contract for land in Belgium. This lease expires in 2064. Future payments required under operating leases that have initial or remaining non-cancellable terms as of December 31, 2016 according to maturity periods are as follows:

<i>(in millions of U.S. dollars)</i>	<b>December 31, 2016</b>
Less than 1 year	10
1-3 years	12
4-5 years	7
More than 5 years	13
<b>Total</b>	<b>42</b>

## NOTE 24: CONTINGENCIES

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

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

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

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

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

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

## Environmental Liabilities

The Company is subject to a broad range of environmental laws and regulations. As of December 31, 2016, the Company had established reserves of U.S.\$15 million for environmental and remedial activities and liabilities.

### Belgium

In Belgium, there is an environmental provision of U.S.\$6 million, of which the most significant elements are legal obligations linked to soil treatment and removal of slag. In 2015 an external company has been assigned to evaluate potential soil pollution at the site of Châtelet. Based on the initial investigation, the pollution has been confirmed but the potential remediation costs cannot reliably be estimated yet.

### France

In France, there is an environmental provision of U.S.\$9 million, which relates to (i) the demolition and clean-up of the Company's Ardoise facility after operations ceased at the site, (ii) the demolition costs of few minor production equipments put permanently out of service and (iii) the clean-up and restructuring of its Firminy site.

### Brazil

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

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

Moreover, under certain circumstances the Company's corporate shareholder structure could be disregarded in order to enable claimants to recover for environmental claims against it.

## Tax Claims

The Company is party to various tax claims, the most significant of which are set out below. As of December 31, 2016, the Company has established reserves in the aggregate of approximately U.S.\$13 million for those of the claims as to which the criteria for provisioning were met.

- > On November 22, 2016, Aperam South America received a tax assessment related to IPI (tax on manufactured products) for year 2011-2012 for its branch in Sumare, Brazil. Total amount claimed is R\$22 million (U.S.\$7 million). The Company presented its defense on December 21, 2016.
- > On December 15, 2015, Aperam South America received two tax assessments from the State of Minas Gerais in relation to use of ICMS (VAT) credits generated by the acquisition of goods for use & consumption from January 2010 to April 2015. The total amount claimed is R\$26 million (U.S.\$8 million). The Company presented its defence on January 11, 2016. On May 23, 2016, the tax authorities reduced the contingencies by R\$0.2 million. The other defenses will be judged by the Administrative Court.
- > On May 19, 2015, the Company received two tax assessments related to social contributions paid in 2010-2011 for a total amount of R\$21 million (U.S.\$6 million). On March 24, 2016, the administrative court requested more information to the tax authorities. The documents were filed on due time.
- > On July 23, 2014, Aperam South America received a tax assessment related to the tax benefit obtained from 2010 and 2011 goodwill generated by the acquisition of the shares of the minority shareholders of Aperam South America for its delisting. The total amount claimed by the Federal Revenue Service is R\$186 million (U.S.\$57 million). The company presented its defence on August 21, 2014, at the first administrative level. On July 1, 2016, the Company received an unfavorable decision that it appealed on July 29, 2016.



> On July 11, 2014, Aperam South America received two tax assessments for social contributions paid in relation to 2009 and 2010 "Profit Sharing Program" for a total amount of R\$46 million (U.S.\$14 million). Aperam South America presented its defence successively on August 12, 2014, and December 2, 2014, at the first administrative level. On February 26, 2015, the first administration instance decision was unfavourable. The Company appealed on May 7, 2015. On July 13, 2016, the judgments from the Court of Appeal were partially favorable to the Company, and the Company is now waiting for the formal notification to have access to the entire content of the decisions.

> On June 26, 2014, Aperam South America received a tax assessment from the State of Minas Gerais for a total consideration of R\$33 million (U.S.\$10 million) related to VAT (ICMS) credit taken by the company as the result of the acquisition in 2011 of Aperam Stainless Services & Solutions Tubes Brazil's branch in Timóteo ("CETUBOS"). Tax authorities understood that Aperam South America has not continued the activity of producing tubes in Timóteo (despite contrary evidence provided) and, as a consequence, it could not use the VAT credits of the acquired branch. The Company presented its defence at the first administrative level on July 28, 2014. On February 13, 2015, the case was judged partially favourable to the Company. The Company appealed for the remaining part of the assessment but it was rejected on March 2, 2015, by the Court. On August 7, 2015, the State filed a tax enforcement. On October 21, 2015, the Company proposed a financial guarantee to bring the case at judicial level. On November 20, 2015, the Company presented a stay of execution.

> On June 24, 2014, Aperam Bioenergia received a tax assessment from the Federal Revenue Service in the total amount of R\$94 million (U.S.\$29 million) related to corporate income tax ("IRPJ" and "CSLL") due to disallowance of previous tax losses compensation made by the company in 2011. Tax authorities understood that Aperam Bioenergia didn't have sufficient tax losses to offset the taxable profits created at spin-off in 2011 mainly as consequence of previous tax assessments for the period 2002-2007 regarding accelerated exhaustion benefit used by Aperam Bioenergia. Despite the fact that the previous tax assessments are still under administrative court discussion (and therefore are not yet legally definitive and binding) tax authorities sustain that Aperam Bioenergia should have adjusted its books to reduce its fiscal losses for the period 2002-2007, lately utilised to offset the 2011 taxable result. The Company presented its defence at the first administrative level on July 24, 2014. On December 10, 2015, Aperam Bioenergia received a partial favourable decision. The Federal Revenue appealed to the Administrative Court and Aperam Bioenergia presented its voluntary appeal on January 5, 2016.

> On December 20, 2013, Aperam South America received a tax assessment from Federal Revenue in the total amount of R\$301 million (U.S.\$92 million). This assessment contains two parts for the years 2008 and 2009:

- The tax authorities required that the profits of Acesita Imports & Exports Ltda to be added to Aperam South America's tax basis,
- The tax authorities disregarded the goodwill generated by the acquisition by Arcelor Aços Especiais do Brasil ("AAEB") of the minority shareholding of Aperam South America at the time of its delisting in 2008.

Aperam South America presented its defence at the first administrative level on January 20, 2014. On June 24, 2016, the Company received an unfavorable decision at first administrative level. The company presented its appeal on July 22, 2016.

> On October 30, 2012, Aperam South America received a tax assessment from the State of Minas Gerais in relation to the use of ICMS (VAT) credits generated by the acquisition of goods for use & consumption in 2007. After a partial favourable decision obtained in July 3, 2013, we presented an appeal for the remaining amount. On April 11, 2014, the Court rejected the appeal. On February 27, 2015, the Company brought the case at judicial level. The total remaining amount is R\$24 million (U.S.\$7 million). On February 16, 2016, the Company obtained a favorable decision but the state presented its appeal. The Company presented its defense to the Court of Appeal on May 16, 2016.

> On December 14, 2011, the Federal Revenue Service issued four tax assessments against Aperam South America for a total amount of R\$83 million (U.S.\$25 million) considering that the Company did not pay several social contributions due on payments made to employees under the Profit Sharing Program. These cases are at the first administrative instance where the Company presented its defence. On April 28, 2014, the Company obtained an unfavourable decision from the first instance and presented its voluntary appeal. On July 13, 2016, amongst the four cases, the Company obtained one favorable decision and another unfavorable one. The company is waiting for the formal notification of the judgement to have access to the entire content of the decision.

