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**Report of the statutory auditor on the
limited statutory examination**

with financial statements as of 31 December 2013 of

Stemcor Risk Management AG, Zug

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To the General Meeting of
Stemcor Risk Management AG, Zug

Zug, 14 August 2014

Report of the statutory auditor on the limited statutory examination

As statutory auditor, we have examined the financial statements (balance sheet, income statement and notes) expressed in Swiss Francs of Stemcor Risk Management AG for the year ended 31 December 2013.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to perform a limited statutory examination on these financial statements. We confirm that we meet the licensing and independence requirements as stipulated by Swiss law.

We conducted our examination in accordance with the Swiss Standard on the limited statutory examination. *This standard requires that we plan and perform a limited statutory examination to identify material misstatements in the financial statements. A limited statutory examination consists primarily of inquiries of company personnel and analytical procedures as well as detailed tests of company documents as considered necessary in the circumstances. However, the testing of operational processes and the internal control system, as well as inquiries and further testing procedures to detect fraud or other legal violations, are not within the scope of this examination.*

Based on our limited statutory examination, nothing has come to our attention that causes us to believe that the financial statements and the proposed appropriation of available earnings do not comply with Swiss law and the company's articles of incorporation.

Without qualifying our conclusion, we refer to Note 3 to the financial statements describing the liquidity difficulties the Stemcor Group faced during the financial year ended 31 December 2013. This fact together with other matters disclosed in Note 3 indicates the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern.

Should the going concern assumption no longer be appropriate, the financial statements would have to be prepared based on liquidation values. In this case a serious concern of over-indebtedness in the sense of article 725 paragraph 2 CO would exist and the relevant provisions would have to be complied with.



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2

Additionally, we point out that, contrary to the requirements of article 699 paragraph 2 CO, the ordinary general meeting of shareholders was not held within six months after the balance sheet date.

We further mention that the prior year financial statements have not yet been approved by the General Meeting of Shareholders. We assume that the approval of the financial statements as per 31 December 2012 will occur in the form in which they were attached to the statutory auditor's report dated 10 June 2014. Should this not be the case, this could influence the financial statements.

Ernst & Young Ltd

Edgar Christen
Licensed audit expert
(Auditor in charge)



Ralph Petermann

Enclosures

- ▶ Financial statements (balance sheet, income statement and notes)
- ▶ Proposed appropriation of available earnings

STEMCOR RISK MANAGEMENT AG, ZUGBALANCE SHEET AS OF DECEMBER 31, 2013
(with 2012 comparative figures)

| | <u>2013</u> | | <u>2012</u> | |
|---|------------------|------------------|------------------|------------------|
| | <u>CHF</u> | <u>USD</u> | <u>CHF</u> | <u>USD</u> |
| <u>ASSETS</u> | | | | |
| CURRENT ASSETS | | | | |
| Bank and cash funds | 620'753 | 697'243 | 621'834 | 680'844 |
| Derivative Assets | - | - | 121'940 | 133'512 |
| Trade accounts receivable | | | | |
| Third parties | 1'428'938 | 1'605'015 | 2'325'520 | 2'546'203 |
| Related companies | 1'443'255 | 1'621'096 | 3'016'788 | 3'303'069 |
| Prepayments | 13'606 | 15'283 | 35'078 | 38'407 |
| VAT Recoverable | 37'058 | 41'624 | - | - |
| Total current assets | <u>3'543'610</u> | <u>3'980'261</u> | <u>6'121'160</u> | <u>6'702'035</u> |
| TOTAL ASSETS | <u>3'543'610</u> | <u>3'980'261</u> | <u>6'121'160</u> | <u>6'702'035</u> |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable | | | | |
| Related companies | 169'828 | 190'754 | 1'911'698 | 2'093'111 |
| Accrued liabilities and provisions | 585'939 | 658'140 | 630'822 | 690'684 |
| Deferred unrealised gains | - | - | 121'940 | 133'512 |
| Total current liabilities | <u>755'766</u> | <u>848'894</u> | <u>2'664'460</u> | <u>2'917'307</u> |
| SHAREHOLDERS' EQUITY | | | | |
| Share capital | 100'000 | 85'960 | 100'000 | 85'960 |
| Legal reserve | 50'000 | 47'803 | 50'000 | 47'803 |
| Loss for the year | (668'855) | (653'361) | (312'583) | (226'543) |
| Profit / (loss) brought forward | <u>3'306'700</u> | <u>3'650'965</u> | <u>3'619'283</u> | <u>3'877'508</u> |
| Total shareholders' equity | <u>2'787'844</u> | <u>3'131'368</u> | <u>3'456'700</u> | <u>3'784'728</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u>3'543'610</u> | <u>3'980'261</u> | <u>6'121'160</u> | <u>6'702'035</u> |



