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Stemcor Holdings Limited
2012 Report & Accounts

Stemcor's services span every step in the steel supply chain.

We are one of the world's largest independent steel traders

We aim to be the partner of choice for producers and purchasers of steel in every part of the world.

We strive to achieve this by nurturing strong business relationships, by continuously improving our processes and by adding value at every step – from minehead to factory floor

Highlights

- Chief executive officer appointed
- Profitable performances in Mining, Distribution and Stockholding
- Pre-tax loss largely attributable to International Trading
- Tonnes traded remained constant
- Leaner balance sheet with reduced stock and debtor positions
- Working capital decreased by 20%
- External borrowings reduced by 10%

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For up-to-date information on Stemcor, including press releases and worldwide office locations please visit our website.

Visit
www.stemcor com

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Overview
Our business at a glance

Stemcor is an independent steel trader Through our network of business units in 45 countries across the globe, we offer a range of value-added services spanning every step in the steel supply chain

Steel producers and steel end users are at opposite ends of the value chain Stemcor bridges the gap and plays a pivotal role in facilitating the flow of product from producers to consumers, a role that is no different from that played by exporters & importers, wholesale distributors, processors and retailers in other industries

Stemcor's breadth of expertise – from minehead to factory floor – enables us to offer both stand alone services and integrated supply chain solutions delivering competitive advantage to producers and purchasers of steel We invest in mining and processing facilities for raw materials We buy and sell raw materials and steel We ship break bulk, act as wholesale stockists and manage inland distribution We run retail stockholding and processing operations delivering steel products direct to end-user premises. We support our counterparties with financial project management and hedging services.

Stemcor was formed in London in 1951 and is a privately owned company We are not owned by nor do we control, any steel producers Our independence ensures that we are objective in matching exact customer needs in terms of quality, specifications financial terms and delivery The majority of shares are held by the Oppenheimer family represented on the Board by Ralph Oppenheimer (Chairman) and Philip Edmonds (Deputy Chairman) with the balance of shares held by other directors and employees

"Our independence ensures that we are objective in matching exact customer needs "

Core competences

Mining & Raw Materials Trading

- Stemcor supplies steel producers with raw materials used in the production process These include iron ore pig iron, HBI/DRI, coal, coke, ferroalloys and scrap
- Much of our raw material trading involves the use of off-take agreements whereby the sale of raw materials to a mill is linked to the purchase of steel products produced by that mill
- This part of the business is supported by Stemcor's iron ore mining and processing interests in India, in addition to other raw materials interests in Australia and Indonesia.

Steel Trading

- For steel producers Stemcor offers cost-effective marketing logistical and financial services to secure customer business
- For purchasers of steel, Stemcor offers a reliable and flexible sourcing channel with financial support. Our international network of offices enables us to establish a direct presence in many markets.
- The goods we trade include long flat, tubular and semi-finished products We also trade specialised products such as engineering steels stainless steels and steel products for the oil and gas industry

Distribution

- Stemcor's distribution activities serve customers who wish to purchase steel on a duty paid basis, delivered to their premises on open terms.
- Orders are taken for substantial quantities for forward delivery with transport often from distant producers by ship Stemcor's function is to ensure that the service provided to customers is at least as good as that of domestic producers, even if delivery is from further afield.
- Customers include stockholders, service centres and large end users Pre-sold stock can be held for such customers and delivered on a just-in-time basis

Stockholding & Service Centres

- Stemcor's stockholding and service centre activities meet the needs of customers who purchase in smaller quantities for prompt delivery This requires the holding of unsold stock across a planned range with good availability off the shelf
- In close proximity to our customers our stockholding outlets offer immediate availability of a wide range of steel products and delivery of mixed loads from different suppliers.
- Our service centres offer a processing service for tailoring to exact customer needs such as surface finishing decoiling, cutting to length slitting and profiling

Finance

- Financial services including structured trade finance project finance, offset and countertrade
- Innovative contract structures enabling suppliers and customers to better manage raw material and steel price volatility

Logistics

- Complete logistics service comprising safe handling loading, shipping, breaking bulk, storage, insurance inspection and inland distribution

Project Management

- Investments, capital raising, joint venture partnerships equipment supply and advisory services

Overview
Our role in the steel supply chain

Stemcor's services span every step in the supply chain, from the provision of raw materials to producers right through to the delivery of processed steel to end users

OUR COMPETITIVE STRENGTHS

TRACK RECORD

Trusted partner with reputation for contract fulfilment

PEOPLE

High calibre people at every level, with low staff turnover

DIVERSE BASE

Long standing producer and customer relationships spanning the globe

ONE-STOP SHOP

Wide range of steel services from a single supply chain partner

INDEPENDENCE

Open culture independent from mills

FLEXIBILITY

Quick reaction to market movements

FINANCIAL STRENGTH

Transactional finance facilities with 50+ world leading banks and substantial syndicated Revolving Credit Facilities

RIGOUR

Rigorous risk management – controls reporting mitigation

Overview
Our locations

Aberdeen
Adelaide
Antwerp
Athens
Auckland
Bangaluru
Bangkok
Bangor
Beijing
Bilbao
Brisbane
Brownhills
Bucharest
Buenos Aires
Cairo
Casablanca
Cheadle
Chemnitz
Chesterfield
Chicago
Chorley
Crewe
Dnepropetrovsk
Dubai
Düsseldorf
Fort Lauderdale
Gaia
Gdansk
Glasgow
Halesowen
Hamburg
Ha Noi
Ho Chi Minh City
Hong Kong
Houston
Inverness
Iserlohn
Istanbul
Jaipur
Johannesburg
Ketsch
Kiev
Koira
Kolkata
Kosice
Krakow
Lagos
Lahore
Lillestrom
Lisbon
Liverpool
London
Los Angeles
Lulea
Lyon
Madrid
Melbourne
Mexico City
Milan
Morecambe
Moscow
Mumbai
New York
Nottingham
Nürnberg
Odessa
Paris
Peralta
Perth
Peterborough
Rotterdam
Santiago
São Paulo
Scunthorpe
Shanghai
Sheffield
Singapore
Skopje
Stuttgart
Sutton Coldfield
Sydney
Tamworth
Tequesta
Tokyo
Uusikaupunki
Vevey
Warren
Zug

Case study

Project finance to upgrade capital equipment

Steel mills often turn to Stemcor for help in upgrading their capital equipment, which generally requires large scale financing. One recent example is a stainless steel cold-rolled anneal & pickle line to be built in China. Stemcor's project finance agreements fund such expenditure on capital assets, acting as an intermediary between the banks and borrowers. The steel producer normally enters into a long-term agreement with Stemcor, whereby steel products of sufficient value to meet the loan repayments (and interest) are delivered to Stemcor Stemcor pays for the steel by transferring funds into a specific project account to pay back the bank loan In effect, Stemcor acts as a risk mitigant by reducing the default risk.

Overview Global steel market outlook

Steel consumption is set to rise by a modest 3–4% over the next two years, driven by the construction, oil & gas and automotive sectors Longer term growth will be fuelled by the developing world, where per capita steel consumption is still only a third of the level in the EU Steel consumption by the year 2020 is forecast to grow by 35% to 1 8bn tonnes

Short-term outlook
The world economy in 2013 and early 2014 is likely to grow but recovery from the financial crisis of 2008–2009 has been and will remain slow The International Monetary Fund forecasts that world GDP will grow by about 3 5% in 2013 and by a further 4 1% in 2014 compared to 3 2% in 2012 Much of this increase will be weighted towards emerging markets in Asia and elsewhere In North America the pace will be more moderate whilst in Europe most forecasters envisage little or no improvement in 2013 and perhaps 1–2% growth in 2014

Global steel consumption, in turn, will rise by just over 3% in 2013 according to the latest (October 2012) forecast of apparent steel use from the World Steel Association, this compares with a 2 1% increase for 2012 This year's increase is expected to include some restocking as well as a rise in end-use consumption For 2014 consumption is expected to rise by a further 3–4%, Macquarie Commodities Research forecasts 3 4%

The early weeks of 2013 saw some restocking but this is not expected to last. However, the second half of the year may see a more substantial increase in end-use demand, and that in turn may help replenish the pipeline of orders. Nevertheless, overall inventory levels are likely to remain relatively low so long as the market outlook for steel demand is uncertain

The strongest growth, as in the recent past will be in the emerging and less developed countries Steel demand in China which only grew marginally in 2012 is expected to rise a little more this year as Beijing mildly stimulates the country's economy The picture for 2014 is less clear as the new government may – by then – start to shift demand away from steel-intensive investments which currently represent just under half the country's GDP Urbanisation is likely to continue, but at a slower pace

In other developing countries, the demand for construction steel is likely to pick up in line with an improving world economy and a resurgence in international trade Africa in particular is seen as one of the stronger markets for construction steels for new infrastructure projects The increasing investment this year and next in the production of unconventional oil and gas (through fracking) especially in North America, and of offshore deposits in Latin America, will support growth in demand for construction steels and pipes.

World vehicle production in both 2013 and 2014 is expected to rise further with cheap consumer credit helping demand in China and the USA offset weaker European markets In Europe, apparent steel consumption is expected to remain around or even below levels prior to 2012

Longer-term outlook
In the long term, the rate of global economic growth will be moderate and seems unlikely to repeat the dazzling levels of the early 2000s However, agreements on some of the key international issues such as debt restructuring, currency volatility and climate change could improve business confidence considerably The consensus view is that the world economy over the period 2015–2020 will grow at around 3% a year at market exchange rates.

By the year 2020, world steel consumption could well have reached 1 8bn tonnes, compared with 1 3bn tonnes in 2010 This forecast is based on annual average increases of about 3% over the period 2015–2020 Macquarie is forecasting annual increases of 3 1% in 2015, 3% in 2016 and 2 8% in 2017 World Steel Dynamics is less bullish, forecasting a 2 1% growth rate and 1 6bn tonnes consumption by 2020

Case study

Steel plate for wind tower manufacturers

Many steel service centre customers in Spain regularly purchase commercial grade steel plates for processing and onward supply for the construction of wind towers Stemcor will typically receive a specification – including length, quality and tolerance – for a project to build a batch of 30 wind towers. Once the material arrives at port, Stemcor classifies it as per the customer's instruction (eg by size and colour) Stemcor then arranges the plate to be transported to the service centre warehouse for cutting, shot blasting and painting. Stemcor's expertise fills the gaps in the supply chain up to Deliver Duty Paid and provides finance up to 90 days from the delivery date

Overview Global steel market outlook

Chinese economic growth will continue to be strong, but will slow over the period to around 6% a year from the double digits in the first years of the century Lower economic growth means less steel use Elsewhere in developing East Asia, economic growth will also remain at relatively high levels, such as 5–6% a year But any decline in the rate of growth in investments in China will have economic impacts elsewhere in the region

China s new leaders may well shift the emphasis in their economy away from infrastructure and other investments to higher end manufacturing, consumer goods and public services. Such changes would be gradual However, the rebalancing would – in due course – impact other fast-growing economies, such as those in South East Asia Africa and Latin America. The slower rate of growth in China's commodity imports would have an adverse impact on today s major exporters of metals and minerals

It seems unlikely that India, with its much smaller manufacturing base, will offset the impact of any decline in China Nevertheless, its economy is set to expand significantly once infrastructure bottlenecks have been overcome

Urbanisation and associated steel-intensive infrastructure investments will be a key volume driver for the global steel market in the years to come Climate change will boost the demand for steel products for renewable energy, waste disposal, urban roads and transport and sea and flood controls Steel products are integral to a low-carbon world

Per capita steel consumption in much of the developing world remains low in the range of 20–100kg/head compared with a world average of 215kg/head and an EU average of 310kg/head (see chart) according to the World Steel Association. Some of the lowest volumes are in sub-Saharan Africa, where urban infrastructure developments are few and far between. Long-term economic growth in the region, as well as in the Middle East, is seen at 5–6% a year

In contrast in the longer term, much lower rates of economic growth are forecast for the OECD countries, typically around 1 5–2 5% a year However, steel consumption in these regions is expected to include a higher proportion of value added engineering steels for machine tools and vehicles, as well as high end steels for energy-efficient electric motors More resilient steels for automotive body uses are being developed for domestic car producers as well as for export

Opportunities for steel trading

The Board expects Stemcor to maintain its overall share of traded steel over the next few years, on the back of increased steel consumption and our increasingly diversified role in the steel supply chain This is despite two notable threats disintermediation (the trend for steel mills to deal direct with customers) and the rise of domestic steel producers in developing economies.

There are substantial opportunities to counteract these threats. New steel producers will need traders to take surplus production and with our international network and established contacts, Stemcor is well placed to supply them with raw materials as well as to market their steel products overseas Domestic steel markets in many developing regions do not yet have a downstream supply chain between the producer and the end user, opening up opportunities for distribution, stockholding and service centre ventures to serve the growing number and varying demands of steel buyers. In developed markets, Stemcor can increase its market share by focusing on high end steels and by providing more added value services such as steel slitting and processing

Sources: CRU IMF Macquarie Commodities Research, MEPS, Metal Bulletin Steel Business Briefing World Steel Association World Steel Dynamics

Case study

Partnering with an automotive manufacturer

Stemcor supplies a European car producer with 60,000 tonnes of engineering steels a year for making engine components. Stemcor holds pre-sold stocks for the customer and delivers on a just-in-time basis against call-off When steel is delivered into the plant it continues to remain Stemcor's stock until it has been utilised A link has been set up between Stemcor and the customer's respective stock control systems so that entries made into one system are automatically synchronised to the other The negotiations with producers are held on a transparent basis between Stemcor, the customer and the steel producer The producers are prepared to channel their supplies through Stemcor because of the value-adding services that Stemcor provides.

Overview
Our strategy and business model

Stemcor's aim is to become the world's most profitable trading, distribution, stockholding and processing group in steel and steel-making raw materials

Vision

- To become the most profitable intermediary in the global steel supply chain

Business model

- Focus on one global industry – steel
- Serve a critical role within the steel supply chain
- Generate opportunities to add value by leveraging broad presence and expertise
- No major stakes in steel production

Strategy

- Build around the established core international trading business
- Expand upstream in raw materials mining & processing
- Get closer to steel producers
- Expand downstream in steel distribution & stockholding
- Get closer to steel end users
- Expand financial & price risk management services
- Facilitate trade throughout the chain
- Drive organic greenfield and acquisitive growth
- Be opportunistic within set parameters

Stemcor has a unique and sustainable business model, based on the substantial body of expertise we have developed in the steel industry We see ourselves as a lynchpin in the steel industry a critical source of support and stability, providing supply chain management to our steel producing and consuming counterparties. By offering logistics administrative and financial services – and by taking positions to cut lead times – we generate value for our counterparties and free them up to concentrate on running their own businesses. Our strategy for growth is to build on our core trading business expand both up and down the supply chain and find innovative ways to add value as a service provider This strategy is designed to cement our role in the supply chain and create additional revenue streams from which to earn margins and fees.

Secure supply of raw materials for trading via mining investments
A key part of Stemcor's strategy is to invest in mining and related assets in order to secure the supply of raw materials to feed our international trading activities As well as guaranteeing supply and volumes such investments help nurture symbiotic relationships with steel mills

Our mining operations in India have performed strongly and our pellet plant in India is ready to be commissioned Stemcor is focused on garnering and reinvesting profits from these investments but considers other investments as opportunities arise particularly iron ore and coal mining coke production facilities and physical operations in scrap processing and handling

Develop the trading business
There is scope to develop our trading business and exploit the synergies with our distribution business. Our distribution business purchases substantial quantities of steel, breaks bulk and forwards to stockholding and large end-user customers, often competing with local mills It makes commercial sense to bring it closer to trading encouraging combined purchasing within the Group and providing our cross-border trading teams with regular domestic sales channels.

Geographically we are continually extending our infrastructure particularly in emerging economies We will look to establish an office in any country where there is scope for us to intermediate significant flows and where there are prospects for sustained growth Elsewhere we are developing business through dedicated staff who regularly travel to establish and nurture customer and supplier relationships In addition to new geographic regions, such as Africa and South America, there are also product areas that Stemcor intends to develop further, including tubes, stainless steel, heavy sections and merchant bar

In raw materials trading we continue to leverage relationships with our steel producing partners offering a dependable source of supply in return for off-take arrangements. Our steel trading business also benefits by gaining knowledge of the input variables that affect steel prices and In addition we often derive extra income from structured finance packages There are still opportunities to grow the raw materials trading business without necessarily making further investments in fixed assets

Increase distribution activities to end users
Historically Stemcor's domestic distribution business has offered an essential feeder service to third party stockholder customers, bringing steel from anywhere within our international network. Our focus is now shifting towards large global end users typically firms serving the construction industry the oil and gas industries, the white and yellow goods industries and the automotive industry

Such relationships with end users help drive regular demand for steel from Stemcor's domestic distribution units through to the international trading business Many end-user customers enter into a framework agreement with Stemcor, which is then renewed every year When supplying to end users Stemcor can add value by offering warehousing inventory management, just-in-time delivery long-term price contracts fabrication and Total Cost of Ownership reduction

Continue to build a global network of stockholders and service centres
Stockholding is the retail end of the industry, supplying comparatively small batches of steel for just-in-time delivery to a broad customer base. Steel stockholding and processing are growth industries, with their local presence close to end users, they are less likely to be disintermediated The stronger Stemcor is in stockholding the more direct placing power our trading and distribution units can offer steel producers. Expansion downstream complements Stemcor's existing activities, enabling us to use our purchasing power as an international trader to provide competitive advantage both to our own stockholders and also to our stockholding customers.

As our own stockholding network grows, third party stockholder customers will form proportionately less of our business. Sales to these stockholders remain important to us and we will continue to serve them on an equal basis to our own stockholding outlets. Many of our future stockholding investments are likely to be of a virtual' nature, whereby warehousing and transportation are outsourced to skilled specialists, allowing us to concentrate on our core competencies and keep capital expenditure low We will also focus our growth on service centres, processing adds value to our service offering by taking steel a step closer to end users actual needs

Leverage Stemcor's financial expertise
In recent years, structured trade finance has supported Stemcor's growth. It will continue to be an integral part of Stemcor's strategy enhancing our trading and distribution activities. Stemcor does not aspire to act as an arranger or lender for its own sake Our motivation is to secure sources of supply or preferential sales relationships by leveraging our relationships with banks and our understanding of financing techniques.

The credit crisis has made it more difficult, even for some top tier producers to attract finance from international banks. In this environment, Stemcor is well positioned to take advantage of the continuing need for such producers to raise working capital

Furthermore Stemcor intends to grow our strategic alliances to take advantage of the numerous opportunities in the steel products and related raw materials derivatives markets.

Business review
Chairman's statement

2012 was a brutal year for the steel industry, although that does not excuse our poor performance Stemcor paid a price for having grown too rapidly over recent years without having developed adequate skills to manage a bigger company The results were our worst ever, but I am confident that we have learned from our mistakes and will return to profit in 2013 and in future years

Ralph Oppenheimer
Chairman

Our Group consists of a number of diverse business units spanning the steel world Many of these units had an excellent year and produced good profits, despite the fall in steel prices and poor market conditions Regrettably we made substantial losses in our International Trading Division This was our original primary business and not an area where we expected to make such losses The division had performed very well from the inception of our company in 1951 to 2010 More recently in 2011 and 2012 there were adverse effects from political and economic turmoil in some of our markets.