- > On December 27, 2011, Aperam South America received a tax assessment from the State of Minas Gerais regarding VAT tax credit ("ICMS") used by the Company related to the purchasing of scraps from a supplier which the State considered as not being authorised to issue invoices with VAT. The total amount claimed is R\$25 million (U.S.\$8 million). On October 3, 2014, the Company obtained an unfavourable decision at the second administrative level. On October 7, 2014, and November 6, 2014, the Company presented a motion to get the reverse of the decision. In February 2015, the State filed a judicial action. At the same time the Company requested an injunction for annulment of tax debits in order to close this new lawsuit filed by the State. On February 25, 2015, the injunction was accepted. On June 8, 2015, the State contested the decision. The case is under judge's advisement.
  
- > On March 29, 2011, Aperam South America received a tax assessment related to drawback tax benefit. Federal Revenue states Service that the Company did not respect the conditions to use the benefit and demand to pay taxes related to importations and fees. The total amount claimed is R\$29 million (U.S.\$9 million). The Company presented its appeal at the first administrative level. On November 23, 2015, the Company obtained a favourable decision. The State appealed.
  
- > On December 2, 2010, Aperam South America received a tax assessment in the total amount of R\$104 million (U.S.\$32 million). The Minas Gerais State Revenue claims that the Company should have paid VAT ("ICMS") related to the distribution of electric power between 2005 and 2009. The Company believes that this charge should not prevail since the distribution of electrical power should not be considered as a good or transportation and therefore it should not be subject to VAT ("ICMS"). On May 5, 2011, the Company received a partial favourable decision. Minas Gerais State Revenue concluded that the Company has to pay ICMS but stated that the amount for late payments and penalties was wrong. In March 2012, the Company has brought the case before the judicial court that confirmed the favourable decision obtained by the administrative court. The Company's position was comforted by the court of Appeal in August 2013, but there are still some pending discussions at second level of judicial court. The company and the state presented requests for clarification, but the clarifications were denied by the Court. On December 18, 2013, the Company presented a special appeal to discuss lawyer's fees. On January 15, 2014, the State presented its extraordinary and special appeals. That has been rejected by the Court on August 22, 2014. On June 10, 2015 the proceedings were brought to the Supreme Court.
  
- > In June 2007, the Company was assessed for payment of social contributions on some payments made to employees related to bonus granted by collective work agreement. The total amount asked by the Federal Union is R\$30 million (U.S.\$9 million). The first administrative instance's decision was favourable to the Company, but it still need to be confirmed by the second administrative instance.
  
- > On December 21, 2005, Aperam South America has been assessed by the Federal Revenue Service in relation to its calculation of social contributions on revenue (PIS and COFINS) due to (i) unconditional discounts given to clients, (ii) the value of tax incentives granted by federal legislation (specifically, credits to be offset with IPI) and (iii) revenues derived from exchange rate variations. The Company obtained a partial favourable decision from the Special Court in the second administrative instance but presented a special motion regarding the pending unfavourable decision. On February 24, 2014, final decision was published and the assessment was reduced to R\$71 million (U.S.\$22 million). The Company brought the case at judicial level on September 9, 2014. In June 2016, the Company filed a petition against the defense presented by the State.
  
- > On March 15 and March 18, 2005, Aperam South America has been assessed by the INSS (the Brazilian Social Security Institute) for the non-collection of certain payroll taxes between 1999 and 2004 related to the special retirement of employees exposed to unhealthy working conditions. On December 3, 2013, the Company has received a partial unfavourable decision by the second administrative instance but asked for a special motion to be clarified for which the Federal Revenue authorities presented a specific appeal at the Superior administrative level. On January 22, 2014, the Special appeal was rejected and remains to be discussed before the INSS. By the end of 2015, two of the six cases were brought at the Superior Administrative Court. The amount in dispute comprising six cases is R\$87 million (U.S.\$27 million).
  
- > In November 1995, the Company was assessed for unauthorised compensation of losses and negative basis of social contribution between 1989 and 1994. The total amount claimed is R\$32 million (U.S.\$10 million). After unfavourable decision in the first and second judicial instances, the Company is waiting for the final decision of the superior courts.

## Litigations and Other Claims

The Company is presently involved in a number of legal disputes, the most significant of which are set out below. As of December 31, 2016, the Company has established reserves in the aggregate of approximately U.S.\$31 million for those of the claims as to which the criteria for provisioning were met.

### Brazil

> On October 22, 2012, Aperam South America was notified of a Public Civil Action initiated by the Federal Public Attorney's Office, requesting indemnification for supposed transportation of products with excess load on federal highways. This transport was done by services providers of the Company. The amount requested is R\$31 million (U.S.\$10 million). On November 22, 2012, was published the lower court decision, where judge understood that Company was not responsible for transport of its products with excess load and that Federal Government have to improve their audits to verify such thing. On February 28, 2013, the Public's Attorney's Office presented an appeal. On September 12, 2016, the Appeal was rejected by the Court and the first instance decision was upheld (in favor of Aperam South America). Company expect the Public Attorney to bring an appeal to the Superior Court.

> On September 27, 2012, Aperam filed a first lawsuit against the State of Minas Gerais, in order to prove that Aperam has complied with all its obligations related to the Rio Corrente Park. The total amount asked is R\$24 million (U.S.\$7 million). On July 16, 2014, a partially favorable decision was granted and published. The judge understood that Aperam did not comply with all its obligations under the agreement in order to deliver the area free of any occupants, but condemned the State of Minas Gerais to pay an indemnification to Aperam because the State had transformed Aperam's rural area in a park and did not compensate the Company. On August 28, 2014, Aperam presented an appeal. The State of Minas Gerais has also appealed in order to revert in full the decision granted. On April 16, 2015, the Court of Appeals has ruled a decision to cancel the first instance decision. On May 26, 2015, the lawsuit went back to the first judicial instance to be judged again. A second lawsuit was filed by the Company on March 15, 2013, in order to avoid to be charged by the State until the first lawsuit is judged. On February 21, 2014, the Company received a partially favorable decision. The Company appealed this decision. On March 7, 2014, the Court of Appeal was favorable to the Company. In July, 2015, the State of Minas Gerais presented appeals to the Superior Courts. On January 22, 2016, the appeals from the State of Minas Gerais were not accepted, but it presented another appeal to the Appeal Court that was denied again. We are waiting for the next steps.

> On April 1, 2004, a sanctioning administrative process with the Central Bank was brought against Aperam South America based on alleged irregular exchange operations utilised by it in the purchase and sale of treasury bills. On March 22, 2007, Aperam South America has been assessed with a fine of R\$46 million (U.S.\$14 million). The Company brought the case before the judicial court in 2012. On February 16, 2014, the first judicial instance was not favourable to the Company. On September 24, 2014, the appeal launched by the Company was accepted by the Court. On June 3, 2016, Aperam South America filed a petition to request a suspension of payment of the total amount until a final decision is given by the Court of Appeal in the litigation raised by the Central bank of Brazil against the use of Treasury bills in 2007.

## NOTE 25: EMPLOYEES AND KEY MANAGEMENT PERSONNEL

The total annual compensation of Aperam's employees was as follows:

(in millions of U.S. dollars)

	Year Ended December 31,	
	2016	2015
<b>Employee Information</b>		
Wages and salaries	486	485
Pension cost	2	2
Other staff costs	68	68
<b>Total</b>	<b>556</b>	<b>555</b>

During 2016 and 2015, Aperam employed approximately 9,550 and 9,500 persons on average, respectively.