Our main problem however, is that the world has been changing rapidly and it is difficult to maintain a role with our customers and suppliers, unless we can be clearly shown to add value Instead of reacting by re-emphasising our traditional values of service and customer focus our International Trading Division sought to maintain their role in the supply chain and counteract the threat of disintermediation by moving more into position trading and the financing of stocks. Our growth into these functions was not properly controlled and some poor decisions were made leading to unexpected losses At the same time we allowed our overheads to grow too fast. In my interim report in August 2012 I reported a disappointing six months for our International Trading Division though I expected performance to improve in the second half of the year After a brief improvement we witnessed a collapse in steel prices compounded by some substantial provisions that had to be made against three specific risk positions As a result, we posted increased losses in this Division in the second half of the year

Our strategy for the International Trading Division going forward is simple We will get back to basics We will concentrate on strengthening close relationships with our counterparties based on trust and service We can add value through our global network and our expertise in marketing logistics and finance There is still a real function for our International trading business in emerging markets We are reducing our overheads to a more appropriate scale but we are still committed to this division and determined to improve its performance

Our Distribution Division business units in Australia South Africa, the UK and the USA all had excellent results These units have been established for many years and have proven management and a solid market presence However we again suffered unacceptable losses in our German and Italian distribution units Management has now been changed though these businesses operate in very tough and competitive markets and it will not be easy to turn them round Nevertheless I am hopeful of a far better performance from both Germany and Italy in 2013 based on new management and improved strategies going forward

Our Engineering Steel Division put in a reasonable performance overall with the exception of two units which had recently moved into stainless steel in a substantial way Here we paid the price of inexperience in a sector which was new for the management concerned By contrast, a stainless steel unit recently established in the UK under an experienced manager had a very successful year

In the last six years we have returned to the steel stockholding sector I am pleased to report that our General Steel Stockholding Division made satisfactory profits in what was a very difficult year for that industry We were particularly pleased with the performance of Zimmer Staal our heavy plate acquisition in Belgium, and Steel Plate and Sections, our 2007 acquisition serving the offshore oil and gas industry In the UK, Barclay and Mathieson made a small loss, but this was largely attributable to set-up costs of new ventures including a greenfield stockholding depot in the South of England Without these new activities Barclay and Mathieson would have made a reasonable profit and I am confident that their 2013 results will be better A new greenfield stockholding venture in Paris is making some progress but also taking longer than expected to reach breakeven Our specialised engineering steel stockholding business in Australia performed well The business we bought out of liquidation in 2009 – now operating under the name of Stemcor Special Steels with depots in Dubai, Houston, Singapore and the UK – is improving and I am hopeful that it will at least break even in the current year

Our Service Centre Division grew in 2011 with three acquisitions in Spain, Portugal and the UK, though the latter is only a minority investment In 2012 we added a further service centre in Finland to our network. We also have a substantial coil slitting operation in Germany where we acquired full control in 2006 The return on capital employed in 2012 in all five of these service centres was disappointing and we still have much work to do to rectify their performance

In India we have made two substantial investments in Odisha Brahmani River Pellets (BRPL) a greenfield pellet plant and Aryan Mining (AMTC) an iron and manganese mine BRPL has been delayed in commissioning as a result of new permissions having to be obtained, but has completed the crucial and most risky construction phase We expect that we will finally commence production in April 2013 AMTC was closed for eight months during the calendar year due to a variety of regulatory issues We finally received permissions to resume despatching in early February of this year and we expect that AMTC will in consequence have a better year in 2013 In order to promote the future of AMTC and BRPL and the synergies between them we have combined these two companies through the acquisition of BRPL by AMTC, in agreement with our Indian partner

India has incredible iron ore resources most of which have not yet been developed due to the difficult regulatory environment and a lack of investment. As a result of new regulations and the Indian government's understandable desire to encourage the development of the domestic steel industry, India's iron ore exports have reduced to a small fraction of what they used to be and substantial quantities of iron ore are now being imported The Indian government is now promoting the upgrading and pelletisation of iron ore fines and we are therefore confident that our investment strategy in India is justified and in line with Indian government objectives

The world economy is generally looking more positive Stock markets have been strong the USA is growing and China has taken sensible measures to keep growth on track. Within the steel industry the problem of over-capacity is becoming worse rather than better, as a result of new mills and improvements in capacity and productivity at existing mills. The steel industry will therefore remain a difficult sector in the future and volatility in pricing is here to stay This should not necessarily affect a trading company adversely and I am confident that despite the serious setback of 2012, Stemcor will return to profitability in 2013 New acquisitions and greenfield ventures are however on hold until we are firmly back in profit and our management competence is re-established

Julian Verden was appointed chief executive officer as from 1 January this year and has entered into his new responsibilities with vigour and enthusiasm I remain as chairman. David Faktor the Group managing director responsible for our International Trading Division, resigned towards the end of 2012 I would like to thank him for 31 years of dedicated service and wish him all the best for the future Andrew Jones, who is responsible for our distribution and stockholding units serving the oil and gas industries, has been appointed to the main Board

Stemcor's reputation for integrity is central to our business model and the Stemcor name is trusted and respected throughout the steel industry This will stand us in good stead in 2013 in helping us return to profitability

My thanks are due to all my colleagues for their hard work and commitment and to our bankers for their continued support.

Ralph Oppenheimer
Chairman
22 March 2013

Business review Chief executive officer's statement

I am delighted to have been offered the position of chief executive officer, which I assumed in January 2013 My pledge to all stakeholders is to bring the Group back to profitability and build a sustainable platform for growth

Julian Verden
Chief Executive Officer

Market conditions have been depressed and remain bearish for the first half of 2013 but I, and my management team, accept the challenge with relish Although the Stemcor model of being involved in every step of the steel supply chain will be maintained, there will be some significant changes going forward which I will explain in this statement 2013 will be a year of consolidation and restructuring while preserving our global network and continuing to keep an eye on the ever-changing world markets.

The first change is the restructuring of the Group splitting it into three distinct divisions. Trading & Distribution, Stockholding and India The split is both for management purposes – I want to increase the sense of being part of a distinct Division as well as a Group rather than simply a collection of businesses – and for financing purposes – each Division should be able to be self-financing. These three divisions will be underpinned by strong cross-Group support functions.

One of the fundamental changes of the new structure is the bringing together of Trading and Distribution Our Distribution business purchases substantial quantities of steel, breaks bulk and forwards to stockholding and large end-user customers, often competing with local mills It makes commercial sense to exploit the synergies with Trading, encouraging combined purchasing within the Group and providing our cross-border trading teams with regular domestic sales channels

The dynamics of the Stockholding & Service Centre business is different in many ways from the Group's traditional trading business and requires different skill sets Consolidating this business under a specialist team will help strengthen management and improve operational best practice

Our Indian operations – AMTC and BRPL – represent a huge investment for Stemcor and feature accordingly in the new Group structure

We are making steady progress and it remains our intention to float the combined business in order to raise funds for new investments in India, both upstream and downstream Meanwhile we will not be investing in other assets as we concentrate on our existing Indian ventures which although they have proved challenging have enormous potential and are now close to delivering real value

Towards the end of 2012 we conducted a strategic review of the Group's International Trading business We have analysed the output from this review and come to the conclusion that, in the recent past we have got too involved in position trading, resulting in excessive exposure to risk. This will change We pride ourselves on strong counterparty relationships and will continue to look for innovative ways to support our steel producing and purchasing partners. We will remain close to our customers, listen to their needs and strive to go the extra mile to deliver a first class service. We will be transparent and nurture relationships built on trust. However, we must avoid the complexities of some of our past deals and assume risk which is proportionate to the reward we are seeking We will always honour our commitments but must move away from non-performing relationships and deals where the risk far outweighs the benefit.

My mission is for Stemcor to become a back to basics steel and raw materials trader focusing on cleanly structured business, well executed deals and quality over quantity In general we will reduce trade where we end up with risk due to commitments where price or volumes are fixed What we will do is work ever harder with partners where we can develop regular trade flows and prices that are current to the day of trade We will maintain a broad spectrum of counterparties and by ensuring our presence in all markets will maximise our potential to add value between buyers and sellers.

Risk management is critical to Stemcor's success We have appropriate systems and processes in place but have at times allowed these to be circumvented Under my watch this will stop We will be changing the culture at Stemcor such that there will be greater scrutiny from the management team and reduced appetite for risk. Trading desk heads will be made more accountable for their own bottom line and balance sheet and will be driven to identify and raise risk issues early Performance plans will be used to set objectives measure performance and enforce accountability Where possible, Stemcor's derivatives team will be working closely with traders to hedge risk, which in turn allows us to offer innovative contract structures to help counterparties manage raw material and steel price volatility All members of the Board are committed to maintaining a pristine balance sheet by reducing surplus assets stocks and debtors

Given the severity of the current recession it is incumbent on the Group to rightsize to fit the business we have This consolidation will be difficult but there is no doubt that it must be done There is room for improvement in the Group's successful and developing business units, but for now we shall be focusing on turning around our non-performing business units Our goal is to re-shape these units without damaging their future prospects.

Looking ahead my short-term vision for Stemcor is to have three world class, profitable businesses that are independent and self-sustaining Global steel consumption will grow and, despite greater emphasis on localised business, internationally traded steel is holding its own Our underlying business is strong After stabilising the business in 2013 I am confident that we can match and surpass previous levels of profitability and resume both our organic and acquisition growth ambitions.

Longer term I and my management team will stand by the aspirations outlined in our 2020 Vision strategy especially with regard to our most important asset. our people We will inject more energy into training, leadership development career planning and the establishment of best practice across our operations By investing in our people and systems, we are investing in our future

Lastly a message to all our staff The steel industry in general has endured a difficult 18 months and Stemcor is no exception Whilst I am optimistic about the future, we still face a challenging time in the near term I would like to thank you all for your support, on which I am sure I can continue to rely and reiterate my commitment to returning Stemcor to being a successful and rewarding place to work.

Julian Verden
Chief Executive Officer
22 March 2013

Business review
Operating review

The 3 3% growth in GDP that the IMF was forecasting for 2012 turned out to be slightly optimistic, the actual figure reported in its World Economic Outlook of January 2013 was 3 2%

Global steel production, as reported by the World Steel Association (WSA) increased by 1 2% in 2012 to another new all-time high of 1 548bn tonnes, although the rate of growth was modest in comparison to the rise of 6.8% the previous year

World export and import patterns (Source ISSB and WSA)
China's steel exports again rose in 2012 whilst imports declined December's exports were 4 5m metric tonnes, whilst corresponding imports were 1 1m tonnes This left China with net exports of 37 5m tonnes for the full year an increase of nearly 32% over the previous year according to data supplied by the International Steel Statistics Bureau (ISSB) Crude steel production in China increased by 3% in 2012, rising from 695m tonnes to 717m tonnes as a percentage of steel produced exports in 2012 represented almost 8% of Chinese steel production (finished steel equivalent) slightly higher than in the previous year

The top steel exporters in 2012 after China were Japan the EU27 South Korea, Russia and Ukraine Whilst there were only minor changes in the positions of the exporters, the changes in the top steel importers in 2012 were more dramatic The USA and Thailand showed significant increases in imported tonnage, whilst the EU27 in particular showed a marked decline and to a lesser extent, South Korea and China did too This left the top five importers as the USA, the EU27 South Korea Thailand and China

In the first decade of this century, according to data supplied by the WSA, finished steel exports (cross border trade) averaged just under 36% of global production (finished steel equivalent) This figure has been steadily falling since 2000 and reached a low point in 2009 Since then there has been a slow climb back. Revised figures for 2011 showed total exports of 417m tonnes (just over 31% of production) and the provisional data for 2012 suggests exports at around 420m tonnes (just under 31% of production)

Pricing
Volatility is inherent in steel pricing and 2012 was no exception although the rate was lower than in the previous year The chart produced by CRU shows the Far East HRC (hot rolled coil) CFR (Cost and Freight) price for the period January 2010 to December 2012 Prices for HRC surged in February 2011 only to end in December 2011 at a slightly higher level than 12 months before

Other indices showed a similar trend After a promising start to the year the CRU global prices index started to turn in April and continued to drop until September/October before climbing again

The overall picture is one of increased supply in cross border trade of steel, coupled with lower price volatility, both of which put the steel trader at a disadvantage

Freight
Freight continued to represent a major cost for the Group in 2012 but pricing remained subdued The Baltic Dry Index (BDI), a mirror of the whole world dry-bulk freight market for above 25 000mt cargo size had a flat year and averaged 920 (1 549 over 2011) The index, which reached its peak of 11 793 in March 2008 saw a new low of 647 in February 2012 a level not seen since the market 'halt' following the Lehman crisis The deep-sea world fleet was represented by 6,604 ships at the end of 2007 and 9 275 ships by the end of 2012 an increase of 2,671 ships in 5 years Given the world present forward order book, we could possibly see another 1 000 new-build ships joining the deep-sea dry cargo fleet during 2013 By the end of 2012 dry cargo volume had increased by approximately 5% over the year ship supply in Capesize had increased by over 14% and Panamax by over 17% World over-supply of vessels in the dry-bulk market still therefore remains the major talking point in the freight market A recovery in prices is not expected in 2013

Case study

Scrap for electric arc furnace production

Stemcor is the exclusive supplier of scrap to an electric arc furnace producer of billets, wire rod and reinforcing bars in Europe As part of this contract, scrap is supplied on credit terms to help the counterparty with its working capital requirements Stemcor is secured by a charge on the stocks of scrap and finished steel, which at all times must exceed the credit extended by Stemcor Furthermore, Stemcor has a charge on the counterparty's assets of land buildings and machinery In addition to supplying scrap, Stemcor purchases billets and other finished products from the producer for export. This partnership allows Stemcor to strengthen its relationships with scrap metal merchants, who have to export a good proportion of their scrap where there is insufficient demand in domestic markets

Business review
Operating review

"The average sales pnce per mt fell by £77 in 2012"

Review of 2011 developments
During 2011 the Group made Investments in Stockholding Engineering Steels, Distribution, Service Centres and Raw Materials.

The Stockholding acquisition, Zimmer Staal, invoiced 83 000mt in 2012 and reported satisfactory profits The company is an integral part of the Group's plate strategy in Germany and Northern Europe, and its first year in the Group augurs well for the future

In Engineering Steels the acquisition of Stemcor Special Steels in Houston resulted in invoicing of 5 000mt high specification steel making inroads into the US oil and gas market with contracts with some high profile oilfield service companies It also reported a modest profit.

Within the Distribution activity the new distribution centre established in Sao Paolo is running at low volumes while it develops its market

The Service Centres – Semimetals, Servichap and USS – did not perform as well as had been hoped, although there was significant tonnage

Within the Raw Materials activity the investments in Pacific Coal and CMA produced short-term losses as the value of the shares were marked to their listed stock exchange values. Ascor Resources a joint venture thermal coal trading company sourcing material from Indonesia, had very little invoiced tonnage

New developments in 2012
The Group made very few investments this year but amongst those made were the acqusition of a service centre in Finland, the start up of a new Engineering Steels distributor in Slovakia and the start up of a general steels stockholder in Northern France Fers et Metaux As part of a long-term work in progress for the development of a pellet plant, the Group made an investment in an Indian company Crest Steel and Power

As discussed elsewhere in the annual report, the Board restructuring that took place late in 2012 will result in the Group being organised into four divisions Trading & Distribution, Stockholding & Service Centres Indian Operations, and Group Management & Ancillary Services

The trading account

	2012	2011	2010	2009	2008
MT Invoiced (m)	17 7	17 1	16 9	12 5	15 1
Turnover (£m)	5,112	6 254	5 141	3 540	6,288
Gross profit (£m)	153	243	242	102	216
Gross profit (%)	3.0	3 9	4 7	2 9	3 4
Return on equity (%)	(19 1)	9 0	21 0	(12 2)	24 1

Against a background of reduced price volatility and cross-border movement of steel at around the 2011 levels, the small increase in mt invoiced was while not what was hoped for, at least in line with market sentiment. Turnover for the year fell by 18%, this was a combination of a small increase in tonnes invoiced as principal, offset by the fall in prices during the year The average sales price per mt fell by £77 per mt from £366 per mt in 2011 to £289 per mt in 2012 The mix between steel and lower priced raw materials remained constant at 56% raw materials, 44% steel The gross profit margin fell as a number of large and adverse items hit the International Trading profit & loss account during the course of 2012, but notably towards the end of the year Within steel trading, a number of traditional markets in particular those of North Africa, had reduced activities due to the political instability of the region

	2012 Jul–Dec	2012 Jan–Jun	2011 Jul–Dec	2011 Jan–Jun	2010 Jul–Dec	2010 Jan–Jun
Tonnes invoiced (millions)	9 5	8.1	8 0	9 1	9 0	7 9
Turnover (£m)	2,478	2,634	3 076	3 178	2,706	2,435
Average sales price per mt (£)	260	323	384	350	300	308
Gross profit %	2.6	3.4	3 4	4 3	4 6	4 9

Gross profit includes the contribution from commission tonnage and services and reflects the impact of provisions made during the year.

During 2012 there was an increase in activity in H2 Raw materials trading accounted for the bulk of the H2 increase in tonnage. However, this increase in tonnage did not translate into an increase in turnover or profitability The H2 fall in turnover and profitability affected most units in the Group Business streams that went against the trend in H2 were the distribution units and the steel trading elements of International Trading, which did have better H2 profitability

Overheads
The economic climate in 2012 has been stretching and the Group has kept overheads under close scrutiny Overall overheads decreased by 1% The largest single component of overhead costs is that of personnel, closing headcount rose from 1 919 employees at the end of 2011 to 2 051 employees at the end of 2012 an increase of 7% There was, however a significant reduction in personnel costs, as a pay freeze was introduced and bonus payments eliminated in all non-profit making units

Interest
Interest expense has fallen slightly, but by less than the 9 6% drop in borrowing The Group suffered rising interest costs as a result of an increase in the Group s lenders cost of borrowings (which are in turn passed on to the Group) and the higher interest margin on the 2012 Revolving Credit Facility (RCF) A fall in interest income resulted in the net interest charge remaining static

Taxation
Although the Group has made a loss during the year, corporate tax has still been payable in jurisdictions in which the Group operates profitably, such as India, the USA and Australia, where corporate tax rates are higher than the UK.

Minority interests
There are now minority interests in five of the Group's subsidiaries, Ansteel Spain Ascor Resources and Servichap are unchanged this year A restructuring of the Group's Indian assets is taking place This involves a share exchange, swapping part of Stemcor's holdings in BRPL with the minority interest holding in AMTC At the year end the minority interest in Aryan has reduced from 50% to 42% AMTC has acquired a 30% interest in BRPL, which gives an effective minority interest in BRPL of 12 5% Regulatory approval is currently being sought in India for a further share swap which if approved will see BRPL become a 100% subsidiary of AMTC and AMTC have a minority interest of 27%

Review of operating units
The Group's business can be analysed over five principal activities. Mining and Raw Materials Processing International Trading in steel and steel-making raw materials Distribution Engineering Steels and Stockholding & Service Centres These five activities form a matrix which cuts across legal entities and geography Within these activities, trading in specialist products and niche markets is encouraged and is proving to be an engine for growth.

The Group's Mining and Raw Materials Processing activity is focused on companies in India. There are two major assets in this category Aryan Mining and Trading Corporation (AMTC) an iron and manganese ore mine and Brahmani River Pellets Ltd (BRPL) a beneficiation and pelletisation plant. Following a corporate reorganisation AMTC has a 30% interest in BRPL and the Group's shareholding in AMTC has increased from 50% to 58% The volumes invoiced by AMTC itself fell as a result of legal issues some of which were directed at AMTC and some of which closed all mining activity throughout the state of Odisha The mine is now dispatching once more The construction phase of BRPL ended in Q1 2013, not in 2012 as had been expected when the pipeline project was completed The pipeline connects the beneficiation plant at Barbil with the pelletisation plant at Jajpur The Group also maintains an interest in Mid East Integrated Steel Ltd (MISL) (10%) which also operates an iron ore mine MISL is now operating profitably and hopes to be re-admitted to listing in 2013 and Stemcor India Pte Ltd the investing company received a small dividend for the first time this year

The Group also maintains small strategic interests in listed investments to provide material to support its trading activities and has off-take agreements with other mining enterprises It retains an interest in the sales of the Savage River iron ore mine and processing plant, Grange Tasmania

The Group's International Trading in steel and raw materials is centred on three hubs in London, Dubai and Singapore Raw materials continues to be the dominant element in the tonnage statistics with its total volume almost twice that of steel The increase in tonnes invoiced was driven by raw materials with a slight decline in steel volumes invoiced International Trading had a difficult year Some long-term supply relationships were closed out too late to avoid substantial losses, and some

Business review
Operating review

"The Group's oil and gas sector business saw a net increase in tonnes invoiced this year"

long term customer relationships generated losses as their liquidity problems impacted on Stemcor's exposures There has been a review of the nature of the trading structures and practices that this part of the Group had adopted, and changes are being made to its business model

In our Distribution activity the Continental European businesses fared less well than last year Perhaps surprisingly, given the state of the European economy the most successful of the Continental European businesses in terms of profitability was Ansteel the Group s Spanish subsidiary Although both its tonnage and profitability fell slightly it still reported very respectable numbers from a very difficult market WSK, a distributor based in Nurenberg, was particularly badly hit by the economic turmoil in Europe During the year, both WSK and Stemcor Flachstahl based in Dusseldorf replaced their MDs. management of these two companies is now unified and synergies are starting to emerge The business based in Switzerland showed a marked reduction in both tonnes invoiced and profitability Distribution businesses in the UK saw a small fall in volumes but continued profitability Stemcor Australia increased tonnage by almost half, and also increased profitability In South Africa the business maintained its level of invoiced tonnage

Stemcor USA (SUSA) participates in most phases of the steel supply chain that Stemcor covers globally Beginning with raw materials trading at the start of the cycle, through international trading distribution and finally stockholding The range of steel products extends to specialist engineering steels SUSA manages a matrix of trading activities from its New York base with key offices located in California, Florida, Illinois, Ohio and Mexico City Profitable results were produced again in 2012 on stable tonnes invoiced

Engineering Steels trading units encompass both distribution and stockholding Both sectors reported a fall in invoiced tonnage and profitability Uldry Steel based in Vevey Switzerland, ran counter to this trend, as did the Stemcor Special Steels group of companies They both reported improved tonnages and profitability

The Group serves the oil and gas sector with a range of specialist products through SPS (plate and sections) Stemcor AG (casing, tubing, line pipe drill pipe stainless), Stemcor Special Steels (bars, hexagons and slabs) and Uldry (forgings and seamless rolled) These businesses have operations in the UK Switzerland Dubai Singapore and the USA. They saw a net increase in tonnes invoiced this year

Stemcor's Stockholding and Service Centre activities are mainly centered in Europe Their European presence was enhanced in 2012 by investments in Fers et Metaux in France and Stemcor Finland Other European operations are based in the UK, France and Germany Outside Europe there are stockholding operations in the USA, Dubai, Singapore and Australia where the Group has a joint venture Overall invoiced volumes increased from the level set in 2011, excluding the contributions from new members of the Group Profitability fell in 2012 as the predominantly European economic environment suffered

Specialist trading activities
Stemcor Trade Finance again led the renewal of the Group's syndicated 364 day Revolving Credit Facility in the London market, which this year raised USD850m The syndicated Revolving Credit Facility for Stemcor SEA, Singapore, was renewed and increased to USD225m The Treasury team actively manages the Group's significant cash resources in addition to managing the bilateral financing arrangements with our bankers and a new cash pooling system to optimise cash usage around the Group was initiated The activities of the structured finance team shifted more in favour of providing customer-led financing solutions as the Group reduced its exposure to pre-financing of suppliers, and supported important trading relationships for the Group in CIS India, Thailand and South America After a successful 2011 the offset team had a slower year as the focus of its business turned eastwards, but in what is a project-oriented business the team has positioned itself well to take advantage of significant new business opportunities over the next two years.

Stemcor Risk Management (SRM) has been providing the Group with a range of financial instruments to enable it to hedge some of its exposure on physical steel and steel-making raw materials trading books since 2007 The derivatives market place for steel and steel-making raw materials still remains largely illiquid – with the notable exception of iron ore swaps – so opportunities to hedge are not always available at the right time/price Despite this lack of volume, SRM has made some real progress with hedging hot rolled coil using swaps based on both United States and Northern Europe indices and market interest is expected to continue growing here. The virtual demise of the LME billet contract has seen many users move to the paper market instead and SRM has been active here too Other products where there is a limited derivatives market include scrap and coking coal, both of which SRM has been active in

Stemcor in the marketplace
Stemcor's philosophy is to work through small self-contained units, each with its own management and clearly defined areas of responsibility Our local presence fosters the development of close relations with producers and customers, while our international network brings together geographically separated buyers and sellers of steel and allows us to offer global solutions to customers who are building up operations around the world Stemcor offices combine the personal touch of small business units with the strength of a large group committed to common objectives, shared values and a unified strategy

The quality of our people our risk management abilities our IT skills and our track record give Stemcor considerable reason for pride These attributes, combined with our knowledge of competitors, customers and suppliers give us a competitive advantage in the marketplace

Specialist product expertise and a thorough understanding of our suppliers' and customers' businesses form the heart of our trading activities Equally critical are the financing arrangements that underpin transactions and the information technology that allows us to communicate effectively control risks and execute transactions worldwide

In 2012, the Group's finance capabilities were largely used to support our customers and suppliers The Group continued to generate business through structured trade finance principally prefinance and tolling-type transactions The Group's trade finance and treasury teams work closely with our traders to monitor risk. Contract frustration insurance and limited or non-recourse credit facilities offered by our bankers were successfully used to limit the Group's exposure to the performance risk of prefinance contracts

Stemcor's in-house trading and trade administration software allows us to maximise both our efficiency and the quality of our service to customers and suppliers. Stemcor is investing in a new Enterprise Resource Planning System (based on Microsoft Dynamics AX) to replace systems currently used around the Group for order processing logistics documentation finance and accounting This customised version of Microsoft Dynamics, branded AXiom , will meet the varied needs of the Group's business on a single platform Throughout 2012 the Group has continued to develop this platform and the roll out to subsidiaries has commenced

Stemcor delegates decision making to the units closest to the marketplace Within guidelines and limits set by the Risk Director, individual trading units are able to generate trading exposures in line with their perception of trading conditions In an uncertain market and even more so when the fortunes of our customers have been volatile one of the principal risks a trader faces is that of holding unsold stock and unsold forward purchased material Stemcor's policy is to minimise its unsold position There are internal controls to ensure that the risks faced by each individual trading unit are at an acceptable level Much of Stemcor's business is done on a back-to-back basis where purchases are matched to sales. However, in rapidly changing markets there is nevertheless a risk that such business does not run smoothly This risk is as significant as the risk arising from unsold positions Stemcor monitors each of its contracts continually so as to have early warning of any possible problems and to ensure that counterparties perform.

Stemcor's credit policy is to minimise risk by insisting on letters of credit, credit insurance guarantees or retention of title in the vast majority of our trades

Business review Operating and financial statistics

	2008	2009	2010	2011	2012
Tonnes invoiced ('000)					
Steel	9,233	6 209	7 453	7 440	**7,739**
Steel-making raw materials	5 834	6 303	9 483	9,652	**9,924**
Total	15,067	12,512	16 936	17 092	**17,663**
Tonnes sold as agents ('000)					
Steel	202	123	270	217	**234**
Steel-making raw materials	5 146	2 588	1,825	364	**3**
Total	5 348	2 711	2,095	581	**237**
Tonnes handled ('000)					
Steel	9 435	6 332	7,723	7 657	**7,973**
Steel-making raw materials	10,980	8,891	11 308	10 016	**9,927**
Total	20 415	15,223	19 031	17 673	**17,900**
Turnover (£'000)*	6 288 667	3,540,437	5,141,233	6 253 537	**5,111,599**
Profit/(loss) on ordinary activities before tax (£'000)*	51 916	(16 557)	83,892	65 203	**(22,919)**
Group shareholders' funds (£'000)	234 319	186 478	241,860	241,950	**184,143**

*Turnover and profit on ordinary activities before tax include turnover and profit from acquisitions and discontinued operations. In addition, profit includes exceptional items.

Case study

Pig iron supply for pipe producer

In the USA, Stemcor stocks pig iron for use in electric arc furnaces and keeps material at nearby public terminals for delivery to a steel pipe producing customer by truck on a just-in-time basis. The customer is always assured that supply will be available at a competitive price, based on a formula set on the published price of a well-respected publication The customer is also offered extended credit terms to help with their cash flow needs. Stemcor sources the materials from international producers in South America and the CIS Stemcor will often pay for the material prior to shipment and will arrange transportation vessels by sea to the USA. Stemcor then arranges customs clearance, vessel discharge into barges and barge transportation to the terminal using the extensive USA river system.

Business review
Financial review

"Working capital has decreased by 20%, primarily as a result of price movements"

Structure of the balance sheet
Gross assets at 31 December 2012 were £2,394m, £264m lower than the previous year, with a decrease primarily in current assets (-13%) offsetting growth in fixed assets (+15%) This reduction was primarily due to lower average prices as a result of the mix of product traded Net assets fell by £58m to £215m

Fixed assets
Tangible assets

	£m
Group tangible fixed assets as at 1 January 2012	272
BRPL – construction of plant	27
Additions and disposals	44
Other movements including depreciation and amortisation	(8)
Foreign exchange	(12)
Group tangible fixed assets as at 31 December 2012	**323**

BRPL is currently being tested prior to final commissioning and the commencement of volume pellet production

The mining rights and other fixed assets at the two sites in Odisha of Aryan Mining & Trading Corporation (AMTC) are held at cost less depreciation and amount to £26m at 31 December 2012

The Board believes that the economic values of both BRPL and AMTC are significantly above the book values on the balance sheet Other fixed assets are held at cost less provision as per the Group's accounting policy

Fixed asset investments
The fixed asset investments held by the Group as at 31 December 2012 are included in the balance sheet at £1m (2011 £8m), being the cost less any reduction in market value below cost

Working capital
Working capital has fallen by 20%, primarily as a result of price movements as discussed in the operating review

Our gearing ratio as measured by debt over shareholders funds, averaged 5 76X throughout the year, increasing to 6 83X at the end of 2012 (2011 5 95X) Although net borrowings fell by £156m from last year, this was outweighed by the £58m fall in shareholders funds which was largely due to an increased level of provisioning taken at the year end

Stocks
Physical stock levels fell towards the end of the year to an equivalent of 31 days of sales (2011 35 days) Of the £635m (2011 £665m) of stocks shown in the balance sheet, 61% (2011 70%) comprised pre-sold material Stocks are stated after making appropriate provisions to reduce all unsold items to the lower of cost or net realisable value Sales since the year end have broadly confirmed the adequacy of these provisions.

Debtors
Trade debtors of £871m are 98% (2011 96%) covered by some form of risk mitigation The value of trade debtors covered by credit insurance was £420m (2011 £466m) Trade debtor days rose to 62 days (2011 59) Debt secured by letters of credit rose during the period as a percentage to 14% (2011 10%) The percentage of debtors secured against other guarantees and deposits fell to 21% (2011 24%) The balance of the 13% risk mitigation is made up of sales on a cash against documents basis.

Case study

Customer service in stockholding

In the USA, Stemcor has a stockholding subsidiary involved in carbon and alloy steel plate Typical customers include OEMs and fabricators in industries such as construction, earth moving equipment, energy, mining, bridges, towers, mill equipment and general engineering applications. Stemcor sources from a number of mills and offers its customers a variety of services from precise (to the hour) just-in-time deliveries, to consignment programmes, to fully 'open book mill-supported contract pricing over extended periods. Customers have the ability to vary their order sizes, thus minimising handling and scrap loss Each plate comes with a mill test certificate and is individually numbered for perfect traceability Stemcor's service allows the customer to concentrate on their core business of adding value to the material through processing, without tying their financial capital and personnel resources to the job of sustaining and managing inventory

Business review
Financial review

The Group has entered into a number of arrangements for the prepayment of suppliers, which are included within prepayments in the balance sheet only to the extent that there is recourse to the Group At 31 December 2012, £100m (2011 £120m) is included, of which 35% is covered by risk sharing arrangements All but £17m of these advance payments are due for settlement in 2012 (2011 £22m) The largest single prefinance arrangement is to a supplier of fines to BRPL in connection with a long-term supply agreement entered into in 2007

Other debtors include a gross amount of £19m due between 2013 and 2023 in connection with the disposal of the Group's investment in the Savage River iron ore mine and processing plant. This amount in other debtors is reduced by a credit balance of £9m, representing the discount to present value to reflect the deferred nature of this consideration This discount is being written back on a monthly basis as the relevant discount factor unwinds over time

Current asset investments
The current asset investments held by the Group as at 31 December 2012 were all publicly quoted and are included in the balance sheet at £4m (2011 £4m) being the cost less any reduction in market value below cost

Net debt
Net debt decreased during the year by £156m to £1 469m Average net debt was £1,547m, an increase of £109m from the prior year

Bank facilities
The Group had total bank facilities at 31 December 2012 of £3,786m (2011 £3 940m) excluding foreign exchange lines, invoice discounting facilities, prefinance and other special purpose facilities. Utilisation of these facilities at that date amounted to £1,939m (2011 £2,330m) including £462m of documentary credits and guarantees. This represents a 51% utilisation level (2011 59%)

One third of the Group's banking facilities are committed (£1,250m) and the balance are uncommitted short-term trade finance facilities (£2,536m) used to support the trading assets of the business Utilisation levels of these uncommitted facilities as at 31 December 2012 were 37% (2011 39%) The terms of these uncommitted facilities have remained substantially unchanged during the year All these operating facilities are similarly structured We work with more than fifty banks which finance individual self-liquidating transactions of varying terms on a case by case basis within overall facility limits. This allows us to allocate individual transactions to those banks which have appetite for transactions of this nature

The committed facilities include unsecured revolving credit facilities, asset backed structures (borrowing bases) and bank debt to finance long-term assets including BRPL

During 2012 the Group renewed the 364 day elements of its European Revolving Credit Facility, its Asian Revolving Credit Facility and its Borrowings Base facility in Germany and closed a one year Borrowing Base facility in France

The Group does not give any general security to any banks except as covered by UCC filings in the USA, in borrowing base transactions in the UK, France and Germany and in connection with the BRPL project. The Group's objective is, as far as possible, to maintain all its bankers on an equal footing, with security in the individual transactions that they finance

The Group is at an advanced stage of discussions for the extension of the USD850m 364 day portion of its Revolving Credit Facility and a one year extension of the USD227 5m three year Revolving Credit Facility and expects the new facility to be in place before the existing facility matures in May 2013 As at the date of this report, the extensions have credit approved commitments from the five Mandated Lead

Arrangers to participate at either the same level or at a higher level than their current commitment

Shareholders' funds
The loss for the year attributable to Group shareholders is £46m (2011 £22m attributable profit) After adding the attributable loss to the dividend paid and translation adjustments on the consolidation of subsidiaries which account in foreign currencies, Group shareholders' funds at 31 December 2012 amounted to £184m down from £242m last year

Dividend
The Board is not recommending a dividend (2011 interim 25p per £1 share final 15p per £1 share)

Internal financial control
The Board of Directors has to the extent permitted by law delegated responsibility for the Group s system of internal financial control to the Audit Committee The Audit Committee determines both the frequency and content of internal control audits and the personnel involved in these audits report their findings to the Audit Committee Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Group's system is designed to provide reasonable assurance that problems are identified on a timely basis and dealt with appropriately The principal elements of the Group's internal financial control structures are set out below

Matters reserved for the Board
The Board has a number of matters reserved for its approval including the appointment of new directors. The Board is responsible for overall Group strategy and for approving all Group budgets and plans. In between Board meetings there are frequent meetings of Board committees Certain key areas are subject to regular reporting to the Board including proposed acquisitions trading and financial exposures, treasury operations, the opening of new offices and systems development.

Organisational structure
There is a defined organisational structure with lines of responsibility and delegation of authority There are laid down procedures for the approval of certain risks associated with trading Clear policies are in place to restrict and regulate the ability of employees to alienate resources from the Group and the circumstances in which they may do so

Financial control and reporting
There is a comprehensive and Group-wide system of planning and budgeting with frequent and timely reporting of results to each level of management as appropriate, including monthly reporting to the Board Quarterly budget reviews by executive management are followed up by the executive directors and reported to the Board The executive directors regularly review the procedures in force for the identification and assessment of the business and financial risks inherent in the activities of the areas of the Group for which they are responsible

Business review
Principal risks and risk mitigants

The Group seeks to achieve an appropriate balance between generating acceptable and sustainable returns for its shareholders and taking risks. The identification, assessment and management of those risks are key elements of the Group's strategy and of its day-to-day management

"Stemcor is proud of the reputation it has built over its 60 year history"

The Group's approach to risk management and internal control is set out in the Corporate Governance section on pages 51 to 53 The table at the end of this review sets out in summary the principal recurring risk categories faced by the Group in the execution of its strategy and the typical mitigants and controls operated by the Group to manage those risks The state of the economy the markets in which Stemcor trades and the business environment in which it operates will, of necessity, inform the Board's strategy and associated risk appetite from time to time in respect of those risk categories The paragraphs which follow set out a more detailed analysis of our principal risks

Reputational risk
Stemcor is proud of the reputation it has built up over its 60 year history as the world's largest independent steel trader That reputation has been built on the hard work of the directors and employees worldwide; building long-term relationships with counterparties and continuous improvement in customer service, entrepreneurialism and flair; a commitment to the highest standards of ethics and corporate governance and systems of risk management that have evolved to meet the changing risk profile of the Group The Board considers the safeguarding of that reputation to be of paramount importance and its ethical, governance and risk management practices will continue to be underpinned by that objective

Strategic risk
The Group's success depends on pursuing strategies that are responsive to the economic environment in which it finds itself As expected 2012 has proved to be a difficult year for the industry characterised by over-capacity on the supply side exacerbated by lacklustre demand in many of the markets in which the Group operates This has resulted in downward pressure on prices and margin and a heightened risk of business failures.