The total annual compensation of Aperam's key management personnel, including its Board of Directors, was as follows:

*(in millions of U.S. dollars)*

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Base salary	3	3
Directors' fees	1	1
Short-term performance-related bonus	1	1
Post-employments benefits <sup>(1)</sup>	—	—
Share based compensation <sup>(1)</sup>	—	—

Note:

(1) Post-employments benefits and share based compensation were below U.S.\$1 million for the years ended December 31, 2016 and December 31, 2015

As of December 31, 2016, and 2015, the Company did not have any outstanding loans or advances to members of Aperam's Board of Directors or key management personnel and had not given any guarantees for the benefit of any member of Aperam's Board of Directors or key management personnel.

**NOTE 26: LIST OF SIGNIFICANT SUBSIDIARIES AS OF DECEMBER 31, 2016**

The following table provides an overview of the Company's principal operating subsidiaries, all of which are integrated in full consolidation by the Company, according to the principles defined in Note 1, and meet the following criteria:

- > Contribution to the Group total property, plant and equipment in excess of U.S.\$5 million; or
- > Contribution to the Group revenue in excess of U.S.\$40 million.

Name of subsidiary	Country of incorporation	% Interest
<b>Stainless &amp; Electrical Steel</b>		
Aperam Stainless Belgium	Belgium	100%
Aperam BioEnergia	Brazil	100%
Aperam South America	Brazil	100%
Aperam Stainless Europe	France	100%
Aperam Stainless France	France	100%
Aperam Stainless Precision	France	100%
Recyco	France	100%
<b>Alloys &amp; Specialties</b>		
Aperam Alloys Imphy	France	100%
<b>Services &amp; Solutions</b>		
Aperam Stainless Services & Solutions Argentina	Argentina	100%
Aperam Stainless Services & Solutions Brazil	Brazil	100%
Aperam Stainless Services & Solutions Tubes Czech Republic	Czech Republic	100%
Aperam Stainless Services & Solutions France	France	100%
Aperam Stainless Services & Solutions Tubes Europe	France	100%
Aperam Stainless Services & Solutions Germany	Germany	100%
Aperam Stainless Services & Solutions Italy	Italy	100%
Aperam Stainless Services & Solutions Luxembourg	Luxembourg	100%
Aperam Stainless Services & Solutions Poland	Poland	100%
Aperam Stainless Services & Solutions Iberica	Spain	100%
Aperam Paslanmaz Celik	Turkey	100%
Aperam Stainless Services & Solutions Tubes Uruguay	Uruguay	100%
Aperam Stainless Services & Solutions USA	USA	100%

**NOTE 27: AUDITORS' FEES AND SERVICES**

Deloitte Audit S.à r.l. acted as the principal independent registered public accounting firm for Aperam for the fiscal years ended December 31, 2016, and 2015.

The following table summarises the aggregate amounts paid to the Company's auditors:

<i>(in millions of U.S. dollars)</i>	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Audit fees</b>	<b>2.0</b>	<b>2.1</b>
<i>Deloitte</i>	1.7	1.9
<i>Non Deloitte</i>	0.3	0.2
<b>Audit-related fees</b>	<b>0.3</b>	<b>0.3</b>
<i>Deloitte</i>	0.1	0.1
<i>Non Deloitte</i>	0.2	0.2
<b>Tax fees</b>	<b>0.6</b>	<b>0.7</b>
<i>Deloitte</i>	0.1	0.4
<i>Non Deloitte</i>	0.5	0.3
<b>Total</b>	<b>2.9</b>	<b>3.1</b>

**Audit fees** consist of fees paid for the audits of the financial statements.

**Audit-related fees** consist principally of issuances of certifications related to the covenant compliance required by lenders of the borrowing base revolving credit facility and certifications related to the sustainability report and other external publications.

**Tax fees** consist principally of tax planning services and tax compliance services.

**NOTE 28: SUBSEQUENT EVENTS**

On February 9, 2017, the Company announced a share buyback program for an aggregate maximum amount of U.S.\$100 million and a maximum of 2 million shares under the authorization given by the annual general meeting of shareholders held in 2015.

On February 9, 2017, the Company also proposed to increase its base dividend from U.S.\$ 1.25/share to U.S.\$1.50/share, subject to shareholder approval at the Annual General Meeting of May 10, 2017, as the company continues to improve its sustainable profitability benefiting from its strategic actions.

## Auditor's Report on the Consolidated Statements

### REPORT OF THE *RÉVISEUR D'ENTREPRISES AGRÉÉ*

To the Shareholders of  
**Aperam, Société Anonyme ("Aperam")**  
12C, rue Guillaume Kroll  
L-1882 Luxembourg

### REPORT OF THE *RÉVISEUR D'ENTREPRISES AGRÉÉ*

#### Report on the consolidated financial statements

Following our appointment by the General Meeting of the Shareholders dated May 4, 2016, we have audited the accompanying consolidated financial statements of Aperam and its subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2016, the consolidated statements of operations, comprehensive income/(loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Responsibility of the Board of Directors for the consolidated financial statements*

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted in the European Union, and for such internal control the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Responsibility of the Réviseur d'Entreprises Agréé*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the *Commission de Surveillance du Secteur Financier*. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the *Réviseur d'Entreprises Agréé's* judgement including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the *Réviseur d'Entreprises Agréé* considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Aperam and its subsidiaries as of December 31, 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

## Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, including the Corporate Governance section of the management report, but does not include the consolidated financial statements, the annual accounts of the parent company, and our reports of *Réviseur d'Entreprises Agréé* thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

## Other matter

The Corporate Governance section of the management report includes the information required by Article 68bis paragraph (1) of the law of December 19, 2002, on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

## Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and includes the information required by the law of December 19, 2002, on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended with respect to the corporate governance statement.

For Deloitte Audit, *Cabinet de Révision Agréé*

John Psaila, *Réviseur d'Entreprises Agréé*  
Partner

February 28, 2017



# Aperam, Société Anonyme

## Annual Accounts

As of and for the year ended December 31, 2016

**Aperam S.A.**  
**Société Anonyme**

12C, rue Guillaume Kroll  
L-1882 Luxembourg  
R.C.S. Luxembourg B155.908



**Internat Guillaume Tirel**, Paris - France  
Brenac Gonzales  
© Sergio Grazia  
Aperam 304 with Uginox Mat finish

## Balance Sheet

Aperam, Société Anonyme

<i>(in thousands of U.S. dollars)</i>		<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>			
<b>B. Formation expenses</b>	<b>Note 3</b>	—	<b>112</b>
<b>C. Fixed assets</b>		<b>4,116,342</b>	<b>4,407,801</b>
<b>I. Intangible assets</b>	<b>Note 4</b>	<b>7,060</b>	<b>6,639</b>
2.a) Concessions, patents, licences, trademarks and similar rights and assets, if they were acquired for valuable consideration		7,060	6,639
<b>II. Tangible assets</b>	<b>Note 5</b>	—	<b>18</b>
3. Other fixtures and fittings, tools and equipment		—	18
<b>III. Financial assets</b>	<b>Note 6</b>	<b>4,109,282</b>	<b>4,401,144</b>
1. Shares in affiliated undertakings		2,262,175	2,578,948
2. Loans to affiliated undertakings		1,787,110	1,761,942
5. Investments held as fixed assets		59,970	60,221
6. Other loans		27	33
<b>D. Current assets</b>		<b>140,012</b>	<b>119,712</b>
<b>II. Debtors</b>		<b>130,884</b>	<b>104,691</b>
2.a) Amounts owed by affiliated undertakings becoming due and payable within one year	Note 7	129,115	104,047
4.a) Other debtors becoming due and payable within one year		1,769	644
<b>III. Investments</b>		<b>9,099</b>	<b>15,020</b>
2. Own shares	Note 8	9,099	15,020
<b>IV. Cash at bank and in hand</b>		<b>29</b>	<b>1</b>
<b>E. Prepayments</b>	<b>Note 9</b>	<b>412</b>	<b>1,156</b>
<b>Total assets</b>		<b>4,256,766</b>	<b>4,528,781</b>

*The accompanying notes are an integral part of these annual accounts.*

## Balance Sheet

Aperam, Société Anonyme

<i>(in thousands of U.S. dollars)</i>		December 31, 2016	December 31, 2015
<b>Liabilities</b>			
<b>A. Capital and reserves</b>	<b>Note 10</b>	<b>3,514,034</b>	<b>3,769,251</b>
<b>I. Subscribed capital</b>		<b>546,652</b>	<b>546,652</b>
<b>II. Share premium account</b>		<b>1,600,321</b>	<b>1,600,321</b>
<b>IV. Reserves</b>		<b>84,467</b>	<b>90,388</b>
1. Legal reserve		75,368	75,368
2. Reserve for own shares	Note 8	9,099	15,020
<b>V. Profit brought forward</b>		<b>1,440,224</b>	<b>1,587,491</b>
<b>VI. Loss for the financial year</b>		<b>(157,630)</b>	<b>(55,601)</b>
<b>C. Creditors</b>	<b>Note 11</b>	<b>742,732</b>	<b>759,530</b>
1. Debenture loans		502,228	502,228
<i>a) Convertible loans</i>	Note 12	502,228	502,228
<i>i) becoming due and payable within one year</i>		202,228	2,228
<i>ii) becoming due and payable after more than one year</i>		300,000	500,000
6.a) Amounts owed to affiliated undertakings becoming due and payable within one year	Note 14	141,105	186,941
8. Other creditors		99,399	70,361
<i>a) Tax authorities</i>		1,081	991
<i>b) Social security authorities</i>		857	576
<i>c) Other creditors</i>		97,461	68,794
<i>i) becoming due and payable within one year</i>		11,911	8,265
<i>ii) becoming due and payable after more than one year</i>	Note 15	85,550	60,529
<b>Total liabilities</b>		<b>4,256,766</b>	<b>4,528,781</b>

*The accompanying notes are an integral part of these annual accounts.*

## Profit and Loss account

Aperam, Société Anonyme

<i>(in thousands of U.S. dollars)</i>		Year ended December 31, 2016	Year ended December 31, 2015
<b>4. Other operating income</b>	<b>Note 18</b>	<b>77,118</b>	<b>68,703</b>
<b>5. b) Other external expenses</b>		<b>(54,519)</b>	<b>(46,868)</b>
<b>6. Staff costs</b>		<b>(18,353)</b>	<b>(10,972)</b>
<i>a) Wages and salaries</i>		<i>(15,887)</i>	<i>(8,396)</i>
<i>b) Social security costs</i>		<i>(1,761)</i>	<i>(2,293)</i>
<i>i) relating to pensions</i>		<i>(979)</i>	<i>(1,609)</i>
<i>ii) other social security costs</i>		<i>(782)</i>	<i>(684)</i>
<i>c) Other staff costs</i>		<i>(705)</i>	<i>(283)</i>
<b>7. Value adjustments</b>		<b>(1,895)</b>	<b>(3,623)</b>
<i>a) in respect of formation expenses and of tangible and intangible fixed assets</i>		<i>(1,895)</i>	<i>(3,623)</i>
<b>8. Other operating expenses</b>		<b>(58)</b>	<b>(107)</b>
<b>9. (Loss) income from participating interests</b>		<b>(167,422)</b>	<b>159,025</b>
<i>a) derived from affiliated undertakings</i>		<i>(167,422)</i>	<i>159,025</i>
<b>11. Other interest receivable and similar income</b>	<b>Note 16</b>	<b>48,256</b>	<b>15,106</b>
<i>a) derived from affiliated undertakings</i>		<i>23,050</i>	<i>15,104</i>
<i>b) other interest and similar income</i>		<i>25,206</i>	<i>2</i>
<b>13. Value adjustments in respect of financial assets and of investments held as current assets</b>		<b>(25,020)</b>	<b>126,667</b>
<b>14. Interest payable and similar expenses</b>	<b>Note 16</b>	<b>(13,951)</b>	<b>(362,299)</b>
<i>a) concerning affiliated undertakings</i>		<i>(4,281)</i>	<i>(4,182)</i>
<i>b) other interest and similar expenses</i>		<i>(9,670)</i>	<i>(358,117)</i>
<b>15. Tax on profit or loss</b>		<b>(1,785)</b>	<b>(1,234)</b>
<b>16. Profit or loss after taxation</b>		<b>(157,629)</b>	<b>(55,601)</b>
<b>17. Other taxes not shown under items 4 to 16</b>		<b>(1)</b>	<b>—</b>
<b>18. Profit or loss for the financial year</b>		<b>(157,630)</b>	<b>(55,601)</b>

The accompanying notes are an integral part of these annual accounts.

## NOTE 1 – GENERAL INFORMATION

Aperam (“the Company”) was incorporated as a “Société Anonyme” under Luxembourg law on September 9, 2010 for an unlimited period.

The Company has its registered office in 12C, rue Guillaume Kroll, L-1882 Luxembourg and is registered at the Register of Trade and Commerce of Luxembourg under the number B155.908.

The financial year of the Company starts on January 1 and ends on December 31 each year.

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

The Company may perform and carry out its corporate purpose either directly or through the creation of companies, the acquisition, holding or acquisition of interests in any companies or partnerships, membership in any associations, consortia and joint ventures. In general, the Company’s corporate purpose comprises the participation, in any form, in companies and partnerships, and the acquisition by purchase, subscription or in any other manner as well as the transfer by sale, exchange or in any other manner of shares, bonds, debt securities, warrants and other securities and instruments of any kind.

The Company may grant assistance of any kind (including financial assistance) to any affiliated company and take any measure for the control and supervision of such companies. In general it may carry out any commercial, financial or industrial activity, operation or transaction which it considers to be directly or indirectly necessary or useful in order to achieve or further its corporate purpose.

The Company owns a branch office located in Zug (Switzerland) and controls directly and indirectly 54 subsidiaries.

In conformity with the requirements of Luxembourg laws and regulations, the Company publishes consolidated financial statements in accordance with International Financial Reporting Standards as adopted in the European Union. The consolidated financial statements as of and for the year ended December 31, 2016 are available at Aperam Headquarters, 12C, rue Guillaume Kroll, L-1882 Luxembourg, Grand-Duchy of Luxembourg.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 – Basis of preparation

These annual accounts, corresponding to the standalone financial statements of the parent company, Aperam SA, have been prepared in accordance with generally accepted accounting principles and in accordance with the laws and regulations in force in the Grand-Duchy of Luxembourg. They comply in particular with the law of December 19, 2002, under the historical cost convention.