Despite a strong performance from a number of business units, the Group has posted a disappointing set of results particularly in its International Trading division As a result, the newly appointed chief executive officer and his executive management team have carried out a thorough review of the Group's activities As described earlier in this report, this has resulted in a refocusing of the Group's trading activities reflected in the new organisational structure The Board and the executive committee will continuously monitor the results of this initiative to ensure the strategic direction of the Group remains appropriate

Key to the Group executing its strategy is its ability to access the financing it requires to trade As such, the Group is heavily dependent on the providers of such finance and is currently working with its financing partners to develop and extend the range of financing options open to it. Nevertheless the majority of the Group s borrowings finance individual transactions and are at notice The fixed term borrowings finance transactions where the finance provided will be repaid from the resulting cash flows Such transactions offer important benefits to banks Their very nature makes them considerably less risky to financial institutions so that, depending on each bank's own implementation of the Basel rules the risk-weighted capital allocation requirements can be much lower than those for straightforward unsecured facilities. The Board expects to continue to meet a substantial proportion of Stemcor's financing requirements in this way, whilst exploring ways of diversifying sources of funding

Stemcor's biggest long term strategic risk is that posed by competition A major component of this risk is that of losing support from major commercial counterparties. This risk is considerably reduced by the Group's global reach and by the sheer number of relationships it has formed and nurtured so that no one customer or supplier is critical to the continued growth of the Group In order to manage this

Case study

Floating price arrangements for the volatile steel market

The volatility of the steel market and extended lead times leave customers exposed to price changes between order dates and delivery. Holding stock is not always an option as it ties up working capital

Stemcor helps by providing customers with regular just-in-time deliveries, each one priced in line with the prevailing market on a floating basis.

The customer-specified stock is held at a suitable nearby location and released in pre-defined quantities. Each instalment is invoiced based on the monthly price as reported by the agreed index.

Business review Principal risks and risk mitigants

risk, the Group encourages open candid relationships, which enable commercial decisions to be made in an atmosphere of trust and mutual understanding These relationships are constantly monitored and reviewed by the directors to ensure that we both understand and meet the needs of our business partners

Stemcor has made a sizeable investment in its mining and pelletisation business in India. Whilst the mine has made a significant contribution to Group profits it has on a number of occasions had to cease production and/or dispatches as a result of the well-documented challenges facing iron ore mines in the Odisha region The pellet plant at BRPL has taken considerably longer than planned to commission as a result of similar permitting and legal issues Such obstacles are a feature of doing business in India and the Board has every expectation that the pellet plant will commence operations in the very near future and that the mine will continue to be a significant source of revenue for the Group The Board has established a sub-committee which has day to day responsibility for overseeing the strategy and managing the associated risks of our Indian business and its sister company in Dubai, known as the Dubai and India Steering Committee

The Group is continually exploring new business opportunities, both upstream and downstream, with a view to protecting its position in the market and protecting the relationships mentioned above Examples include: investment in raw material opportunities to offer contracting services to third parties, providing pre-production finance to suppliers repayable through off-take agreements, and making downstream investments in distribution and stockholding Any new initiatives expose the Group to new risks with which it may not be familiar The Group requires that such initiatives are subjected to rigorous analysis and due diligence and are approved by the Board or a duly authorised committee of the Board

Furthermore, there is a regular reporting process to evaluate all significant business risks both in terms of the potential loss exposure in a worst-case scenario and in terms of the probability of such a scenario coming to pass The objective of this process is to provide assurance that the Group has at all times an appropriate level of equity capital to absorb the risks it runs.

An evaluation of acceptable borrowing ratios forms part of this process, although borrowing ratios in themselves offer only imperfect guidance as to the extent of the risks being run or the severity of the dangers inherent in such risks. The Board of Directors considers a gearing ratio of between four and six times shareholders equity as the normal range for a trading company such as Stemcor with variations within this range being driven by market conditions and the Group's reaction to these

Trading risks
Trading risks comprise market, credit and counterparty risks which are defined in the table at the end of this section Limits are set to measure these risks, which are continuously monitored by the Group risk director and reviewed formally both at the regular Risk Committee meetings and at Board meetings They are also monitored on an ongoing basis by the Executive Committee

As there is, as yet, no practicable way to hedge the majority of the Group's exposures to price movements in the products it trades, trading exposures are a major risk category and one that is especially carefully monitored The Board manages this risk by setting position limits, which are regularly reviewed in the light of prevailing market circumstances Net trading positions are small compared to the Group's trading volumes. In addition Stemcor is actively participating in the development of derivative contracts linked to steel and raw material products whether traded on regulated exchanges or on the over-the-counter markets

The Board seeks to limit credit and counterparty risk to the extent possible through the use of risk transfer techniques such as credit insurance, letters of credit or bank guarantees The Group will, however, accept a lower level of risk mitigation if there is a strong business case and the exposure is considered to be within the risk appetite of the Group after appropriate analysis

Operational risk
The Group is exposed to a wide range of operational risks as a result of its rapid growth and the range and geographical spread of its trading activities Operational risk is currently managed at the business unit level and subject to internal audit scrutiny The Group is making a significant investment of time and resources in a new fully integrated Enterprise Resource Planning system which will permit us to develop consistent standards and processes across the Group and provide a solid platform for reducing operational risk as the Group grows Delivery of this project is in itself one of the principal risks facing the Group on account of its scale, complexity and cost. We have established a strong project team made up of experienced employees on full time secondment from trading and support functions and project management staff with experience of implementing projects of this nature This team adopts robust project management methodologies and is overseen by a steering committee comprising senior Group directors

Funding and liquidity risk
The Group maintains tight controls over the allocation and use of cash and credit facilities, backed up by cash forecasting routines, risk analyses and evaluations of the cash and credit requirements of the Group's budgets and medium-term plans. The fundamental basis of the Group's treasury policy is always to match financing as closely as possible to the value tenor and terms of the transactions being financed

This approach has the considerable advantage that, providing transactions are appropriately structured they will attract bank finance which greatly reduces the sensitivity of liquidity risk to fluctuations in market prices and trading volumes The more than fifty banks which extend transactional finance to Stemcor provide a further degree of protection against the consequences of any bank or banks becoming unable or unwilling to provide trade finance

Treasury risks
The Group s treasury operations have a major role in minimising financial risk. Treasury operations are conducted with the objective of minimising both interest rate risk and liquidity risk, by ensuring that the bank facilities available to support the trading activities of the Group are adequate in size, appropriately priced and structured The Group's policy is to minimise foreign exchange risk on trading transactions by hedging exposures to foreign exchange movements and by matching borrowings and the Group's capital structure to underlying operating currencies wherever practicable

There is, inevitably an interest rate risk exposure on the long-term element on the Revolving Credit Facility and on the various other long-term facilities listed above This is reviewed regularly and alternatives such as the use of derivatives to manage this risk are considered but have not to date been deemed appropriate

Business review Principal risks and risk mitigants

Risk Type	Description	Mitigation
Strategic Risk	Results from external factors including the economic environment, market dynamics or competition and inadequate senior management processes that could lead to a significant failure of the effectiveness of the strategy of the Group as a whole or of its divisions or businesses	• Strategic and budgetary planning processes • Board and Executive Committee oversight • Expansion and diversification of up- and down-stream activities • Continuous business development and process improvement • Provision of value added services • Open relationships with counterparties • Rigorous new product and new business acceptance procedures
Market Risk	The risk of loss from steel and raw material price movements on the value of the Group's stocks and its net position of forward purchases and sales	• Setting and enforcing strict unsold limits, both in terms of volume and value • Increased utilisation of hedging instruments such as exchange traded futures or OTC options
Credit Risk	The risk of non-payment by customers for goods or services delivered by Stemcor or in the case of a supplier non-return of any prepayment or prefinancing	• Use of risk mitigants on substantially all sales • Detailed due diligence on new and existing clients and suppliers • Setting of credit and trading limits based on due diligence and credit policy • Diverse customer base to spread risk
Counterparty Risk	The risk that a customer or a supplier will attempt to cancel and not perform their contracted obligations	• Setting of credit and trading limits • Emphasis on relationship management with key suppliers and customers • Strong in-house legal team • Risk mitigation where available/appropriate
Funding and Liquidity Risk	The risk that the Group is unable to access the debt and equity funding that it requires in order to execute its strategy	• The Group restricts its gearing to a level typically between four and six times shareholders funds • Active funding policy and programme executed by the CFO and overseen by the Capital Raising Committee • There is a substantial level of unused bilateral bank facilities • Total of more than 50 lending banks affords protection against the consequences of any bank or banks ceasing to provide funds • The overwhelming majority of the Group s transactions are self-liquidating, which greatly reduces the exposure to cash flow risks • The Group s treasury function monitors the Group s cash flow and liquidity position on a constant basis

Risk Type	Description	Mitigation
Foreign Exchange Risk	The risk that exchange rates negatively impact Stemcor s trading profitability or net worth	• Group policy is to hedge all foreign exchange exposures from transactions by using derivatives where practicable • As a matter of policy the Group does not hedge its currency exposure to its overseas subsidiaries and currency investments
Interest Rate Risk	The risk that rising interest rates negatively impact Stemcor s overall profitability	• Given the short-term nature of the majority of its trading activities, the Group does not currently hedge its interest rate risk • The Group has obtained a number of longer term debt facilities (eg to finance mining assets) and is keeping the opportunity to hedge its interest rate risk on such arrangements under review
Operational Risk	The risk of loss or other material adverse impact resulting from inadequate or failed internal systems and processes from external events or human error	• Experienced and knowledgeable support staff • Audit and internal control processes • Strong IT platform and investment in a new fully integrated Enterprise Resource Planning system to consolidate all areas of operation and tighten risk controls • Continuous review of core documents and policies by the Group s in-house legal team
Legal and Regulatory Risk	The risk of loss or other material adverse impact resulting from a failure to comply with the legal and regulatory requirements, including tax and financial reporting which apply to the Company its divisions and businesses	• Qualified and experienced finance and legal teams reporting to main Board directors • Use of external experts

Business review
Corporate responsibility

Corporate responsibility is an integral part of Stemcor's business strategy To be a successful business in the short, medium and long term requires considered management of risks and opportunities that may be termed 'non-financial' These can have a material effect on our business and, as such, we choose to report on Stemcor's approach to and performance in these areas in our annual report and accounts

Some aspects of our approach to corporate responsibility can have immediate and highly tangible financial impacts such as our business conduct practices or energy savings Our environmental performance is more difficult to tie to our bottom line but this area requires careful management as it can affect our licence to operate in locations where we have mining and processing operations. We value our reputation as a responsible business and this helps us in attracting and retaining the best people as does our focus on providing a positive and healthy working environment

Within this section of our annual report we aim to report the material corporate responsibility aspects of our business that impact all key stakeholders. In our reporting, as with all aspects of our business we work to improve year-on-year We welcome feedback from all our stakeholders and seek to report on what is most material to them

Stemcor's Board believes that being a good corporate citizen is good for business This sentiment is reflected in our brand values

Reporting corporate responsibility
Background

- Stemcor is primarily a steel trader, with involvement in finance and logistics The majority of our work is office based
- At our stockholding operations, the health and safety of our staff is a key issue and vital to our ability to function as a business
- We own or part-own mining and processing operations in India, where health and safety, environmental and social issues are primary concerns The management of impacts and opportunities relating to these assets could affect the Group at large

Key corporate responsibility impacts and opportunities

- We have analysed our business and have identified six core areas of impact and opportunity for our own internal corporate responsibility management and for reporting purposes.
  - **Health & Safety/Business Conduct/ Employees/Supply Chain/Environment/ Social**
- We believe that the management of these six core areas of impact and opportunity can materially affect our financial position, reputation, access to capital and future business prospects

Our brand values	What they mean in practice
Independence We are not owned by nor do we control, any steel producers	We are objective in securing mutually beneficial trading deals for suppliers and customers, which offers competitive advantage
Transparency We foster open, collaborative relationships	We never conceal our business practices and treat all counterparties fairly allowing us to operate as a trusted long-term partner
Integrity Once we have made a commitment, we stand by it	Because we honour contracts even in adverse market conditions we are regarded as dependable people to do business with which gives us access to new opportunities
Competence We deliver results and strive for continuous improvement	We seek to be efficient and innovative in what we do and how we do it, thereby ensuring continued customer satisfaction and repeat business

- We believe that this grouping is currently the best way to represent the corporate responsibility related risks and opportunities of our business.

Responsibility for policies, systems, performance and monitoring
- Stemcor's Chief Executive Officer is ultimately responsible for the Group's corporate responsibility performance
- The corporate affairs director supported by the Board, is responsible for developing corporate responsibility policies and systems and subsequently promulgating them throughout the Group
- Individual business units are responsible for the implementation of policies and systems, and for reporting back to head office in a timely and complete fashion

Targets
We aim for continuous improvement in all areas of our business. We have reviewed the sustainability diagnostic conducted last year by Deloitte LLC and set corporate responsibility performance targets for the coming year·
- Aim for zero fatalities, injuries and incidents at Stemcor locations and make safe behaviour a condition of employment
- Have zero fines or sanctions relating to business conduct.
- Implement measures across the Group's stockholding and service centre operations to reduce energy consumption by 10%
- Establish a centralised flight data capture system and seek to reduce air travel by 10% (measured in hours)

Stemcor corporate responsibility policy highlights
- Stemcor's business conduct policy (Ethics Policy) aims to ensure that we conduct our business honestly transparently and fairly We strive to uphold the highest standards in our dealings with suppliers, customers contractors and regulatory authorities, and expect our partners to abide by our own standards.
- Our environmental policy commits us to comply with all relevant local and national regulatory requirements, assess the impacts of all our operations, conduct dialogue with our stakeholders and aim for continuous improvement in our performance.
- It is the Group's policy to take all reasonable steps to ensure the health and safety of all staff and contractors as well as those visiting our workplaces
- Our employee policies give a framework through which we aim to provide equal opportunities within our organisation and a workplace free from bullying or harassment of any kind
- Stemcor's training and development policy provides our management with the means to help staff reach their full potential by encouraging them to gain recognised qualifications

Health & Safety
Background
- The health safety and wellbeing of our employees and contractors remains one of our highest priorities.
- The Board believes that incidents can be prevented through the appropriate management of health and safety It is incumbent on Stemcor as an employer to provide a safe working environment for our people, to learn from mistakes and to take corrective action to reduce hazards We understand the impact of accidents and injuries at work the types of losses associated with them and the effect they have on the people who work for us
- Most of Stemcor's business units are subject to local and international regulation. We are fully aware that any breach of legislation could result in a significant financial impact on the Group as well as damage to our reputation and our ability to operate

Systems:
- We operate to appropriate health and safety standards across our business and we aspire to best practice internationally We take European and US OSHA standards as our minimum requirements
- Health and safety performance data is collected from all physical operations every month and reported to the Board on a quarterly basis
- The health and safety risks faced by our staff vary according to their role within the Group
  - As in previous years the majority of our employees work in relatively low-risk environments, such as offices and our HR function provides guidance on work-related health issues We recognise that ergonomics, stress and work-related ill-health are factors that can have a major impact on our employees
  - Our stockholding and service centre operations are regularly audited and employees at these locations are trained to minimise the risks they face Risk assessments have been carried out and are reviewed regularly
  - At our mining and processing operations (current and coming on stream) in India, we have developed robust sets of site-specific policies and systems and aim for the best possible performance in this area Accident data is reported regularly to Stemcor Group
  - We are aware that in each country where we work there will be differences in safety culture and local attitudes so our systems take these into account Regardless of local conditions, Stemcor will always insist on a minimum standard and will endeavour to overcome any specific risks or barriers to a healthy working environment

Highlights and objectives:
- In 2012 Barclay & Mathieson in the UK brought in a Safety Manager who is mentored by the Group Health & Safety Director
- The UK businesses introduced a web-based accident reporting system that will be rolled out to European and other businesses during 2013
- In 2012 the first year with complete data, Stemcor businesses worldwide reported 118 injury accidents involving employees, 39 of which were categorised as 'serious' as per the RIDDOR definition 25 of the 39 serious injuries and 49 of the total number occurred within the Barclay & Mathieson UK stockholding business and OKS service centre in Germany Safety performance in the overseas businesses was largely encouraging however the total number of lost days during 2012 (at slightly more than 1,600 across all businesses) remains a matter for concern
- The Barclay & Mathieson board of directors and management are committed to driving down the accident rates further in 2013 and will ensure that resources are available within the Group to drive that reduction In 2012 a 'Golden Rules of Health & Safety' booklet was distributed to each employee and safety posters were displayed around each depot
- The specific hazards arising in the Group s non-UK stockholding and service centre businesses have been identified and will be campaigned in 2013 with the aim of eliminating employees' risk exposure
- AMTC received several safety awards during Mines Safety Week Celebrations 2012, an event organised by the Director General of Mines Safety, Government of India
- BRPL, our iron ore beneficiation and pelletisation plant, has been working to a construction-specific health safety and environment plan during 2012, and will move to its operational plan during 2013 This plan will be monitored closely and regularly reviewed to improve its effectiveness where necessary

Business review
Corporate responsibility

Business Conduct
Background
- How we work, and how we are seen to work, are highly material to the continued success of Stemcor
- Our reputation is key to ensuring we have access to the best business opportunities Our approach to business conduct, as well as our broader CR approach, helps strengthen our reputation as a trusted and favoured partner with lending banks and trading counterparties

Systems:
- Stemcor's Ethics Policy covers all employees This and other related policies are available on our employee portal New recruits are given training in Stemcor's approach to ethical business conduct
- The Board will not tolerate breaches of the Ethics Policy
- In 2012 a UK Bribery Act risk assessment was conducted to identify key areas of exposure to risk and gaps in the Group's preventative measures The assessment which was devised with input from two leading law firms will be repeated every three years.
- The Group has clear whistleblowing procedures in place allowing employees to raise concerns in confidence and without fear of reprisal
- Our legal department's experience and knowledge regarding contract law help Stemcor build healthy working relationships with everyone we do business with and help protect the Group from risks associated with contractual arrangements
- Stemcor is a full corporate member of Transparency International

Highlights and objectives.
- Stemcor received zero fines or sanctions related to business conduct during the year
- In 2012 after conducting the Bribery Act risk assessment, the Group Ethics Policy was revised to ensure it upholds the anti-bribery & corruption and anti-money laundering principles of the UK Bribery Act
- As part of the revised Group Ethics Policy an Agents & Associated Persons guideline was created to officially notify third parties of the standard of conduct required for companies and individuals with whom Stemcor works.
- In 2012 an e-learning module was developed for the UK Bribery Act
- In 2013 a formal system will be put in place to register employees' completion of the Bribery Act e-learning module and to register their compliance with the revised Ethics Policy This will serve to uphold the Bribery Act's requirements under the 'Corporate Offence for companies to have adequate procedures in place for the prevention of bribery

Employees
Background
- Our employees are central to the success of our business, and it is imperative that Stemcor aims to attract and retain the best staff to give us a competitive advantage.
- Policy governing personnel is set by the Board and implemented by each business unit, taking local conditions into account.

Systems:
- Our internal communications ensure that employees are made aware of our policies, strategy performance, investments and future prospects Our employee portal is used to disseminate news, information and knowledge, while an international management conference is held every two years to share views.