### 2.2 – Significant accounting policies

The Company maintains its accounting records in United States Dollars (“USD” or “U.S.\$”) and the annual accounts are prepared in this currency. Unless otherwise stated, all amounts in the annual accounts are stated in thousands of USD.

The main valuation rules applied by the Company are the following:

#### *Formation expenses*

Formation expenses are amortised on a linear basis over five years.

*Intangible and tangible assets*

Intangible and tangible assets are carried at acquisition cost, less accumulated depreciation and value adjustments when a permanent diminution in value is identified. A reversal of a value adjustment is recorded if the reasons for which the value adjustment was made have ceased to apply.

Intangible and tangible assets are amortised on a linear basis over five years.

*Financial assets*

Shares in affiliated undertakings and investments held as fixed assets are recorded at acquisition cost including the expenses incidental thereto. At the end of each accounting period, shares in affiliated undertakings are subject to an impairment review. Where a permanent diminution in value is identified, this diminution is recorded in the profit and loss account as a value adjustment. A reversal of the value adjustment is recorded to the extent the factors, which caused its initial recording, have ceased to exist.

Loans to affiliated undertakings and other loans are recorded in the balance sheet at their nominal value. At the end of each accounting period, value adjustments are recorded on loans which appear to be partly or wholly irrecoverable.

*Debtors*

Debtors are recorded in the balance sheet at their nominal value. At the end of each accounting period, value adjustments are recorded on debtors which appear to be partly or wholly irrecoverable.

*Derivative financial instruments*

The Company may enter into derivative financial instruments to manage its exposure to fluctuations in interest and foreign exchange rates. Unrealised gains and losses are recognised so as to offset unrealised gains and losses with respect to the underlying hedged items in the balance sheet.

*Foreign currency translation*

The following principles are applied to items denominated in a currency other than the USD:

- > Fixed assets and creditors due after more than one year are translated at historical exchange rates or the current rate if unrealised exchange losses exist. Differences in the exchange rates leading to an unrealised loss are recorded in the profit and loss for the year. A reversal of the unrealised loss is recorded to the extent the factors, which caused its initial recording, have ceased to exist.
- > Back-to-back loans are translated at year-end exchange rates with the related differences in the exchange rates leading to unrealised losses and gains recorded in the profit and loss account for the year.
- > Cash at bank is translated at the exchange rate effective at the balance sheet date. Exchange losses and gains are recorded in the profit and loss account of the year.
- > Other balance sheet items are translated at the year-end exchange rate and related exchange differences leading to unrealised losses are recorded in the profit and loss for the year.
- > Profit and loss items are translated at the exchange rate prevailing at the transaction date.
- > Off balance sheet commitments are disclosed based upon the exchange rate effective at the balance sheet date.

*Liabilities (excluding "other creditors becoming due and payable after more than one year")*

Liabilities, except other creditors becoming due and payable after more than one year, are recorded in the balance sheet at their nominal value.

*Other creditors becoming due and payable after more than one year*

This section only includes call options that are recorded in the balance sheet at their selling price value. Where the market value of its investments is greater than its selling price, the difference is recorded in the profit and loss.

**NOTE 3 – FORMATION EXPENSES**

In 2010, ArcelorMittal incurred expenses in relation with the assessment and preparation of the spin-off of the stainless steel business. These expenses were transferred to the Company at the date of the spin-off on January 25, 2011, for an amount of U.S.\$2,553 thousands. Formation expenses have been amortised in accordance with the Company's accounting policies and have been fully written off as of December 31, 2016.

The movements for the years ended December 31, 2016, and 2015 are as follows:

<i>(in thousands of U.S. dollars)</i>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>Gross book value</b>		
Opening balance	2,553	2,553
<b>Closing balance</b>	<b>2,553</b>	<b>2,553</b>
<b>Accumulated value adjustments</b>		
Opening balance	(2,441)	(2,021)
Charge for the year	(112)	(420)
<b>Closing balance</b>	<b>(2,553)</b>	<b>(2,441)</b>
<b>Net book value</b>		
Opening balance	112	532
<b>Closing balance</b>	<b>—</b>	<b>112</b>

**NOTE 4 – INTANGIBLE ASSETS**

Intangible assets mainly include intellectual property rights and trademarks transferred by ArcelorMittal on January 25, 2011, as a result of its stainless steel business spin-off and some licenses on IT systems. The movements for the years ended December 31, 2016, and 2015 are as follows:

<i>(in thousands of U.S. dollars)</i>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>Gross book value</b>		
Opening balance	18,960	15,801
Additions	2,187	3,159
<b>Closing balance</b>	<b>21,147</b>	<b>18,960</b>
<b>Accumulated value adjustments</b>		
Opening balance	(12,321)	(9,136)
Charge for the year	(1,766)	(3,185)
<b>Closing balance</b>	<b>(14,087)</b>	<b>(12,321)</b>
<b>Net book value</b>		
Opening balance	6,639	6,665
<b>Closing balance</b>	<b>7,060</b>	<b>6,639</b>



**NOTE 5 – TANGIBLE ASSETS**

Tangible assets mainly include office equipment bought during previous years. The tangible assets have been amortised in accordance with the Company's accounting policies and been fully written off as of December 31, 2016.

The movements for the years ended December 31, 2016, and 2015 are as follows:

<i>(in thousands of U.S. dollars)</i>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>Gross book value</b>		
Opening balance	88	88
<b>Closing balance</b>	<b>88</b>	<b>88</b>
<b>Accumulated value adjustments</b>		
Opening balance	(70)	(53)
Charge for the year	(18)	(17)
<b>Closing balance</b>	<b>(88)</b>	<b>(70)</b>
<b>Net book value</b>		
Opening balance	18	35
<b>Closing balance</b>	<b>—</b>	<b>18</b>

**NOTE 6 – FINANCIAL ASSETS**

The movements for the year are as follows:

<i>(in thousands of U.S. dollars)</i>	<b>Shares in affiliated under- takings</b>	<b>Loans to affiliated under takings</b>	<b>Investments held as fixed assets</b>	<b>Other loans</b>	<b>Total as of December 31, 2016</b>
<b>Gross book value</b>					
Opening balance	3,098,948	1,761,942	60,221	33	4,921,144
Additions	2,140,536	61,487	—	—	2,202,023
Disposals	(2,977,309)	(86,295)	(251)	(6)	(3,063,861)
Foreign exchange differences	—	49,976	—	—	49,976
<b>Closing balance</b>	<b>2,262,175</b>	<b>1,787,110</b>	<b>59,970</b>	<b>27</b>	<b>4,109,282</b>
<b>Accumulated value adjustments</b>					
Opening balance	(520,000)	—	—	—	(520,000)
Disposals	520,000	—	—	—	520,000
<b>Closing balance</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net book value</b>					
Opening balance	2,578,948	1,761,942	60,221	33	4,401,144
<b>Closing balance</b>	<b>2,262,175</b>	<b>1,787,110</b>	<b>59,970</b>	<b>27</b>	<b>4,109,282</b>

## 6.1. – Shares in affiliated undertakings

<i>(in thousands of U.S.dollars)</i>						
Name of undertaking	Registered office	Percentage of capital held as of December 31, 2016 (%)	Result for 2016 <sup>(1)</sup>	Capital and reserves (including result for 2016) <sup>(1)</sup>	Carrying amount as of December 31, 2016	Carrying amount as of December 31, 2015
Aperam Luxco S.à r.l.	Luxembourg	—	—	—	—	2,429,002
Aperam HoldCo S.à r.l.	Luxembourg	100.00	230,147	1,058,042	1,903,309	—
Aperam Stainless Services & Solutions Germany GmbH	Germany	100.00	8,695	32,733	201,034	7,783
Aperam Stainless Belgium SA/NV	Belgium	15.32	80,836	783,755	130,690	130,690
Aperam Stainless Services & Solutions Italy S.r.l.	Italy	100.00	2,565	1,614	15,669	—
Corea S.A.	Luxembourg	100.00	611	9,016	11,386	11,386
Aperam Sourcing S.C.A.	Luxembourg	100.00	32,108	8,377	42	42
Aperam Treasury S.C.A	Luxembourg	100.00	23,199	7,392	42	42
Other	Various	—	—	—	3	3
					<b>2,262,175</b>	<b>2,578,948</b>

Note:

(1) In accordance with the unaudited IFRS reporting packages converted to USD. Result for 2016 is converted at the average exchange rate of the year and capital and reserves at December 31, 2016 exchange rate. Unaudited IFRS reporting package relates to financial information used for the preparation of the consolidated financial statements of Aperam Group.