Case study

Symbiotic trading with re-rolling mill

Stemcor has a strong relationship with a re-rolling mill located in East Asia, purchasing plate for sale to customers in Europe North America and Asia. Customers include ship repairers, fabricators and producers of pressure vessels. Stemcor purchases either on a back-to-back basis against orders from its customers or, in view of the long lead time between placing of orders and arrival in destination markets, will sometimes purchase unsold forward'

The mill buys approximately 250,000 tonnes of slab per annum for re-rolling into plate The mill negotiates directly with various slab producers and Stemcor acts as the sole and exclusive contract partner, financing all purchases and holding stocks of slab on behalf of the mill An agreed, transparent formula is in place for charging for this service

Business review
Corporate responsibility

- We believe that diversity in the Group's staff contributes to the success of the organisation and we encourage job applications from candidates of any background ethnicity and gender
- We encourage staff to gain recognised qualifications related to their function or ambition within the business and provide funding and paid leave to assist them in doing so
- We employ talented people and give them scope for individual responsibility and career advancement. Several of our Board directors and many of our senior managers joined the Group as graduate trainees
- Compensation and benefits are designed to reward the achievement of objectives Through the Employee Share Ownership Plan (ESOP) employees can have a stake in the profitability of the Group
- Staff members are given training on Stemcor's policies on joining the Group and all relevant documents are available on the employee portal

Highlights and objectives:

- In 2012 a Matching Share Offer attracted 372 new employee shareholders 28% of employees are currently shareholders through the ESOP 29% of the equity is held by employees via the ESOP
- Employee turnover rate was below industry norms
- In 2012 a Performance Plan system was introduced to set clear annual objectives and to measure individual employees performance against those objectives
- A Learning & Development Manager was appointed and a knowledge hub will be launched in 2013
- An HR Systems Manager was appointed to improve employee data integrity and collection which will in turn enable better tracking and analysis of diversity profiles, sickness absence, grievances and career advancement.
- In 2013 Stemcor plans to contract an external consultant to develop an employee engagement survey The intention is to implement this survey as a pilot test in the UK in 2014

Supply Chain
Background

- We believe that a robust approach to corporate responsibility in our supply chain can help minimise our own exposure to risk and improve our returns
- Stemcor deals with suppliers and customers in countries with varying regulatory environments and business cultures, which may expose the Group to certain supply chain related risks

Systems.

- We are committed to working within the law not only providing a healthy and fair working environment for our own employees and contractors but also extending this ethos throughout our supply chain We strive to promote internationally accepted standards within the regions and cultures where we do business especially as regards the education and welfare of children living in poverty
- We keep abreast of our supply chain and corporate responsibility-related developments in relevant industry sectors, ensuring that we are aware of the issues our suppliers and customers face and areas in which Stemcor should seek evidence of regulatory compliance and performance monitoring

Highlights and objectives:

- Stemcor did not have to take any action during 2012 relating to our suppliers' management of corporate responsibility issues.
- We intend to instigate a supplier qualification procedure for our pig iron suppliers in Brazil This is to ensure that our suppliers are not using charcoal sourced from illegal deforestation.

- An increasing number of end-user customers are seeking assurances that Stemcor adheres to high safety, ethical and environmental performance standards We intend to use this impetus to apply pressure on our own suppliers to raise standards and improve transparency

Environment
Background.

- The majority of our business activities do not have a high environmental impact and our employees tend to work from managed offices
- We do not produce steel, and as such we do not face the same challenges as steel producing companies or have direct influence over the steel industry's carbon footprint.
- Our mining, raw materials processing and steel service centre operations are comparatively more energy-intensive and higher impact than our trading operations. We recognise that best practice environmental management of these assets contributes to our licence to operate and will help ensure access to business opportunities in the future
- As a trader we may be affected by future regulatory changes regarding greenhouse gas emissions, and we monitor developments in this field to ensure that we are informed and prepared for a variety of scenarios.

Systems:

- We aim to operate as efficiently as possible at all sites and we identify ways in which environmental improvements and associated cost savings can be made such as reduction in energy usage
- We expect all employees to contribute to minimising Stemcor's environmental impact and provide the necessary training opportunities whenever possible
- When providing finance Stemcor works with its steel-producing partners to encourage the use of energy efficient manufacturing technologies
- Our Indian mining subsidiary (AMTC) in Odisha, India, is operational and its environmental impact is continually monitored and benchmarked
- Our iron ore pellet plant (BRPL) in Odisha is due to become operational in 2013 and will also be monitored continually
- Environmental impact assessments were conducted for both projects in Odisha and will be undertaken for any similar projects in the future.
- AMTC and BRPL were and are subject to stringent environmental requirements and were required to comply with the Equator Principles for project funding
- Mitigation measures at AMTC include periodic ground vibration surveys ground water quality analysis and tree planting Dust suppression systems include wet drilling methods, a dry fog system in the crusher plant and regular water sprinkling
- Mitigation measures at BRPL include the construction of a 230km underground slurry pipeline to reduce road traffic and ambient dust pollution between the beneficiation plant and the pellet plant. CO_2 emissions are reduced by 91% compared to road transport and 87% compared to rail transport Energy consumption is reduced by 97% compared to road transport and 96% compared to rail transport.
- Other mitigation measures at BRPL include de-dusting stacks, an electrostatic precipitator and moisture conditioning to suppress dust, and the recirculation of furnace gases to conserve energy
- BRPL uses low grade iron ore fines which would otherwise be dumped as waste, thereby conserving natural resources
- Water drawn by the beneficiation plant at BRPL is recycled for slurry pumping No effluents are discharged with used water

Highlights and objectives:

- In 2012 Stemcor engaged an environmental consultant WSP, to conduct a pilot energy audit at its SPS subsidiary in the UK This identified average potential savings of 17% in energy consumption and 20% in associated energy costs Measures are to be implemented in 2013 to redeem these savings
- In 2012 WSP designed and distributed a questionnaire to capture energy usage data across the Group's stockholding and service centre operations Measures to reduce energy consumption will be implemented in 2013-2014 at the most energy-intensive sites
- AMTC and BRPL operate to environmental management plans devised by S S Environics (India) Pvt. Ltd an independent third party
- S S Environics also provides a monitoring and reporting service regarding progress and compliance
- In 2012 AMTC received an award for top soil management and noise/vibration & scientific studies during Mines Environment and Mineral Conservation Week, organised by the Indian Bureau of Mines Government of India.
- In 2012 BRPL engaged the State Pollution Control Board to monitor ambient air quality at the pellet plant, which was confirmed to be within accepted norms The beneficiation plant will be monitored upon commissioning
- BRPL has its own environmental engineer to conduct environmental monitoring at both plants on a monthly basis.
- We aim to increase capture of environmental data year-on-year with a view to reporting in line with the methodology adopted by the Carbon Disclosure Project.

Social
Background:

- Stemcor aims to be a good neighbour in all our locations, as our licence to operate is dependent on good relations with local communities and authorities.
- The Group is expanding in developing economies particularly in its mining activities As such we will face certain expectations and requirements regarding our social investment and will build on our experiences gained in India

Systems:

- Our Group's work with socially focused organisations is themed on education, health, housing disaster relief and the environment and is designed to achieve far-reaching impact in the areas in which we operate
- We aim to address issues that can have an impact in areas related to our core business objectives and seek measurable progress reports regarding these projects
- At our locations in India we have, since day one, had an active involvement with local stakeholders and are committed to regular and constructive dialogue
- AMTC and BRPL were and are subject to stringent requirements regarding social investment, and were required to comply with the Equator Principles for project funding
- We seek to employ local people wherever possible and measure our provision of opportunities to them. We provide skills training to help ensure these opportunities can be taken advantage of
- Our employees in India are actively involved in providing key services for local communities, and we approach such provision as being part of our licence to operate
- We support communities in India by building new housing and schools, renovating temples and roads drilling borewells and providing medical services.

Business review
Corporate responsibility

Highlights and objectives:

- AMTC and BRPL operate to social management plans devised by S S Environics (India) Pvt. Ltd an independent third party
- Mobile health camp provided by AMTC twice a month in three locations ambulance service provided 24/7 in case of emergency and free medicine distributed to local people
- In 2012 BRPL's social investment initiatives improved health power supply sanitation and education in a number of local villages
- Stemcor's charitable donations and social investment in 2012 totalled £40 000 in the UK
- We will continue to work with local communities wherever we operate to address their needs and will further develop our approach to charitable giving through closer alignment with our business objectives

Working with charitable organisations

During 2012 the Group's past generous spending on its charitable objectives faced some limitations. However, the Group was still able to maintain its ongoing support for some multi-year initiatives in the field of education In particular the Group is providing funds for

- The third and final tranche of a CARE managed girls education programme in Odisha India titled Leaders for Tomorrow The programme reaches about 4,500 girls aged 10–14 from marginalised communities in 45 special single sex residential schools The goal is to increase the number of girls completing primary school by ensuring equal access to schools improving the quality of their education and promoting girls' leadership and rights
- In cooperation with Save the Children, an Early Steps to School Success' programme in impoverished rural communities in the southern states of the USA. The programme offers education services to children from birth to age five gives support to parents and provides ongoing training to community educators.
- Sponsorship of science students from low income families in the UK via the Ironmongers' Foundation
- The administrative overheads of three schools in Pakistan the construction of which the Group has financed via The Citizen Foundation
- The Sanskardham Academy in Mumbai India, for the education of hearing-impaired autistic and orphaned children
- Continued sponsorship of a PhD study to help address some of the environmental consequences of the steel production process

Various smaller donations were also made globally and matching grants were provided to staff members' fundraising efforts for the benefit of deserving charitable organisations

Case study

Coated steel for building applications

In the UK, Stemcor supplies coated steel coil products for building and wall cladding applications. The material can be used to manufacture 'sandwich panels', an energy efficient and rapid build system whereby two sheets of pre-painted steel are rolled into a profiled shape with an insulation foam between them. This building product is used in all sorts of modern structures, from supermarkets to stadiums, modern office buildings and warehouses. Stemcor fulfils every role in the supply chain, including negotiating the purchase of the product from suitable mill sources, taking care of initial finance, shipment, vessel discharge, port storage and distribution to the customer's plants according to their schedule. Material is delivered on a just-in-time basis with load by load invoicing and credit terms.

1 Michael Broom BCom ACA (NZ) (55)*
Director, Chief Financial Officer
Michael joined Stemcor as Group treasurer in 2003 He was appointed a director of Stemcor in 2006 and chief financial officer in September 2011 He is responsible for finance accounting and information technology He was previously finance director for the trading division of Tate & Lyle plc Prior to that he spent 12 years working in various financial roles for international metal trading companies based in the UK and Switzerland. He is a citizen of New Zealand

2. Gerry Craggs MA MSc (50)
Director, Far East
Gerry joined the Group in 1986 as a graduate trainee in London. He moved to Singapore as assistant delegate in 1987 He was appointed managing director of Stemcor (SEA) Pte Limited in 1999 and is responsible for the development of the Group in the Far East. He was appointed a director of Stemcor in 2000

3. Graham Donnell BA, Solicitor (52)*
Director, Group General Counsel
Graham joined the Group in June 2007 as Group general counsel and was appointed a director of Stemcor in December of the same year He holds overall responsibility for all Group legal affairs. Prior to joining Stemcor he spent 19 years with the international law firm Allen & Overy 12 as a partner and was managing partner of the firm's offices in Warsaw, Prague and Madrid He is qualified as a solicitor in England and Wales and Hong Kong and is a member of the Czech and Madrid bar associations.

4 Philip Edmonds BA (50)*
Deputy Chairman
Philip joined the Group in 1989 and was initially responsible for Group treasury. From 1992 to 1994 he managed the Stemcor office in Johannesburg In 1994 he returned to London as a director of Stemcor UK Limited and was managing director of that company from 1995 until 1999 In 1999 he was appointed Group commercial director and spent the last decade building the Group's business in Europe In addition to his continued involvement in the German and Italian distribution businesses as well as line responsibility for South Africa and Australasia he has overall responsibility for the Group's financial services business, derivatives trading projects & investments and logistics He is a past chairman of the International Steel Trade Association He was appointed a director of Stemcor in 1995 and deputy chairman in 2005

5 Steve Graf BSc MA (52)*
Director, Trading and Distribution
Steve joined the Group in 1989 as an original member of the newly formed Stemcor USA. A US citizen he is based in New York and since 2005 has been in charge of the Group's North American business. In January 2013 he took responsibility for the Group's trading and distribution businesses. He has been involved in purchasing and selling steel internationally for over 30 years, starting his career in 1982 in New Orleans with McDermott International. He was appointed a director of Stemcor in 2000

6 Ron Harvey (64)
Director, Engineering and Stainless Steels
Ron joined Stemcor straight from college in 1969 working for the Eurosteel UK import business. He left in 1979 to run his own importing business and rejoined Stemcor in 1993 to establish the Group's first specialist trading activity in engineering steels. Since then he has been the global product manager for engineering steels and is responsible for the expansion of the engineering and stainless steels trading and stockholding businesses. He was appointed a director of Stemcor in 2009

7 Colin Heritage BA MBA (53)
Director, Trade Finance
Colin joined the Group in 1993 from Bank of America, having worked in specialised areas of trade finance in London since 1982. He has responsibility for Stemcor's structured trade finance transactions and advising on financial risk management issues. He also heads the provision of offset related services to external corporate clients. He was appointed a director of Stemcor in 2000 He is chairman of the London Countertrade Roundtable

8. Andrew Jones (50)
Director, Oil & Gas
Andrew joined the Group in 2007 upon the acquisition of Steel Plate & Sections He has been in the steel industry since joining Steel Plate & Sections in 1986 He was appointed to the Board of Stemcor in March 2013 and is responsible for the Group's businesses selling special steel products to the oil & gas sector

9. Ralph Oppenheimer MA MSc (Econ) (72)
Chairman
Ralph joined the Group in 1965 having previously worked as a government economist He was appointed a director of Stemcor in 1972 and chairman and chief executive in 1982 In 2000 following the appointment of a Group managing director, his role was changed to that of executive chairman. Following the appointment of a chief executive officer in January 2013 he has assumed the role of Chairman with a brief covering strategy and acquisitions.

10. David Paul MA FCA (63)
Non-executive Director
David joined the Group in 1984 as Group chief accountant and was appointed finance director in 1991 After 20 years as finance director he retired in 2011 and was appointed a non-executive director in May 2012 Prior to joining Stemcor he spent 12 years working in audit forensic accounting and corporate finance for KPMG in London and Latin America.

11 Chris Rocker MA (65)
Non-executive Director
Chris joined the Board of Stemcor in 2006 as a non-executive director after working as a consultant with the Group for 12 months. Prior to that he held a variety of positions during a 26-year career with The Chase Manhattan Bank, most recently as managing director and global head of commodities & natural resources. He subsequently joined the board of The Vitol Group of Companies for six years as chief financial officer He is a citizen of both the UK and the USA.

12. Matthew Stock BSc (Econ) (44)
Director, Middle East and South Asia
Matthew joined Stemcor as a graduate trainee in 1991 working in London Mumbai Dubai and Hong Kong before establishing a new office for Stemcor in Bangkok in 1994 In 1997 he became the managing director of Stemcor India and is responsible for the development of the Group in the Middle East and South Asia. He was appointed a director of Stemcor in 2009

13. Julian Verden (54)*
Chief Executive Officer
Julian joined the Group and was appointed a director of Stemcor in 1998 He has been in the steel industry since joining Samac in 1978 and is a past chairman of the International Steel Trade Association, He was appointed Group managing director in 2000 and chief executive officer in January 2013 In addition to his responsibilities as chief executive officer he retains direct responsibility for the Group's stockholding and service centre businesses.

14. Paul Whitehead BE (Chem.) (46)
Director, Australasia
After joining Stemcor as a trainee trader in London in 1988 Paul transferred to Sydney in 1991 and was appointed managing director of Stemcor Australia in 1998 He was appointed a director of Stemcor in 2006. He has responsibility for the development of the Group's Australasian businesses. He is a citizen of New Zealand

* Member of the Executive Committee

Governance
Officers, advisors and principal bankers

Directors
Michael G Broom
Gerard P E Craggs
Graham J Donnell
Philip M Edmonds
David M Faktor (resigned 28 December 2012)
Steven M Graf
Ronald V G Harvey
Colin H Heritage
Andrew Jones (appointed 21 March 2013)
Ralph D Oppenheimer
David J Paul
Christopher D Rocker
Matthew G Stock
Julian Verden
Paul S Whitehead

Secretary and registered office
Andrew S Goldsmith
CityPoint
One Ropemaker Street
London EC2Y 9ST

Auditor
Ernst & Young LLP
Chartered Accountants and Statutory Auditor
London

Principal bankers
ABN AMRO
Bank of Tokyo-Mitsubishi UFJ
BNP Paribas
Barclays
Credit Agricole
Credit Europe Bank
Credit Suisse
DBS Bank
Garanti Bank
HSBC Bank
HSH Nordbank
ICICI Bank
ING Bank
Natixis
Nedbank
Rabobank
RB International
Société Générale
Standard Chartered Bank
Sumitomo Mitsui Banking Corp
UBS
Unicredit Group

Case study

Complete solutions for the railway industry

In Germany, Stemcor works with a global network of fabricators and service centres to provide complete steel solutions for end-user customers. One particular case involves supplying the finished roofs for car transporter wagons. Stemcor first discusses the specifications and design before sourcing the primary materials Stemcor will then subcontract further processing including the beading of plates, welding, bending and coating The individual parts are assembled according to the customer's original specifications and delivered ready for installation

Governance
Report of the directors

Accounts
The directors present their annual report on the affairs of the Company and the Group with the financial statements for the year ended 31 December 2012

Directors
The directors of the Company are listed on page 46 David Faktor resigned as a director of the Company on 28 December 2012 Andrew Jones was appointed a director of the Company on 21 March 2013

The interests of the directors in the share capital of the Company, including their share options, are shown in Note 5 to the financial statements

Directors' responsibilities
The annual report and the financial statements are prepared in accordance with applicable law and regulations

The directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The directors are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements the directors have
- selected suitable accounting policies and applied them consistently,
- made judgements and accounting estimates that are reasonable and prudent
- stated whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepared the financial statements on the going concern basis

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Principal activity
Stemcor's services span every step in the steel supply chain Principal activities include mining, steel and raw materials trading logistics distribution stockholding and finance

Business review
Details of the results for the year are set out on page 24 Reviews of the business activities of the Group and of its future prospects and development are given in the Chairman s Statement on page 14 and the Operating Review on pages 18 to 23 A Financial Review is given on pages 26 to 29 which sets out the Group s financial risk management objectives and policies A Corporate Responsibility Report is given on pages 36 to 42 Due to the diverse nature of the Group's business there are no standard KPIs used for the Group

Dividends
The total amount paid out in 2012 by way of dividend was £1 135 000 or 15p per £1 share being the final dividend for 2011 of 15p per share (2011 £4 519 000 or 60p per share being the final dividend for 2010 of 35p per £1 share and the interim dividend for 2011 of 25p per £1 share)

Share capital
On 8 May 2012 7 570 913 shares of nominal value £1 each in the capital of the Company in issue were sub-divided into 189 272 825 shares of nominal value 4p each 114 400 new shares were allotted to directors and/or employees during the year

Employment policies
The Employee Share Ownership Trust (ESOT) has to date subscribed for 64,334 400 shares in the Company After distributing shares to directors and employees the ESOT held 1 010 700 shares at 31 December 2012 (2011 18,475)

Details of options exercised during the year are to be found in Note 17

During the year the Company repaid an unsecured loan from the ESOT of £1 000 000 plus interest of £14,581

Tax status
In the opinion of the directors the Company is a close company within the meaning of the Corporation Tax Act 2010

Equal opportunities
The Group believes strongly in equal opportunities for all staff and potential recruits regardless of race religion, gender, sexual orientation age or disability Information about the Group s equal opportunities policies are set out in the Corporate Responsibility Report on page 38

Disabled employees
Applications for employment by disabled persons are always fully considered bearing in mind the aptitudes of the applicant concerned In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged It is the policy of the Group and Company that the training career development and promotion of disabled persons should, as far as possible, be identical to that of other employees

Employee consultation and involvement
The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group and Company This is achieved through formal and informal meetings and through the Group intranet

The employee share scheme has been running successfully since its inception in 1992 Employees are offered the chance to buy shares on a regular basis The ESOT also buys shares from employees

Indemnities
The Company has agreed to indemnify its directors in respect of proceedings brought against them by third parties subject to the limitations provided in the Companies Act. Such qualifying third party indemnity provisions were in force during the year and continue to be in force as at the date of this report. The Company has bought directors and officers liability insurance in order to minimise the potential impact of any such proceedings.