**Description of the main changes during the year**

On January 2, 2016, the Company made a cash contribution of €26,000 thousands into the distributable share premium (without any issue of shares) of Aperam LuxCo S.à r.l. for a total consideration of U.S.\$28,307 thousands.

During the first half of 2016, the Aperam Group implemented several steps of a corporate restructuring, aiming at simplifying its legal structure. Thus, the Company's direct subsidiary Aperam LuxCo S.à r.l was dissolved, resulting in an accounting loss of U.S.\$554,000 thousands, which is included under section 9. (Loss) income from participating interests. Further to the aforementioned dissolution, Aperam HoldCo S.à r.l. became a direct subsidiary of the Company for a gross book value of U.S.\$1,903,309 thousands. The dissolution of Aperam LuxCo S.à r.l and the investment in Aperam HoldCo S.à r.l are respectively included in "Disposals" and "Additions" in the table above.

On December 13, 2016, the Company acquired a 100% stake in Aperam Stainless Services & Solutions Italy S.r.l. for an amount of €15,000 thousands (U.S.\$15,669 thousands).

On December 16, 2016, the Company acquired the remaining 90% stake it was not already holding in Aperam Stainless Services & Solutions Germany GmbH for an amount of €185,000 thousands (U.S.\$193,251 thousands).

On December 31, 2016, the Board of Directors has considered that there has not been any decrease in the value of the shares in affiliated undertakings that is other than temporary and therefore no value adjustments have been recorded.

## 6.2 – Loans to affiliated undertakings

*(in thousands of U.S. dollars, unless otherwise stated)*

	<b>Currency</b>	<b>Amount in original currency</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Aperam Treasury S.C.A.	EUR	655,973	691,459	714,155
Aperam Treasury S.C.A.	BRL	1,307,677	401,566	330,071
Aperam Treasury S.C.A.	PLN	100,000	23,901	25,533
Aperam LuxCo S.à r.l.	EUR	—	—	692,183
Aperam HoldCo S.à r.l.	EUR	635,791	670,184	—
<b>Total</b>			<b>1,787,110</b>	<b>1,761,942</b>

### Description of the main changes during the year

During the first half of 2016, the Aperam Group implemented several steps of a corporate restructuring, aiming at simplifying its legal structure. As part of this corporate restructuring, the loan of €635,791 thousands granted to Aperam LuxCo S.à r.l. has been transferred to Aperam HoldCo S.à r.l.

Between August 2016 and November 2016, the Company received four repayments for a total consideration of R\$198,357 thousands (U.S.\$86,295 thousands) under the U.S.\$776,987 thousands loan agreement dated December 23, 2010 (as amended and converted from U.S.\$ into Brazilian reais on August 12, 2014) from Aperam Treasury S.C.A. During the same period, the Company made four payments for a total consideration of R\$198,819 thousands (U.S.\$61,487 thousands) under the R\$1,307,215 thousands credit facility agreement dated August 3, 2016, to Aperam Treasury S.C.A.

All other movements during the year were due to foreign exchange differences.

## 6.3 – Investments held as fixed assets

In June 2014, the Company purchased 6,830,601 call options on Aperam shares in two transactions with financial institutions for a total consideration of U.S.\$59,970 thousands. These call options have a strike price of U.S.\$43.92 and will mature in July 2021.

On December 31, 2016, the Company has considered that there has not been any decrease in the value of its investments held as fixed assets that is other than temporary and therefore no value adjustments have been recorded.

## NOTE 7 – AMOUNTS OWED BY AFFILIATED UNDERTAKINGS BECOMING DUE AND PAYABLE WITHIN ONE YEAR

*(in thousands of U.S. dollars)*

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Amounts receivable on corporate services	92,623	77,369
Amounts receivable on tax integration	22,349	14,596
Accrued interests	14,143	12,082
<b>Total</b>	<b>129,115</b>	<b>104,047</b>

### Description of the main changes during the year

Amounts owed by affiliated undertakings becoming due and payable within one year increased by U.S.\$25,068 thousands during the year to U.S.\$129,115 thousands as at December 31, 2016. This variance is mainly explained by increases in amounts receivable on corporate services by U.S.\$15,254 thousands, in amounts receivable on tax integration by U.S.\$7,753 and in accrued interests by U.S.\$2,061 thousands. Amounts receivable on tax integration correspond to income tax receivables from entities included in the tax integration headed by the Company. Amounts receivable for corporate services are related to various corporate services rendered by the Company to its subsidiaries.

**NOTE 8 – OWN SHARES**

On August 4, 2014, the Company acquired 90,688 of its own shares for a total consideration of U.S.\$3,177 thousands. During the year 2014, 45,500 own shares have been given to certain employees of the Company to serve the RSU Plan and PSU Plan 2011 that came to maturity.

On November 26, 2015, the Company acquired 420,601 of its own shares for a total consideration of U.S.\$13,654 thousands.

During the year 2015, 4,104 and 2,151 own shares have been given to certain employees of the Company to serve respectively the PSU Plan 2012 that came to maturity, and the RSU Plan and PSU Plan 2013.

During the year 2016, 181,153 own shares have been given to certain employees of the Company to serve the RSU Plan and PSU Plan 2013.

On December 31, 2016, the Company had 278,381 own shares for a total net book value of U.S.\$9,099 thousands.

**NOTE 9 – PREPAYMENTS**

As at December 31, 2016, prepayment and accrued income amounts to U.S.\$412 thousands and mainly refers to prepaid charges on supplier invoices received.

**NOTE 10 – CAPITAL AND RESERVES**

<i>(in thousands of U.S.dollars)</i>	Number of shares <sup>(1)</sup>	Subscribed capital	Share premium account	Legal reserve	Reserve for own shares	Profit brought forward	Loss for the financial year	Total
Balance as at December 31, 2015	78,049,730	546,652	1,600,321	75,368	15,020	1,587,491	(55,601)	3,769,251
Allocation of net result	—	—	—	—	—	(55,601)	55,601	—
Directors' fees (Note 21)	—	—	—	—	—	(598)	—	(598)
Dividend	—	—	—	—	—	(96,989)	—	(96,989)
Loss for the financial year	—	—	—	—	—	—	(157,630)	(157,630)
Reserve for own shares	—	—	—	—	(5,921)	5,921	—	—
<b>Balance as at December 31, 2016</b>	<b>78,049,730</b>	<b>546,652</b>	<b>1,600,321</b>	<b>75,368</b>	<b>9,099</b>	<b>1,440,224</b>	<b>(157,630)</b>	<b>3,514,034</b>

Note:

(1) Number of shares denominated in units.