Charitable donations
During the year the Group set aside £40 000 for donations to charity in the UK (2011 £161 000) No political donations were made during the year (2011 £nil)

Auditor
Each of the persons who is a director at the date of approval of this report confirms that
- so far as the director is aware there is no relevant audit information of which the Company's auditor is unaware and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

On 22 October 2012 Deloitte LLP resigned as auditor and Ernst & Young LLP was appointed as auditor Ernst & Young LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint it will be proposed at the forthcoming Annual General Meeting of the Company

Going concern
Stemcor finances its operations through a combination of funds supplied by shareholders and funds supplied by financial institutions. Of the funds supplied by financial institutions funds sourced from committed facilities play an important part Facilities amounting to £1 25bn 33% of the total, are committed with expiry dates ranging from May 2013 to May 2014 The Group has covenants governing these facilities which, if breached would make the facilities uncommitted and repayable on demand Further details of the covenants are detailed in Note 15

Governance
Report of the directors

The Group is currently in the process of extending its one year RCF which expires in May 2013, and its three year RCF which expires in May 2014 As at the date of this report the extensions have credit approved commitments from the five Mandated Lead Arrangers to participate at either the same level or at a higher level than their original commitment. The launch presentation took place on 13 March and since then further credit approved commitments have been received from a number of relationship banks The level of renewal will possibly be lower than the existing facility which is consistent with the Group's plan to reduce the level of Group debt. The renewal process is expected to conclude on 18 April Based on progress to date the directors are confident that sufficient funds will be raised via renewal of the RCF expiring in May 2013 to meet the Group's ongoing funding needs

The directors consider that there are two key challenges to the Group s covenants. At year end the Group is close to the limit of its total net worth vs indebtedness (gearing) covenant. In addition any amount of the three year RCF that is not extended will by increasing liabilities falling due within one year reduce the headroom the Group currently has in its minimum working capital covenant.

To avoid covenant breaches the Group has successfully taken steps to reduce debt since the year end Following the strategic review of trading operations the strategy has refocused on lower volumes of higher quality and taking less risk In the first two months of 2013 net cash collection has been positive and this has driven down our gearing ratio Debt is also being restructured to align the assets financed with either transactionally secured borrowings or debt of a more appropriate maturity date Matching the maturity date of debt, with the life of assets that those borrowings finance will increase headroom in the working capital covenant. These steps will continue to further improve the Group's compliance with covenants

The directors have modelled a range of scenarios to test the Group's ability to meet their financial covenants The key assumptions that the models are sensitive to are movements in unit margin and debt maturity In the opinion of the directors the range of reasonably foreseeable scenarios modelled the mitigating actions adopted and the results of the first two months of the year have confirmed that events that would cause a breach of a covenant are unlikely The directors have therefore concluded that the Group has sufficient financial resources to continue in operational existence for the foreseeable future

Based on the directors expectation of renewing the RCF at a sufficient level and maintaining covenant compliance the financial statements have been prepared on a going concern basis The financial statements do not include the adjustments that would be required if the Group was unable to continue as a going concern.

Thus, they continue to adopt the going concern basis in preparing the financial statements

On behalf of the Board

Andrew Goldsmith
Company Secretary
22 March 2013

Governance
Corporate governance

As a private company, Stemcor is not required to comply with the provisions of the UK Corporate Governance Code However the Board of directors is committed to the principles of openness integrity and accountability embodied in the Code

Board of Directors
The Board now comprising twelve executive members and two non-executive members is responsible for the overall performance of the Group

The chairman is responsible for overseeing the running of the Board ensuring that no individual or group dominates the Board's decision making and ensuring that the non-executive directors are properly briefed

The Board meets approximately three times a year to discuss key areas of the Group's affairs including operational and financial performance major transactions, risk management and the decisions and recommendations of the various Board committees

The risk management objectives of the Group together with management's assessment of the principal risk exposures are set out in the Financial Review on pages 26 to 29

The Board delegates specific responsibility to Board committees which all operate within written terms of reference The committees have standing members who are not on the Board

Committees of the Board
Executive Committee (EC)
The EC is the principal executive arm of the Board supporting the chief executive officer in the day to day management of the Group The EC consists of the chief executive officer (Chair) the deputy chairman the Group general counsel the chief financial officer and the director for international trading and distribution. It meets at least once every two weeks, often weekly by telephone conference call The EC s remit is to provide strategic direction to the Group develop and review the objectives and budgets of business units review and make recommendations to the Board on the appropriate organisational structure of the Group oversee compliance with relevant legislation and regulations identify and propose to the Board new business opportunities and, if approved implement such proposals consider the current major transactions involving the Group and current issues facing the Group, and review the market situation and ensure that the Group's trading and risk position is adjusted accordingly

Remuneration & People Committee (Remcom)
The Remcom comprises the chairman (Chair) the chief executive officer; the non-executive directors, the chief financial officer the operations director and the corporate affairs director It meets at least twice a year to review matters relating to equal opportunity diversity remuneration policy, share options performance-related pay schemes and executive directors remuneration

Governance
Corporate governance

All executive directors are employed on a rolling contract basis with no more than 12 months notice Their remuneration package consists of
- a basic salary subject to annual review reflecting the individual director's experience and responsibilities
- an annual discretionary bonus which takes account of both individual performance and the Group's results after charging for the use of shareholders funds
- benefits in kind,
- a non-contributory pension scheme related to basic salary
- share options – the Company operates various share option schemes Most of the executive directors are eligible to participate in these and at 31 December 2012, their aggregate participation in the various schemes was as follows

Name of share option scheme	No. of options	Earliest date of exercise
Unapproved Share Option Scheme		
	687 500	01 12 2009
	75 000	01 06 2011
	1,000 000	25 02 2012

Benefits in kind for executive directors are essentially the same as those awarded to senior permanent employees in the locations where each respective executive director is employed

Audit Committee (AC)
The AC comprising a non-executive director (Chair) the other non-executive director the chief financial officer and the Group risk director is responsible for the relationship with the Group's external auditor (currently Ernst & Young) and the review of the Group's financial reporting and internal controls It also reviews the independence and objectivity of the external auditor; in particular, the AC maintains under review the extent and nature of the provision of non-audit services by the auditor and the extent to which the degree of rotation of the audit partner is a matter requiring reporting to shareholders The AC meets at least twice a year The Group internal auditor reports functionally to the AC and administratively to the risk director During the year the AC recommended a change of external auditors, as a result of this Deloitte LLP resigned on 22 October 2012 and Ernst & Young LLP were appointed

Investment Committee (IC)
The IC considers all investment proposals for the Group The members of the IC are the trade finance director (Chair), the chairman the deputy chairman the chief executive officer; the chief financial officer, the Group general counsel and the Group risk director The IC has authority to approve investments up to the value of £3m Investments of a higher value are referred by the IC to the main Board with a recommendation to proceed or not The IC meets at least monthly but usually more often on an ad hoc basis to consider and approve specific investments when needed

Risk Committee (RC)
The RC is made up of the risk director (Chair) and seven Board members representing business units, together with the Group's legal and financial operations and a non-executive director It is charged with overseeing the management of all business risks across the Group with a particular view to ensuring that mitigating actions are being performed and overall risks are minimised (see principal risks and mitigants section on pages 30 to 35) It covers supplier prepayment limits customer trading and credit limits, unsold position limits, significant projects and structured trade finance deals The RC sets risk exposure limits (where appropriate) in line with the Group s risk appetite as laid down by the main Board The RC meets monthly to review risks at the strategic level and on an ad hoc basis to consider and approve specific material transactions when needed

Business Ethics and Compliance Committee (BEC)
The BEC was established to ensure the highest standards of business dealings and business ethics within the Group The BEC is responsible for monitoring and implementing policies, for instance compliance with anti-bribery legislation and money laundering legislation Its members are the Group risk director (Chair) the Group general counsel and one member of the Executive Committee

Contracting Committee (CC)
The CC was formed to approve monitor and set policies and procedures for the Group's growing contracting business Its members are the Group risk director (Chair) the director for the Middle East and South Asia, the operations director; the Group trade finance director; and the Group legal counsel

Dubai India Strategy Committee (DISC)
The DISC comprises the chairman the chief financial officer a non-executive director the director for the Middle East and South Asia, the operations director and the managers of the Group's Dubai and Kolkata offices Its purpose is to devise and implement a strategy for managing the Group's assets and exposures in India and to support the current management in India in executing that strategy, to provide timely, streamlined decision making by considering and recommending to the appropriate other committees of the Board appropriate commercial opportunities in India, to work with Group functions to maintain effective Group oversight of commercial activity in India in order to ensure that risks are properly understood and effectively mitigated, to consider the present and future legal and ownership structure of Stemcor's Indian business and propose changes in the current structure to the main Board

Risk management and internal control framework
The Board has responsibility for the Group's risk management framework legal and regulatory compliance and systems of internal control Although no system of risk management and internal control can provide absolute assurance against material misstatement or loss the risk management framework and associated governance arrangements are designed to ensure that there is a clear organisational structure with well defined transparent and consistent lines of responsibility and effective processes to identify report monitor and manage the risks to which the Group is or might become exposed In particular the Group's systems are designed to provide reasonable assurance that problems are recognised on a timely basis and dealt with accordingly Several elements of these systems are discussed in the Financial Review on pages 26 to 29

A key priority of the risk and control framework is to allow business opportunities to be exploited while maintaining an appropriate balance of risk and reward The Group's risk management framework is designed to ensure that the risks to which the Group is or may become exposed are identified and that those which the Group chooses to take are managed controlled and where appropriate mitigated so that the Group is not subject to unexpected loss

Identification measurement and management of risk are strategic priorities for the Group Over the past 12 months the Group's risk management framework has continued to evolve The Group reviews and revises its risk appetite as part of the strategy setting process and identifies its material risks through this process This aligns risk taking with the achievement of strategic objectives

In common with most large organisations the Group has adopted a risk management framework based on the concept of three lines of defence'

- First line of defence the Group's operational management has ownership responsibility and accountability for assessing controlling and mitigating risks
- Second line of defence the risk function together with other supporting functions – principally legal finance and treasury – facilitates and monitors the implementation of effective risk management practices by operational management provides Group level oversight of risks and assists the risk owners in reporting adequate risk related information up and down the organisation
- Third line of defence the internal audit function, reporting through the Audit Committee provides assurance to the Board and senior management on the effectiveness of the Group's risk management and internal control arrangements

Independent auditor's report to the members of Stemcor Holdings Limited

We have audited the financial statements of Stemcor Holdings Limited for the year ended 31 December 2012 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the Consolidated Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 28 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on pages 48 to 50 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group s and the parent company's circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates made by the directors and the overall presentation of the financial statements In addition we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's loss for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns or
- certain disclosures of directors' remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit.

David Coulon (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London, United Kingdom
22 March 2013

Ernst & Young LLP

Consolidated profit and loss account for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Turnover	2	5,111,599	6 253 537
Cost of sales		(4,958,533)	(6 010,139)
Gross profit		153,066	243,398
Distribution costs		(58,274)	(59,077)
Administrative expenses		(87,411)	(88 616)
Total operating profit		7,381	95 705
Share of operating profit from joint venture and associates		392	462
Net interest payable and other similar charges	3	(30,693)	(30,964)
(Loss)/profit on ordinary activities before taxation	4	(22,920)	65,203
Tax on (loss)/profit on ordinary activities	7	(16,450)	(26 902)
(Loss)/profit on ordinary activities after taxation		(39,370)	38 301
Equity minority interests	20	(6,886)	(16,587)
(Loss)/profit attributable to shareholders for the financial year		(46,256)	21 714

Consolidated balance sheet
as at 31 December 2012

	Notes	2012 £'000	2012 £'000	2011 £ 000	2011 £'000
Fixed assets					
Tangible fixed assets	10		322,723		271 871
Joint venture and associates			4,305		4 197
Investments	9		1,154		8 243
			328,182		284 311
Current assets					
Stocks	11	634,708		664 528	
Debtors		1,225,669		1 487 012	
Less non-returnable proceeds		(3,940)		(6 104)	
	12	1,221,729		1,480,908	
Investments	14	4,075		4 225	
Cash at bank and in hand		205,324		224 282	
		2,065,836		2 373 943	
Creditors amounts falling due within one year	15	(1,867,505)		(2 126 119)	
Net current assets			198,331		247 824
Total assets less current liabilities			526,513		532 135
Creditors amounts falling due after more than one year	16		(311,479)		(259 238)
Net assets			215,035		272 897
Capital and reserves					
Called up share capital	17 18		7,575		7 570
Share premium account	18		8,858		8 776
Profit and loss account	18		167,710		225 604
Shareholders' funds	18		184,143		241 950
Minority interests	20		30,892		30 947
Total capital employed			215,035		272,897

These financial statements were approved by the Board of directors on 22 March 2013 and signed on its behalf by

J Verden
Chief Executive Officer

M Broom
Chief Financial Officer

Company balance sheet as at 31 December 2012

	Notes	2012 £ 000	2012 £ 000	2011 £ 000	2011 £ 000
Fixed assets					
Tangible fixed assets	10		7,944		4,565
Investments	9		1,154		8 243
Investments in subsidiaries	9		265,131		302 176
			274,229		314 984
Current assets					
Debtors	12	31,165		48 456	
Cash at bank and in hand		795		374	
		31,960		48 830	
Creditors amounts falling due within one year	15	(122,046)		(121 864)	
Net current liabilities			(90,086)		(73 034)
Total assets less current liabilities			184,143		241 950
Net assets			184,143		241,950
Capital and reserves					
Called up share capital	17 19		7,575		7,570
Share premium account	19		8,858		8 776
Revaluation reserve	19		109,122		167 047
Other reserve	19		7,890		633
Profit and loss account	19		50,698		57,924
Shareholders' funds	19		184,143		241,950

These financial statements of Stemcor Holdings Limited (registered number 1038435) were approved by the Board of directors on 22 March 2013 and signed on its behalf by

J Verden
Chief Executive Officer

M Broom
Chief Financial Officer

Consolidated statements for the year ended 31 December 2012

Consolidated cash flow statement	Notes	2012 £'000	2011 £'000
Net cash inflow/(outflow) from operating activities	24	**251,704**	(241 436)
Returns on investments and servicing of finance	25	**(61,314)**	(61 279)
Taxation		**(24,252)**	(33 881)
Capital expenditure and financial investment	25	**(35,049)**	(43,130)
Acquisitions and disposals	25	**-**	(11 140)
Dividend paid	8	**(1,135)**	(4 519)
Net cash inflow/(outflow) before financing		**129,954**	(395 385)
Issue of ordinary share capital	17, 18	**87**	474
Net (reduced)/new debt	26	**(357,992)**	312,451
Increase of net overdrafts	26	**(227,951)**	(82 460)

Consolidated statement of total recognised gains and losses	Notes	2012 £'000	2011 £'000
(Loss)/profit attributable to shareholders for the financial year		**(46,256)**	21,714
Currency translation differences	18	**(9,790)**	(16 738)
Actuarial loss relating to pension schemes	18 23	**(620)**	(1 174)
Deferred tax on actuarial loss relating to pension schemes	18	**(93)**	333
Total recognised (losses)/gains relating to the year		**(56,759)**	4 135

Consolidated reconciliation of movements in shareholders' funds	Notes	2012 £'000	2011 £'000
Opening shareholders funds	18	**241,950**	241 860
(Loss)/profit attributable to shareholders for the financial year		**(46,256)**	21 714
Dividend	7, 18	**(1,135)**	(4,519)
Retained (loss)/profit for the year		**(47,391)**	17 195
Charge on grant of share options	19	**68**	(98)
Shares issued in the year	18	**87**	474
Other recognised losses in the year	18	**(10,571)**	(17 481)
Net (reduction)/addition to shareholders' funds		**(57,807)**	90
Closing shareholders funds		**184,143**	241 950

Notes to the financial statements

1 Accounting policies
The principal accounting policies are summarised below They have all been consistently applied throughout the current and preceding year

Basis of preparation
The financial statements have been prepared under the historical cost convention modified to include the revaluation of certain investments and share-based payments and in accordance with the Companies Act 2006 applicable English law and United Kingdom accounting standards

Going concern basis
Stemcor finances its operations through a combination of funds supplied by shareholders and funds supplied by financial institutions Of the funds supplied by financial institutions funds sourced from committed facilities play an important part Facilities amounting to £1 25bn 33% of the total are committed with expiry dates ranging from May 2013 to May 2014 The Group has covenants governing these facilities which if breached would make the facilities uncommitted and repayable on demand Further details of the covenants are detailed in Note 15

The Group is currently in the process of extending its one year RCF which expires in May 2013 and its three year RCF which expires in May 2014 As at the date of this report, the extensions have credit approved commitments from the five Mandated Lead Arrangers to participate at either the same level or at a higher level than their original commitment. The launch presentation took place on 13 March and since then further credit approved commitments have been received from a number of relationship banks. The level of renewal will possibly be lower than the existing facility which is consistent with the Group's plan to reduce the level of Group debt. The renewal process is expected to conclude on 18 April Based on progress to date the directors are confident that sufficient funds will be raised via renewal of the RCF expiring in May 2013 to meet the Group's ongoing funding needs

The directors consider that there are two key challenges to the Group s covenants At year end the Group is close to the limit of its total net worth vs indebtedness (gearing) covenant. In addition, any amount of the three year RCF that is not extended will by increasing liabilities falling due within one year reduce the headroom the Group currently has in its minimum working capital covenant

To avoid covenant breaches, the Group has successfully taken steps to reduce debt since the year end Following the strategic review of trading operations the strategy has refocused on lower volumes of higher quality and taking less risk. In the first two months of 2013 net cash collection has been positive and this has driven down our gearing ratio. Debt is also being restructured to align the assets financed with either transactionally secured borrowings or debt of a more appropriate maturity date Matching the maturity date of debt, with the life of the assets that those borrowings finance will increase headroom in the working capital covenant. These steps will continue to further improve the Group s compliance with covenants.

The directors have modelled a range of scenarios to test the Group's ability to meet their financial covenants The key assumptions that the models are sensitive to are movements in unit margin and debt maturity In the opinion of the directors the range of reasonably foreseeable scenarios modelled, the mitigating actions adopted and the results of the first two months of the year have confirmed that events that would cause a breach of a covenant are unlikely The directors have therefore concluded that the Group has sufficient financial resources to continue in operational existence for the foreseeable future

Based on the directors expectation of renewing the RCF at a sufficient level and maintaining covenant compliance the financial statements have been prepared on a going concern basis The financial statements do not include the adjustments that would be required if the Group was unable to continue as a going concern

Basis of consolidation
The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year

Where subsidiary undertakings are acquired or disposed of during the year, the Group profit and loss account includes their results only for the part of the year from or to the date on which control is passed Acquisitions have been accounted for under the acquisition method

Turnover
Turnover represents the invoiced amount of goods sold and services provided to third parties net of value added tax and trade discounts. Turnover arising from the sale of steel and steel-making raw materials is recognised when the risks and rewards of ownership have substantially passed to the customer

Turnover on services provided is recognised when services to customers are completed and invoiced

Turnover and profit on long-term contracts is recognised in accordance with the underlying contracts and the value of work performed to date as a proportion of the total contract value As with trading transactions, any foreseeable loss is recognised as soon as it can reliably be estimated

Pensions
The Group operates several money purchase pension schemes, including the "Stemcor Group Retirement Scheme" which are defined contribution schemes Contributions to these defined contribution schemes are charged to the profit and loss account as they are payable

Notes to the financial statements continued

1 Accounting policies continued
The Group also operates three defined benefit pension schemes The assets of the defined benefit schemes are held separately from those of the Group Pension schemes' assets are recorded at market value Pension schemes' liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability The pension scheme surplus to the extent that it is recoverable or the deficit is recognised in full on the balance sheet net of deferred tax Any current or past service cost is recognised within operating profit. The net of the expected increase in the present value of the schemes liabilities, and the Group s long-term expected return on its schemes assets is included in the profit and loss account as other finance income or expense Any difference arising from experience or assumption changes and differences between the expected return on assets and those actually achieved are recognised in the statement of total recognised gains and losses

Foreign exchange
The results of subsidiary undertakings that report in foreign currencies are translated into Sterling at the year's average rates and their assets and liabilities at the rate of exchange ruling at 31 December

Exchange differences arising on the retranslation of the opening share capital and reserves of such undertakings are taken to reserves and are reported in the Group's statement of total recognised gains and losses together with the differences arising when the profit and loss accounts translated at average rates are compared with rates ruling at 31 December

Exchange gains or losses on foreign currency borrowings used to finance an equity investment denominated in a foreign currency are offset against the exchange difference arising on the retranslation of the net investment, to the extent that they hedge the Group s investment in such operations

Derivative financial instruments
The Group uses derivative financial instruments to reduce to a minimum the exposure to foreign exchange risk and movements on amounts receivable and payable in currencies other than the functional currency of the contracting company

The Group also uses derivative financial instruments to reduce the price risk on some contracts for the purchase or sale of steel and iron ore

The Group does not hold significant derivative financial instruments for speculative purposes

The Group recognises losses on onerous contracts as they arise If the contract is profitable profits are recognised when the instrument is sold or expires

Share-based payments
The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group s estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions

Fair value is measured by use of the Black-Scholes model The expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations

Bank borrowings
Interest-bearing bank loans are recorded at the proceeds received net of direct issue costs Finance charges including premiums payable on settlement or redemption and direct issue costs are accounted for on an accrual basis in the profit and loss account on a straight-line basis

Fixed asset investments
Fixed asset investments are shown at director's valuation including provision for impairment where appropriate

Joint ventures and associates
Investments in joint ventures and associates are accounted for under the equity method The consolidated profit and loss account includes the Group s share of joint ventures and associates profits less losses while the Group s share of the net assets of the joint ventures and associates is shown in the consolidated balance sheet.

Fixed assets and depreciation
Fixed assets are stated at cost less provision for depreciation and any provision for impairment

Interest costs associated with loans used exclusively to fund the construction of assets in the course of construction are capitalised

Land and assets in the course of construction are not depreciated

Depreciation is provided to write off the cost, less estimated residual values of all tangible fixed assets over their expected useful lives

Buildings are depreciated using the straight-line method over periods ranging from 15 to 40 years

1 Accounting policies continued
Plant equipment and vehicles are depreciated using the straight-line method at rates ranging from 4 to 10 years

Mining rights arising on mining assets which are currently being exploited are included within tangible fixed assets and are stated at cost less amortisation based on actual and estimated rates of depletion

Leasehold improvement costs incurred in the period before the leased asset is ready for use are capitalised Leasehold improvements are depreciated using the straight-line method over the life of the lease

Capitalised software cost – software for internal use
Costs incurred in the application development stage until the software is substantially complete are capitalised and are amortised on a straight-line basis over the estimated useful life of the software typically ranging from 3 to 5 years

Stocks
Stocks are stated at the lower of cost and net realisable value Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal

Current asset investments
Current asset investments are shown at the lower of cost and net realisable value

Taxation
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise based on current tax rates and law Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements Deferred tax assets are recognised to the extent that it is regarded as more likely than not they will be recovered Deferred tax assets and liabilities are not discounted

The Group is subject to tax authority enquiries in a small number of the jurisdictions in which it operates. Where there is a quantifiable probable exposure a provision is made The calculation of the Group's total tax charge necessarily involves a degree of judgment and therefore it is possible that additional tax liabilities may arise for the Group in future periods as a result of such enquiries

Investment in subsidiaries
The Company values its investment in subsidiaries at their underlying net asset value No provision has been made for any taxation on capital gains that might arise on the disposal of subsidiaries at the amount at which they are stated in the balance sheet.

Leased assets
The cost of operating leases is charged to the profit and loss account on a straight-line basis over the life of the lease

Limited recourse finance
The Group has entered into a number of limited recourse finance arrangements where in some cases there is no effective recourse to the Group To the extent that there is recourse to the Group the amounts of recourse concerned are included in prepayments and bank loans in the balance sheet.

Employee Share Ownership Trust
The Employee Share Ownership Trust is consolidated

Holding Company result
As permitted by Section 408 of the Companies Act 2006 a separate profit and loss account dealing with the results of the Company has not been presented The loss retained by Stemcor Holdings Limited was £6 091 000 (2011 profit £5 324 000)

Notes to the financial statements continued

2 Segmental analysis

The segmental analysis of turnover by location of the Stemcor invoicing undertaking and of turnover by destination is as follows

	Turnover by location of Stemcor invoicing undertaking		Turnover by destination	
	2012 £'000	2011 £ 000	2012 £'000	2011 £ 000
UK	**1,632,729**	2,113 661	**348,065**	525 851
Other EU	**742,930**	954 116	**1,015,498**	1 438 573
Rest of Europe	**455,092**	730,792	**325,259**	412 141
Africa	**66,948**	75 810	**560,946**	699 287
North America	**649,372**	673 102	**680,641**	676,604
South America	**19,426**	7	**249,855**	259 299
Asia	**1,360,205**	1 549 556	**1,745,905**	2,078,862
Australasia	**184,897**	156 493	**185,430**	162,920
	5,111,599	6 253,537	**5,111,599**	6 253 537

Full segmental information has not been disclosed above as permitted by Statement of Standard Accounting Practice No 25 Segmental Reporting In the opinion of the directors such disclosure would be seriously prejudicial to the interests of the Company

3 Net interest payable and other similar charges

	2012 £'000	2011 £ 000
Interest receivable and similar income		
Bank and short-term deposits	**2,964**	4 724
Customers and suppliers	**13,991**	13 690
	16,955	18,414
Interest payable and similar charges		
Interest payable on bank and other borrowings repayable within five years	**(47,325)**	(49 061)
Interest on loans repayable after more than five years	**(4)**	–
	(47,329)	(49,061)
Finance charges of associates	**(319)**	(317)
Net interest payable and other similar charges	**(30,693)**	(30 964)

Interest payable and similar charges are shown net of interest capitalised, which during the year was £20,981 000 (2011 £22 317,000)

4 Loss on ordinary activities before taxation

The loss (2011 profit) on ordinary activities before taxation is stated after charging/(crediting)

	Notes	2012 £'000	2011 £'000
Depreciation	10, 24	**8,106**	7 123
Operating leases – land and buildings		**6,745**	6 605
Operating leases – hire of other items		**678**	449
Remuneration – Ernst & Young LLP (2011 Deloitte LLP)			
Audit of the financial statements		**465**	542
Audit of the subsidiaries		**865**	1,007
Other assurance services		**21**	61
Taxation compliance services		**18**	291
Corporate finance services		**97**	–
Other non-audit services		**21**	–
Remuneration – other auditors		**690**	352
Charge arising on share options	17 19	**68**	98
Profit on disposal of tangible fixed assets	24	**(58)**	(86)
Loss/(profit) on sale of current asset investment	24	**20**	(1,322)
Reversal of write down/write down of current asset investment	14	**(126)**	1 544
Write down of fixed asset investment	9	**7,089**	–

5 Directors

Directors emoluments were as follows

	2012 £ 000	2011 £ 000
Executive remuneration	**2,886**	4 575
Pension contributions	**548**	399
	3,434	4 974

The emoluments of the highest paid director were £554,000 including pension contributions of £30 000 (2011 £1 050 000 including pension contributions of £16 000) Four directors are members of the Stemcor Group Retirement Scheme which is a defined contribution scheme (2011 eight) The highest paid director exercised share options during the year

During 2011 the Group provided a director with an unsecured loan of £750 000 The loan is repayable within four years from the date of disbursement Interest accrues on the loan at 4% above Barclay's base rate As at 31 December 2012 no amounts had been repaid

5 Directors continued
The members of the Board during the year and their interests together with the interests of their Immediate families In the share capital of the Company were as follows

	Ordinary equity shares				Options held			
	31 December 2012	8 May 2012	7 May 2012	31 December 2011	31 December 2012	8 May 2012	7 May 2012	31 December 2011
R D Oppenheimer	**84,074,699**	93 771 825	3 750 873	3 750 873	**-**	-	-	-
M G Broom	**937,550**	937 550	37 502	37,502	**187,500**	187 500	7 500	7 500
G P E Craggs	**4,643,750**	4 643 750	185 750	185 750	**-**	-	-	-
G J Donnell	**485,000**	435 000	17 400	17 400	**75,000**	125,000	5 000	5 000
P M Edmonds	**36,113,061**	46 661 475	1 866 459	1,866 459	**-**	-	-	-
D M Faktor	**8,862,500**	8 862 500	354 500	354 500	**-**	-	-	-
S M Graf	**750,000**	750 000	30 000	30 000	**-**	-	-	-
R V G Harvey	**575,000**	575 000	23 000	23,000	**500,000**	500 000	20 000	20 000
C H Heritage	**2,250,000**	2 250,000	90 000	90 000	**-**	-	-	-
D J Paul	**3,112,500**	3 112 500	124 500	125 000	**-**	-	-	-
C D Rocker	**187,500**	187,500	7,500	7,500	**-**	-	-	-
M G Stock	**1,626,250**	1 526 250	61 050	61 050	**500,000**	500 000	20,000	20 000
J Verden	**10,456,225**	10 456 225	418 249	418 249	**-**	-	-	-
P S Whitehead	**500,050**	500 050	20 002	20 002	**500,000**	500 000	20 000	20 000

The Company is controlled by R D Oppenheimer, the Chairman, and his relatives In aggregate they have an interest in 71% (2011 71%) of the issued share capital of the Company

On 8 May 2012 the ordinary share capital of the Company was split by a factor of 25

On 28 December 2012 D M Faktor resigned from the Board

6 Employees
The total employment costs of all employees (including directors) were as follows

	Notes	2012 £'000	2011 £'000
Wages and salaries (including profit related bonus)		**74,815**	82 057
Social security costs		**8,977**	8,785
Other pension costs	23	**4,749**	4 399
Share based payments	18 20	**68**	98
		88,609	95 339

Notes to the financial statements continued

6 Employees continued

The average number of employees (including directors) during the year was as follows

	2012 Number	2011 Number
Sales and administration staff	1,262	1 179
Production and warehousing staff	747	681
	2,009	1 860

7 Tax on loss on ordinary activities

	Note	2012 £ 000	2011 £ 000
UK corporation tax at 24 5% (2011 26 5%) on the results for the year		–	743
Overseas tax		18,617	26,533
Prior year adjustments			
UK corporation tax		(2)	(586)
Overseas tax		(238)	1,330
Current year tax charge		18,377	28,020
Deferred tax – origination and reversal of timing differences	13	(1,927)	(1 118)
Total tax on (loss)/profit on ordinary activities		16,450	26,902

There is no UK corporation tax payable for the year because of the significant trading losses generated in the year by Stemcor UK.

	2012 £'000	2011 £ 000
Factors affecting the tax charge for the year		
(Loss)/profit on ordinary activities before tax	(22,920)	65,203
Tax (credit)/charge at the standard rate of UK corporation tax at 24 5% (2011 26 5%)	(5,616)	17 279
Effects of		
Disallowable expenses and non-taxable items	1,114	938
Creation/(utilisation) of tax losses in various countries	16,331	6 217
Differing tax rates on overseas earnings	2,527	1 719
Short-term timing differences	212	1 178
Adjustments to prior periods	(240)	744
Indian dividend distribution tax	2,611	376
Other	1,437	(431)
Current tax charge for the year	18,376	28 020

8 Dividends

	2012 £ 000	2011 £ 000
Final dividend in respect of 2011 15p per £1 share (2010 35p per £1 share)	1,135	2,638
Interim dividend paid 2012 nil per share (2011 25p per £1 share)	–	1 881
	1,135	4,519

The directors do not propose payment of a final dividend (2011 15p per £1 share)

9 Fixed asset investments

	Group £ 000	Company investments £ 000	Company share in subsidiary undertakings £ 000
At 1 January 2012	8,243	8 243	302 176
Write down of investment to listed market value	(7 089)	(7,089)	–
Additions			20 880
Revaluation of investment to net asset value	–	–	(57 925)
At 31 December 2012	1,154	1,154	265 131

The Company has provided against the diminution in listed market value for its shares in CMA Corporation Limited its fixed asset investment in a publicly listed company in Australia.

9 Fixed asset investments continued

The principal subsidiary undertakings joint venture and associate of the Company at 31 December 2012 all of which were included in the consolidated accounts, were as follows

	Country of incorporation	Nature of main business	Percentage of ordinary shares and voting rights held at 31 December 2012
Aryan Mining & Trading Corporation Pvt Ltd	India	Iron and manganese mines*	58%
Brahmani River Pellets Ltd	India	Plant under construction*	87 5%
Barclay & Mathieson Ltd	Scotland	Steel Merchants	100%
Eurosteel Products Ltd	England	Steel Merchants	100%
Global Metals Pty Ltd	Australia	Steel Merchants*	50%
Kenilworth Steel Co	USA	Steel Merchants*	100%
OKS Otto Knauf GmbH	Germany	Steel Merchants*	100%
Samac Steel Supplies plc	England	Steel Merchants	100%
Semi-Produtos de Metais Limitada	Portugal	Steel Merchants	100%
Servi-chap 99 SL	Spain	Steel Merchants	67%
Steel Plate & Sections Ltd	England	Steel Merchants	100%
Stemcor GmbH	Germany	Steel Merchants*	100%
Stemcor Australia	Australia	International traders*	100%
Stemcor AG	Switzerland	International traders	100%
Stemcor Flachstahl GmbH	Germany	Steel Merchants*	100%
Stemcor France SAS	France	Steel Merchants	100%
Stemcor India Pte Ltd	India	International traders*	100%
Stemcor Italia SRL	Italy	Steel Merchants*	100%
Stemcor MESA DMCC	Dubai	International traders	100%
Stemcor SEA Pte Ltd	Singapore	International traders*	100%
Stemcor South Africa Pty Ltd	South Africa	International traders*	100%
Stemcor Special Steels Ltd	England	Steel Merchants	100%
Stemcor Special Steels LLC	USA	Steel Merchants	100%
Stemcor Trade Finance Ltd	England	Financial Services*	100%
Stemcor UK Ltd	England	International traders	100%
Stemcor USA Inc	USA	International traders	100%
Uldry Trading SA	Switzerland	International traders*	100%
WSK GmbH	Germany	Steel Merchants*	100%
Zimmer Staal BVBA	Belgium	Steel Merchants	100%

Undertakings marked * are held through intermediate holding companies A full list of the Group's companies will be included in the Company's annual return No preference shares are held in subsidiary undertakings. Advantage has been taken of the exemption under Financial Reporting Standard 8 not to disclose transactions between entities 90% or more of whose voting rights are controlled within the Group

There are no material transactions with subsidiary undertakings where less than 100% of the voting rights are controlled

On 29 May 2012, the Group acquired 100% of the issued share capital and management control of the SteelTeam Group and purchased all of its third party debts and former shareholder debts for total consideration of £6 020,000

Notes to the financial statements continued

10 Tangible fixed assets

	Group					Company
	Total £'000	Land & buildings £'000	Mining rights £'000	Equipment and vehicles £'000	Assets in course of construction £'000	Equipment and vehicles £'000
Cost						
At 1 January 2012	317 194	55 489	25 841	54 591	181,273	7 469
Additions	73,816	10 618	707	15,144	47 347	4 285
Disposals	(6 849)	-	–	(3 902)	(2 947)	(3 059)
Foreign exchange differences	(13 198)	(986)	(1 302)	(1 175)	(9 735)	–
At 31 December 2012	**370,963**	**65,121**	**25,246**	**64,658**	**215,938**	**8,695**
Accumulated depreciation						
At 1 January 2012	45 322	11,320	3 412	30 590	–	2 904
Charge for the year	8 106	1 867	630	5,609	-	779
Disposals	(3 504)	-	–	(3 504)	-	(2,932)
Foreign exchange differences	(1 684)	(130)	(195)	(1 360)	–	-
At 31 December 2012	**48,240**	**13,057**	**3,847**	**31,336**	**-**	**751**
Net book value 31 December 2012	**322,723**	**52,065**	**21,398**	**33,322**	**215,938**	**7,944**
Net book value 31 December 2011	271 872	44 169	22 429	24 001	181 273	4 565

Assets in the course of construction include £70 158 000 (2011 £49,177 000) of interest capitalised the average capitalisation rate used was 8 93%

Land and buildings at net book value include £40 691 000 (2011 £38 261 000) of freehold properties and £11,369 000 (2011 £5 302 000) of leasehold properties

11 Stocks

	2012 £'000	2011 £'000
Finished goods and goods for resale	**634,708**	664 528

12 Debtors

	Group 2012 £'000	Group 2011 £'000	Company 2012 £ 000	Company 2011 £'000
Trade debtors (net of non-returnable proceeds)	**867,855**	996 579	**-**	-
Amounts owed by subsidiary undertakings	**-**	–	**25,601**	40 708
Taxation recoverable	**5,673**	2 749	**2,481**	3 606
Other debtors	**124,201**	134 892	**2,193**	2 042
Prepayments and accrued income	**224,000**	346 688	**890**	2 100
	1,221,729	1 480 908	**31,165**	48,456

12 Debtors continued

Analysis of trade debtors.

	Group 2012 £'000	Group 2011 £'000
Trade debtors under letters of credit	**127,598**	98 058
Trade debtors covered by credit insurance and bank guarantees subject to discounting arrangements	**141,936**	69,380
Less non-returnable amounts received	**(3,940)**	(6 104)
	137,996	63 276
Trade debtors covered by credit insurance and bank guarantees not subject to discounting arrangements	**278,764**	475 897
Other trade debtors – the larger part is secured by guarantees deposits and other forms of security	**323,497**	359,348
	867,855	996 579

Non-returnable proceeds represent cash received under discount arrangements for certain insured debts which, under the terms of the discounting arrangements is not returnable The cash received under these arrangements which is under certain circumstances, returnable, is shown within loans and overdrafts due within one year

Included in prepayments and accrued income of the Group is £17 212 000 (2011 £22 463 000) of advance payments to suppliers which is due in more than one year

Included in other debtors of the Group is £18,522 000 (2011 £21 883 000) of debtors due after more than one year

13 Deferred tax

	2012 £'000	2011 £'000
At 1 January 2012	**3,324**	2,415
Credit to the profit and loss account	**1,927**	1 118
Exchange differences	**(45)**	131
Other	**1,268**	(340)
At 31 December 2012	**6,474**	3 324

Deferred tax is provided as follows

	2012 £'000	2011 £'000
Fixed asset timing differences	**(601)**	(910)
Tax losses	**5,348**	1,530
Other timing differences	**1,727**	2 704
Total deferred tax asset recognised	**6,474**	3,324

The deferred tax is included within other debtors in note 12.