**10.1. Subscribed capital and share premium account**

The subscribed capital amounts to U.S.\$546,652 thousands and is divided into 78,049,730 shares without par value and fully paid up.

To the knowledge of the Board of Directors, the shareholding<sup>(1)</sup> may be specified as follows:

	<b>December 31, 2016</b>
Lumen Investment S.à r.l.	33.63%
Nuavam Investments S.à r.l.	7.20%
Other shareholders	59.17%
<b>Total</b>	<b>100.00%</b>

Note:

(1) Shareholding disclosed in above table relates to shareholders owning 5% or more of the share capital.

## 10.2. Legal reserve

In accordance with Luxembourg Company Law, the Company is required to transfer a minimum of 5% of its net profits for each financial year to a legal reserve. This requirement ceases to be necessary once the balance of the legal reserve reaches 10% of the subscribed capital. The legal reserve is not available for distribution to the shareholders. As at December 31, 2016, the legal reserve is fully constituted.

## 10.3. Reserve for own shares

The Board of Directors shall request the upcoming General Meeting of Shareholders to approve the release of U.S.\$5,921 thousands from the reserve for own shares in order to increase the profit brought forward and to align the non distributable reserve to the carrying value (note 8) of its own shares in accordance with Luxembourg Company Law.

## NOTE 11 – MATURITY OF CREDITORS

*(in thousands of U.S.dollars)*

				December 31, 2016	December 31, 2015
	Up to 1 year	From 1 to 5 years	Above 5 years	Total	Total
Convertible debenture loans	202,228	300,000	—	502,228	502,228
Amount owed to affiliated undertakings	141,105	—	—	141,105	186,941
Other creditors	13,849	85,550	—	99,399	70,361
<b>Total</b>	<b>357,182</b>	<b>385,550</b>	<b>—</b>	<b>742,732</b>	<b>759,530</b>

## NOTE 12 – CONVERTIBLE DEBENTURE LOANS

On September 19, 2013, the Company issued convertible and/or exchangeable bonds for a total amount of U.S.\$200,000 thousands. These senior and unsecured bonds have an annual coupon of 2.625% payable semi-annually in arrear and an initial conversion price of U.S.\$21.96 representing a conversion premium of 35% above the reference price of U.S.\$16.27. Following the successive quarterly dividend payments during 2016, the conversion price of such bond was adjusted to U.S.\$21.28 as per respective terms and conditions. The bonds will mature on September 30, 2020, but the bondholders will be entitled to have their bonds redeemed at their principal amount plus accrued interest on September 30, 2017.

On June 27, 2014, the Company issued net share settled convertible and/or exchangeable bonds due 2021 for a total amount of U.S.\$300,000 thousands. The bonds have an annual coupon of 0.625% payable semi-annually in arrear and an initial conversion price of U.S.\$43.92 representing a conversion premium of 32.5% above the reference price of U.S.\$33.15. Following the successive quarterly dividend payments during 2016, the conversion price of such bond was adjusted to U.S.\$42.56 as per respective terms and conditions. The bonds will mature on July 8, 2021, but the bondholders will be entitled to have their bonds redeemed at their principal amount plus accrued interest on January 8, 2019.

## NOTE 13 – AMOUNTS OWED TO CREDIT INSTITUTIONS

On March 6, 2015, Aperam signed a U.S.\$500 million secured borrowing base revolving credit facility ("The Facility") with a group of nine banks. The facility is structured as a 3-year revolving credit facility and includes a one year extension option. It will be used for liquidity and working capital purposes. On December 1, 2015, Aperam cancelled a U.S.\$100 million of commitments leading to a remaining U.S.\$400 million secured borrowing base revolving credit facility. On May 26, 2016, Aperam extended the credit facility until March 5, 2019.

The 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 Group's most recent corporate rating by Standard & Poor's or Moody's or both) for the relevant interest period, which may be below one, one, two, three or six months or any other period agreed between the parties. The facility also charges a utilisation fee on the drawn portion of the total facility amount and a commitment fee on the undrawn and uncanceled portion of the total facility amount, payable quarterly in arrears.

The Facility is fully undrawn as at December 31, 2016 and is secured by assets owned by operating subsidiaries of the Aperam Group.

#### NOTE 14 – AMOUNTS OWED TO AFFILIATED UNDERTAKINGS BECOMING DUE AND PAYABLE WITHIN ONE YEAR

The decrease in amounts owed to affiliated undertakings by U.S.\$45,836 thousands mainly results from the decrease on the liability under cash pooling arrangement with Aperam Treasury S.C.A. by U.S.\$75,435 thousands, partly offset by the renewal of a short-term loan with Aperam Treasury S.C.A. with an increased amount of U.S.\$24,742 thousands maturing on January 2, 2017, and bearing an interest rate of 2%.

#### NOTE 15 – OTHER CREDITORS BECOMING DUE AND PAYABLE AFTER MORE THAN ONE YEAR

During 2014, the Company sold 6,830,601 call options on Aperam shares in 2 transactions with financial institutions for a total consideration of U.S.\$52,738 thousands. These call options have a strike price of U.S.\$45.58 and will mature in July 2021.

On December 31, 2015, the Company recorded a value adjustment of \$7,791 thousands on its call options sold as the market value of its investments was above its selling price. This value adjustment in respect of investments held as fixed assets has been recorded in the corresponding section of the profit and loss account.

On December 31, 2016, the Company recorded a value adjustment of U.S.\$25,021 thousands on its call options sold as the market value of its investments was above its selling price. This value adjustment in respect of investments held as fixed assets has been recorded in the corresponding section of the profit and loss account.

#### NOTE 16 – INTEREST PAYABLE / RECEIVABLE AND SIMILAR EXPENSES / INCOME

<i>(in thousands of U.S.dollars)</i>	Year ended December 31, 2016		Year ended December 31, 2015	
	Expenses	Income	Exepnses	Income
Interests payable concerning affiliated undertakings	(4,281)	—	(4,182)	—
Income from tax integration with affiliated undertakings	—	22,350	—	14,871
Other income with affiliated undertakings	—	700	—	233
<b>Total interests concerning affiliated undertakings</b>	<b>(4,281)</b>	<b>23,050</b>	<b>(4,182)</b>	<b>15,104</b>
Interests in respect of credit institutions	(2,245)	—	(9,065)	2
Interests in respect of debenture loans	(7,125)	—	(11,969)	—
Effects of foreign exchange	—	25,206	(327,298)	—
Other interest and similar expenses	(300)	—	(9,785)	—
<b>Total other interests</b>	<b>(9,670)</b>	<b>25,206</b>	<b>(358,117)</b>	<b>2</b>
<b>Total interest payable / receivable and similar expenses / income</b>	<b>(13,951)</b>	<b>48,256</b>	<b>(362,299)</b>	<b>15,106</b>

Interests in respect of credit institutions mainly corresponds to interest expenses and commitment fees related to the borrowing base revolving credit facility.

Interests in respect of debenture notes relate to the unsecured and unsubordinated notes that have been reimbursed during the year 2015 and the convertible and/or exchangeable bonds.

## NOTE 17 – INCOME TAX

The Company is the head of a tax consolidation including other subsidiaries located in Luxembourg and is fully liable for the overall tax liability of the tax group. Each of the entities included in the tax consolidation is paying to the Company the amount of tax determined based on its individual taxable profit.

As a consequence of the net tax losses within the tax group, no income tax is payable in respect of 2016 (2015: nil).

The amount charged to affiliated undertakings amounted to U.S.\$22,350 thousands (2015: U.S.\$14,871 thousands). Please refer to Note 16.

The amount of income tax corresponds to the tax charge of the Company's Swiss Branch and withholding tax on corporate services with affiliated undertakings.

## NOTE 18 – OTHER OPERATING INCOME

Other operating income corresponds mainly to corporate service fees, branding fees and income related to information technology, procurement and Research and Development services provided to group companies.

## NOTE 19 – COMMITMENTS AND CONTINGENCIES

### Commitments given

<i>(in thousands of U.S.dollars)</i>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Guarantees given relating to credit facilities <sup>(1)</sup>	21,887	23,441
Other commitments <sup>(2)</sup>	7,579	17,234
<b>Total</b>	<b>29,466</b>	<b>40,675</b>

#### Notes:

(1) The Company has given guarantees for certain credit facilities contracted by Aperam subsidiaries.

(2) Other commitments refer to guarantees given by the Company on behalf of Aperam subsidiaries for various obligations (other than debt) and renting obligations related to Aperam headquarters.

The Company is jointly and severally liable for the following entities:

- > Aperam Sourcing S.C.A.
- > Aperam Treasury S.C.A.

### Available lines of credit

The Company has available lines of credit for an aggregate amount of U.S.\$400,000 thousands as of December 31, 2016 (2015: U.S.\$400,000 thousands).

### Contingencies

The Company has no contingency as at December 31, 2016.

### Stock option plans

For historical reasons, certain of the Company's employees participate in stock based compensation plans sponsored by ArcelorMittal. These plans provide employees with stock or options to purchase stock in ArcelorMittal. During the year 2011, certain employees were transferred from ArcelorMittal to the Company. These beneficiaries increased the number of options outstanding. For the years ended December 31, 2016 and 2015, the amount of outstanding options was 332,850 and 338,850 respectively. The amount of exercisable options was 332,850 and 338,850 respectively for the years ended December 31, 2016 and 2015. Exercise prices of ArcelorMittal stock options vary from U.S.\$30.66 to U.S.\$78.44. Weighted average contractual life of the options varies from 1.6 to 4.6 years.

As of December 31, 2016 no provision was recognised as share price is lower than exercise price.

### Share Unit Plans

On May 5, 2015, annual general meeting of shareholders authorised the Board of Directors to issue, during the period between the 2015 and the 2016 annual general meeting, to key employees of Aperam a maximum of 220,000 of the Company's shares for grants under the Leadership Team PSU Plan and other retention based grants below the level of the Leadership Team. In August 2015, a total of 27,500 RSUs were granted to a total of 32 employees at a fair value of U.S.\$32.19 per share, all grants were for employees below the level of the Leadership Team. In August 2015, a total of 49,232 PSUs were granted to a total of 42 employees at a fair value of respectively U.S.\$32.19 per share (out of which 39,232 PSUs for the 10 Members of the Leadership Team).

On May 4, 2016, annual general meeting of shareholders authorised the Board of Directors to issue, during the period between the 2016 and the 2017 annual general meeting, to key employees of Aperam a maximum of 220,000 of the Company's shares for grants under the Leadership Team PSU Plan and other retention based grants below the level of the Leadership Team. In August 2016, a total of 33,550 RSUs were granted to a total of 44 qualifying employees at a fair value of U.S.\$39.14 per share, all grants were for employee below the level of the Leadership Team. In August 2016, a total of 46,761 PSUs were granted to a total of 54 employees at a fair value of U.S.\$39.14 per share (out of which 34,561 PSUs for the 10 Members of the Leadership Team).

### NOTE 20 – STAFF

The Company employed an average of 53 full time equivalents employees during the financial year (56 full-time equivalents during the previous year).

### NOTE 21 – DIRECTORS' REMUNERATION

The Company's Board of Directors members are entitled to a total remuneration of U.S.\$580 thousands for the year ended December 31, 2016 (U.S.\$599 thousands for the year ended December 31, 2015).

As of December 31, 2016 and 2015, the Company did not have any outstanding loans or advances to members of Aperam's Board of Directors or key management personnel and had not given any guarantees for the benefit of any member of Aperam's Board of Directors or key management personnel.

### NOTE 22 – SUBSEQUENT EVENTS

On February 9, 2017, the Company announced a share buyback program for an aggregate maximum amount of U.S.\$100 million and a maximum of 2 million shares under the authorization given by the annual general meeting of shareholders held in 2015.

On February 9, 2017, the Company also proposed to increase its base dividend from U.S.\$1.25/share to U.S.\$1.50/share, subject to shareholder approval at the Annual General Meeting of May 10, 2017, as the company continues to improve its sustainable profitability benefiting from its strategic actions.



## Auditor's Report on the Annual Accounts

To the shareholders of  
APERAM Société Anonyme, ("APERAM")  
12C, rue Guillaume Kroll  
L-1882 Luxembourg

### REPORT OF THE *RÉVISEUR D'ENTREPRISES AGRÉÉ*

#### Report on the annual accounts

Following our appointment by the General Meeting of the Shareholders dated May 4, 2016, we have audited the accompanying annual accounts of Aperam, which comprise the balance sheet as of December 31, 2016, and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Responsibility of the Board of Directors' for the annual accounts*

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

#### *Responsibility of the Réviseur d'Entreprises Agréé*

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the *Commission de Surveillance du Secteur Financier*. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the *Réviseur d'Entreprises Agréé's* judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the *Réviseur d'Entreprises Agréé* considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the annual accounts give a true and fair view of the financial position of Aperam as of December 31, 2016, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

#### Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the annual accounts of the parent company, and our reports of *Réviseur d'Entreprises Agréé* thereon.

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

#### **Report on other legal and regulatory requirements**

The management report, which is the responsibility of the Board of Directors, is consistent with the annual accounts and has been prepared in accordance with the applicable legal requirements.

For Deloitte Audit, *Cabinet de Révision Agréé*

John Psaila, Réviseur d'Entreprises Agréé  
Partner

February 28, 2017

## Proposed allocation of the results for 2016

	<b>In U.S. dollars</b>
Loss for the financial year	(157,629,701)
Profit brought forward ( <i>Report à nouveau</i> ) before transfer from the reserve for own shares	1,434,302,910
<b>Results to be allocated and distributed</b>	<b>1,276,673,209</b>
Transfer from the reserve for own shares	5,921,019
Dividend <sup>(1)</sup>	(116,657,024)
Directors' compensation	(579,755)
<b>Profit carried forward</b>	<b>1,165,357,449</b>

Note:  
 (1) To be submitted to shareholders' approval at the Annual General Meeting of May 10, 2017, and related to the financial period ending December 31, 2016. On the basis of 77,771,349 shares outstanding as of December 31, 2016 (78,049,730 shares in issue, net of 278,381 treasury shares). Dividends are paid quarterly, resulting in a total annualised cash dividend per share of U.S.\$1.50.

Cover - **Philharmonie, Paris** - France

Ateliers Jean Nouvel / Metra & Associés

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Stainless steel used: Aperam 316L with Uginox Bright finish

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Grand Duchy of Luxembourg

For more information, please visit:

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