The above net deferred tax asset has been recognised as, in the directors opinion, it is more likely than not that sufficient suitable profits (based on forecasts and historical performance) will be generated in the foreseeable future against which to recover the assets.

The Group has not recognised deferred tax assets on tax losses of £167 110 000 (2011 £106 700 000) under Financial Reporting Standard 19 as there is uncertainty as to whether there will be suitable profits in the near future against which to offset them Further deferred tax assets in relation to interest payments of £20,100 000 (2011 £17 000 000) have not been recognised for the same reason.

There are no material deferred tax assets or liabilities in Stemcor Holdings Ltd at a company only level There is no binding contract in place to sell any of Stemcor Holding Ltd's revalued assets and there is unlikely to be a deferred tax liability in respect of these assets due to available tax exemptions

14 Current asset investments

	2012 £'000	2011 £'000
At 1 January 2012	**4,225**	9 568
Additions	**-**	1,310
Disposals	**(77)**	(2 772)
Foreign exchange differences	**(199)**	(2 337)
Reversal of write down/(write down) of value of current asset investments	**126**	(1,544)
At 31 December 2012	**4,075**	4 225

All current asset investments are listed

The aggregate market value of these investments was £4,968,000 as at 31 December 2012 (2011 £4 225 000)

Notes to the financial statements continued

15 Creditors amounts falling due within one year

	Group 2012 £ 000	Group 2011 £ 000	Company 2012 £'000	Company 2011 £ 000
Overdrafts and short-term borrowings	**993,703**	793 166	**6,552**	–
Bank loans	**381,200**	810 427	–	–
Trade creditors	**263,963**	198 465	**278**	2 104
Amounts owed to subsidiary undertakings	**–**	–	**111,506**	114 345
UK and overseas tax payable	**14,175**	15 287	**–**	188
Other creditors	**60,076**	82 068	**752**	1 443
Other taxes and social security	**2,180**	2 476	**669**	630
Accruals and deferred income	**152,208**	224,230	**2,289**	3 154
	1,867,505	2,126,119	**122,046**	121 864

Included in overdrafts and bank loans is £763 040 000 (2011 £929 898,000) of transactional finance secured on stock and debtors and £3 587,000 (2011 £2 041 000) secured on property

Both short-term and long-term bank loans are subject to covenants in relation to minimum tangible net worth minimum working capital and maximum indebtedness versus tangible net worth (gearing)

16 Creditors amounts falling due after more than one year

	Note	Group 2012 £ 000	Group 2011 £ 000
Bank loans		**299,793**	245 715
Pension liability	23	**2,342**	3 144
Other creditors		**9,344**	10 379
		311,479	259,238

Included in bank loans is £136 592 000 (2011 £84 440 000) of debt secured via property

Bank loans are repayable as follows £381 200 000 (2011 £810 428,000) within one year £217,903 000 (2011 £6 114 000) between one and two years £79 581 000 (2011 £239 599,000) between two and five years and £2 306,000 (2011 £nil) after more than five years

Of the short-term and long-term bank loans £608 275 000 (2011 £672 000 000) and £137 764,000 (2011 £136 000 000) respectively, related to the Revolving Credit Facility (RCF) The interest margin on the RCF is 2 25% to 2 75% above 3 month LIBOR Other borrowings are mostly at margins between 1 00% and 1 75% above 3 month LIBOR

Included within other creditors is £8,836,000 (2011 £8 300 000) of creditors due in more than five years

17 Called up share capital, Group and Company

	2012 £ 000	2011 Restated £'000
Authorised		
250 000 000 ordinary shares of £0 04 each	**10,000**	10 000
	10,000	10 000
Allotted, called up and fully paid		
189 387 225 ordinary shares of £0 04 each (2011 189 272 825)	**7,575**	7 570
	7,575	7,570

On 8 May 2012 the ordinary share capital of the Company was split by a factor of 25

During the year 114,400 (2011 1,135 475) ordinary shares of £0 04 each were issued for consideration of £88,384 (2011 £474,190)

During 1997 the Company instigated
(i) An Inland Revenue Approved Share Option Scheme ("the Approved Scheme")
(ii) An unapproved Company Executive Share Option Scheme ("the Unapproved Scheme")

The number of ordinary shares under option in each scheme as at 31 December 2012 was
(i) Approved Scheme 114,075 (2011 50,000)
(ii) Unapproved Scheme 2,953 290 (2011 2,937 500)

17 Called up share capital, Group and Company continued

The options were granted at the following exercise prices

(i) Approved Scheme £0 80 (exercise period 1 July 2011 to 1 July 2014) £0 80 (exercise period 26 September 2011 to 26 September 2014) £0 76 (exercise period 11 September 2016 to 11 September 2019 £0 88 (exercise period 12 April 2016 to 12 April 2019) and £1 00 (exercise period 18 January 2015 to 18 January 2018) per ordinary share

(ii) Unapproved Scheme £0 40 (exercise period 1 December 2009 to 24 April 2016) £0 56 (exercise period 25 February 2012 to 25 February 2015) £0 76 (exercise period 11 September 2016 to 11 September 2019), £0 80 (exercise period 1 June 2011 to 1 June 2014) £0 80 (exercise period 2 July 2013 to 2 July 2016) and £1 00 (exercise period 15 June 2016 to 15 June 2019) per ordinary share

Analysis of share options

	Restated options outstanding at 1 January 2012	Options granted in the year	Options exercised in the year	Options lapsed in the year	**Options outstanding at 31 December 2012**
Approved at £0 76	–	39 473	–	–	**39,473**
Approved at £0 80	50 000	–	–	–	**50,000**
Approved at £0 88	–	34 075	–	–	**34,075**
Approved at £1 00	–	30 000	–	–	**30,000**
Unapproved at £0 40	687,500	–	–	–	**687,500**
Unapproved at £0 56	1,000,000	–	–	–	**1,000,000**
Unapproved at £0 76	–	65 790	–	–	**65,790**
Unapproved at £0 80	875 000	–	(50 000)	–	**825,000**
Unapproved at £1 00	375,000	–	–	–	**375,000**
	2,987,500	169 338	(50 000)	–	**3,106,838**
Weighted average exercise price	0 65	0 83	0 80	–	**0.66**

There were 2 062,500 (2011 1,112 500) options exercisable at 31 December 2012

The options outstanding at 31 December 2012 had exercise prices in the range of £0 40 to £1 00 and a weighted average contractual life of three years and four months

The total expense recognised in 2012 in connection with Financial Reporting Standard 20 was £68 000 (2011 £98 000) and the total carrying amount at 31 December 2012 was £1 316 000 (2011 £1 248 000) which is included in profit and loss reserves in the balance sheet.

The inputs into the Black-Scholes model, used to calculate the fair value of the options granted are as follows

	2012	2011
Weighted average share price (£)	**15**	16
Weighted average exercise price (£)	**18**	18
Expected volatility (%)	**30**	40
Weighted average expected life (years)	**5**	5
Weighted average risk-free rate (%)	**1**	1
Expected dividend yields (%)	**1**	3

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous ten years

The expected life used in the model has been adjusted based on management s best estimate to reflect the effects of non-transferability exercise restrictions and behavioural considerations

Notes to the financial statements continued

18 Group reserves

	Called-up share capital £'000	Share premium account £'000	Profit and loss account £'000	Shareholders funds £'000
At 1 January 2012	7 570	8 776	225 604	241 950
Shares issued in the year	5	82	–	87
Currency translation differences	–	–	(9 790)	(9 790)
Actuarial loss relating to pension schemes	–	–	(620)	(620)
Deferred tax on actuarial loss relating to pension schemes	–	–	(93)	(93)
Loss for the financial year	–	–	(46 256)	(46 256)
Dividend	–	–	(1 135)	(1,135)
At 31 December 2012	**7,575**	**8,858**	**167,710**	**184,143**

19 Company reserves

	Called-up share capital £'000	Share premium account £'000	Revaluation reserve £'000	Other reserve £'000	Profit and loss account £'000	Shareholders funds £'000
At 1 January 2012	7 570	8 776	167,047	633	57 924	241 950
Shares issued in the year	5	82	–	–	–	87
Revaluation of shares in subsidiaries	–	–	(57 925)	7 189	–	(50,736)
Movement on grant of share options	–	–	–	68	–	68
Loss for the financial year	–	–	–	–	(6 091)	(6 091)
Dividend paid	–	–	–	–	(1 135)	(1 135)
At 31 December 2012	**7,575**	**8,858**	**109,122**	**7,890**	**50,698**	**184,143**

20 Minority interests

	£'000
At 1 January 2012	30 947
Profit on ordinary activities after tax	6 886
Change of ownership	3 089
Payment to minority	(8 239)
Foreign exchange differences	(1,791)
At 31 December 2012	**30,892**

21 Group financial commitments

Annual commitments under non-cancellable operating leases for land and buildings are as follows

	2012 £'000	2011 £'000
Operating leases which expire		
Within one year	2,095	1,047
In the second to fifth year inclusive	3,963	4 094
After five years	142	266
	6,200	5 407

Stemcor Holdings Limited had commitments under operating leases of £nil at 31 December 2012 (2011 £491 000)

22 Contingent assets and liabilities

At 31 December 2012 the Group had no material contingent liabilities except as disclosed below Stemcor Holdings Limited has entered into guarantees in respect of the bank facilities of subsidiary undertakings, and has guaranteed certain other liabilities of subsidiary undertakings Through its control of the Group the Company has sufficient resources to meet these guarantees The existence of such guarantees has been considered in assessing the going concern of the Group as set out in the Accounting Policies on pages 59 to 61 These guarantees have no financial effect on the Group

23 Pensions

The principal pension arrangements in the Group are defined contribution schemes and other money purchase schemes, the assets of which are held separately from those of the Group in independently administered funds The costs were charged to the profit and loss account as incurred There were no outstanding contributions or prepaid contributions at either the beginning or end of the financial year

	2012 £'000	2011 £'000
Defined contribution scheme	2,882	2,333
Other money purchase schemes	1,260	1 048
	4,142	3 381

In addition the Group operates three defined benefit schemes one in Switzerland one in Germany and one in the UK The Group has accounted for the associated costs in accordance with Financial Reporting Standard 17 "Retirement Benefits" The Swiss scheme is a funded scheme operated by Zurich Insurance Group and provides benefits in line with mandatory Swiss requirements. The UK scheme is a funded scheme and has been closed to new entrants since 2005 The German scheme is an unfunded scheme

The amounts recognised in the balance sheet are as follows

	2012 £'000	2011 £'000
Present value of schemes liabilities	(20,735)	(19 806)
Fair value of schemes' assets	18,032	16,208
Deficit	(2,703)	(3 598)
Related deferred tax asset	361	454
Net pension liability	(2,342)	(3 144)

The amounts recognised in the Group profit and loss account are as follows

	2012 £'000	2011 £'000
Current service cost	607	1 018
Operating costs	607	1 018
Expected return on assets	(796)	(991)
Interest on liabilities	762	872
Financing cost	(34)	(119)
Total profit and loss account cost	573	899

The amounts recognised in the Group statement of total recognised gains and losses are as follows

	2012 £'000	2011 £'000
Actuarial gains/(losses) on schemes assets	1,231	(1 282)
Experience (losses)/gains on the schemes liabilities	(1,851)	108
Total gains and losses	(620)	(1 174)

The cumulative amount of net actuarial losses recognised in the consolidated statement of total recognised gains and losses since the adoption of Financial Reporting Standard 17 is £3,367,000 loss (2011 £2 159 000 loss)

Notes to the financial statements continued

23 Pensions continued
The principal actuarial assumptions used at the balance sheet date were as follows

	2012			2011		
	UK scheme	Swiss scheme	German scheme	UK scheme	Swiss scheme	German scheme
Rate of salary increase	n/a	1.50%	2.00%	3 00%	1 50%	2 00%
Rate of increase of pensions in payment	2.90%	0 10%	2.00%	2 80%	0.30%	2 00%
Discount rate	4.35%	2.00%	3.70%	4 70%	2 50%	4 90%
Expected rate of return on schemes' assets	n/a	0.00%	n/a	6 57%	2 96%	n/a
Inflation assumption	2.90%	1.00%	n/a	2 80%	1 00%	2 00%

The discount rates are determined by reference to the market yields on AA rated corporate bonds The overall expected rate of return is calculated by weighting the individual returns expected from each asset class (see below) in accordance with the actual asset balance in the schemes investment portfolios

The mortality assumptions adopted for the UK scheme are derived from PA 92 actuarial tables with medium cohort, published by the Institute of Actuaries, projected forward and where appropriate, adjusted to take account of the UK scheme's actual experience The resulting range of life expectancies in the UK scheme is as follows current pensioners 87 years future pensioners 88 years

Assumptions in respect of the Swiss and German schemes are set in accordance with advice from local actuaries

Changes in present value of defined benefit schemes' liabilities

	2012 £'000	2011 £'000
At 1 January	19,806	18,574
Foreign exchange differences	1,973	193
Current service cost	607	1 018
Interest on liabilities	762	873
Contributions by employees	456	595
Net benefits paid out	(373)	(1 555)
Actuarial (loss)/gain	(1,851)	108
Settlements	(644)	-
At 31 December	20,736	19,806

23 Pensions continued
The liabilities of the unfunded German scheme included above are £660,000 (2011 £634 000)

Changes in fair value of defined benefit schemes' assets

	2012 £'000	2011 £'000
At 1 January	16,208	16 796
Foreign exchange differences	(477)	(105)
Expected return on assets	796	991
Contributions by employer	469	765
Contributions by employees	456	595
Benefits paid out	(434)	(1 552)
Actuarial gain/(loss)	1,231	(1,282)
Settlements	(219)	–
At 31 December	18,030	16 208
Actual return on schemes assets	558	317

The Group has made prepaid pension contributions of £321 000 (2011 £321 000) in respect of the defined benefit pension schemes

The fair value of the schemes' assets and the expected rates of return as at 31 December were as follows

	2012		2011	
	Expected rate of return %	Market value £'000	Expected rate of return %	Market value £'000
Equities	5.98%	9,410	6.28%	9 170
Corporate bonds	3.39%	6,641	3 65%	5,536
Property	4.00%	400	3 75%	364
Cash	3.68%	1,581	3 30%	1 138
At 31 December		18,032		16,208

The expected rates of return above are the weighted average of the rates for each scheme

The schemes assets include neither the Group s own debt nor property occupied by the Group nor other assets used by the Group

The Group expects to contribute approximately £341 000 to its defined benefit schemes in 2013 (2012 £736,000)

Amounts for the current and previous four years are as follows

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Fair value of schemes assets	18,032	16,208	16 796	14 739	11 836
Present value of schemes' liabilities	(20,735)	(19 806)	(18,574)	(17,288)	(14,677)
Deficit before deferred tax asset	(2,703)	(3 598)	(1,778)	(2,549)	(2 841)
Experience adjustments on the schemes' liabilities	(1,851)	108	(47)	(1 149)	(2 227)
Experience adjustments on the schemes' assets	1,231	(1 282)	1,171	1 546	(1 236)

24 Reconciliation of operating profit to operating cash flows

	Notes	2012 £'000	2011 £'000
Operating profit		7,381	95 705
Depreciation and impairment charges in respect of tangible fixed assets	10	8,106	7,123
Revaluation of current asset investments	14	(126)	1 544
Profit on sale of current asset investment	4	(20)	(1 322)
Write down of fixed asset investment	9	7,089	–
Sundry non-cash movements		553	(26)
Excess purchase consideration written off		–	531
Charge on grant of share options	19	68	98
Profit on sale of tangible fixed assets	4	(58)	(86)
Decrease/(increase) in stocks		10,135	(239 520)
Decrease/(increase) in debtors		210,123	(91 464)
Increase/(decrease) in creditors		8,453	(14 019)
Net cash inflow/(outflow) from operating activities		251,704	(241 436)

Notes to the financial statements continued

25 Analysis of cash flows for headings netted in the cash flow statement

	2012 £'000	2011 £ 000
Returns on investments and servicing of finance		
Interest received	**17,114**	17 941
Interest paid	**(70,189)**	(70 923)
Net payments to minorities	**(8,239)**	(8 297)
Net cash outflow for returns on investments and servicing of finance	**(61,314)**	(61,279)
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	**(35,729)**	(39 056)
Payments to acquire fixed asset investments	**(7)**	(8 243)
Proceeds from sale of tangible fixed assets	**628**	1,392
Payments to acquire current asset investments	**-**	(1 310)
Proceeds from disposal of current asset investments	**59**	4,087
Net cash outflow for capital expenditure and financial investment	**(35,049)**	(43 130)
Acquisitions and disposals		
Payments to acquire subsidiary undertakings	**-**	(14 440)
Net debt acquired with subsidiary undertakings	**-**	3 300
Net cash outflow from acquisitions and disposals	**-**	(11,140)

26 Analysis and reconciliation of net debt

	At 1 January 2012 £'000	Cash flow £ 000	Foreign exchange movement £'000	At 31 December 2012 £'000
Cash at bank and in hand	224 282	(11,397)	(7 561)	**205,324**
Overdrafts and short-term borrowings*	(793 166)	(216 554)	16 021	**(993,699)**
Net overdrafts	(568 884)	(227 951)	8 460	**(788,375)**
Bank loans due within one year	(810 427)	417 473	11 754	**(381,200)**
Bank loans: due after more than one year	(245 715)	(59 481)	5 403	**(299,793)**
Total bank loans	(1 056 142)	357 992	17 157	**(680,993)**
Net debt	(1 625 026)	130 041	25 617	**(1,469,368)**

Cash at bank and in hand includes £13 605,000 (2011 £10 834 000) of cash deposited with a bank which is not withdrawable until the beneficiation and pelletisation plants of BRPL become operational

* Short-term borrowings relate to transactional finance.

	2012 £'000	2011 £ 000
Net new debt in the year	**(227,951)**	(82 460)
Change in net debt resulting from cash flows	**(227,951)**	(82 460)
Translation difference	**25,617**	39 569
Debt acquired with subsidiaries	**-**	(19,454)
Net new debt	**357,992**	(312 451)
Increase in net debt for the year	**155,658**	(374 796)
Net debt at 1 January	**(1,625,026)**	(1 250 230)
Net debt at 31 December	**(1,469,368)**	(1 625 026)

27 Derivatives not included at fair value

The Group has derivatives which are not included at fair value in the accounts

	Principal		Fair value	
	2012 £'000	2011 £ 000	2012 £'000	2011 £'000
Forward foreign exchange contracts	**(40,081)**	(99 447)	**671**	4 189
Commodity futures contracts	**4,361**	(1 953)	**115**	110
Swap contracts – iron ore	**365**	675	**4**	434
Swap contracts – steel	**20,069**	24 497	**326**	3 706

The nature and extent of the derivatives used by the Group are discussed in the Accounting Policies note

28 Post balance sheet events

On 8 March 2013 the Group requested a 364 day extension of the existing 364 day USD850 million Revolving Credit Facility supporting its general working capital requirements

On 8 March 2013 the Group requested a 1 year extension of the existing 3 year USD227 5 million Revolving Credit Facility which would extend the maturity date from May 2014 to May 2015

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