STEMCOR RISK MANAGEMENT AG, ZUGINCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2013
(with 2012 comparative figures)

| | <u>2013</u> | | <u>2012</u> | |
|--|--------------------|--------------------|---------------------|---------------------|
| | <u>CHF</u> | <u>USD</u> | <u>CHF</u> | <u>USD</u> |
| Turnover | 2'058'544 | 2'227'345 | 81'906'568 | 87'885'747 |
| Cost of goods sold | <u>(1'424'563)</u> | <u>(1'541'377)</u> | <u>(80'517'752)</u> | <u>(86'395'548)</u> |
| GROSS PROFIT | <u>633'981</u> | <u>685'968</u> | <u>1'388'816</u> | <u>1'490'199</u> |
| OPERATING EXPENSES | | | | |
| General and administrative expenses | <u>(1'265'418)</u> | <u>(1'369'183)</u> | <u>(1'851'404)</u> | <u>(1'986'556)</u> |
| Total operating expenses | <u>(1'265'418)</u> | <u>(1'369'183)</u> | <u>(1'851'404)</u> | <u>(1'986'556)</u> |
| OPERATING PROFIT | <u>(631'437)</u> | <u>(683'215)</u> | <u>(462'588)</u> | <u>(496'357)</u> |
| OTHER INCOME / (EXPENSES) | | | | |
| Finance income | 41'462 | 44'862 | 297'635 | 319'362 |
| Finance expense | <u>(13'871)</u> | <u>(15'008)</u> | <u>(71'560)</u> | <u>(76'784)</u> |
| Realised mark to market gains/(losses) | - | - | 63'592 | 68'234 |
| Translation differences | <u>(65'010)</u> | <u>-</u> | <u>(101'454)</u> | <u>-</u> |
| Total other income / (expenses) | <u>(37'419)</u> | <u>29'854</u> | <u>188'212</u> | <u>310'812</u> |
| LOSS BEFORE TAXATION | <u>(668'855)</u> | <u>(653'361)</u> | <u>(274'376)</u> | <u>(185'545)</u> |
| TAXATION | <u>-</u> | <u>-</u> | <u>(38'208)</u> | <u>(40'998)</u> |
| NET LOSS FOR THE PERIOD | <u>(668'855)</u> | <u>(653'361)</u> | <u>(312'583)</u> | <u>(226'543)</u> |
| AVAILABLE EARNINGS, BEGINNING OF THE YEAR | <u>3'306'700</u> | <u>3'650'965</u> | <u>3'619'283</u> | <u>3'877'508</u> |
| ALLOCATION TO LEGAL RESERVE | - | - | - | - |
| AVAILABLE EARNINGS, END OF THE YEAR | <u>2'637'844</u> | <u>2'997'605</u> | <u>3'306'700</u> | <u>3'650'965</u> |



STEMCOR RISK MANAGEMENT AG, ZUG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013
(with 2012 comparative figures)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Translation of Financial Statements to Swiss Francs - The Company maintains its accounting records in US Dollars ("USD"). As required by Swiss law, these statutory financial statements are presented in Swiss Francs. Balance sheet items other than shareholders' equity are translated at the exchange rate in effect at the balance sheet date.

The shareholders' equity is translated at the historical exchange rate. The income statement is translated at the average exchange rate for the year. The loss resulting from this translation is charged to the income statement, whereas gains are deferred.

Foreign Currency Translation - The financial records of the Company are maintained USD. The financial statements have been prepared on the basis that the USD is the functional currency. All assets and liabilities other than USD denominated assets and liabilities are translated at period-end rates.

Derivative assets and liabilities – all derivative financial instruments are valued at fair value at each balance sheet date. The assets and liabilities resulting from this valuation are respectively recognized as derivative assets and derivative liabilities on the balance sheet. Derivative exposures with the same counter party are offset when there is a legal right to do so and the intention is to settle net.

The recognition of the unrealised gains in the income statement is deferred until realised. The unrealised gains are presented as deferred unrealised gains in the balance sheet. Unrealised losses are recognised in the income statement (disclosed as unrealised mark to market loss).

Turnover - Turnover represents the amounts of sales and services provided.

2. RISK ASSESSMENT

The Company is fully integrated into the Stemcor Group-wide risk assessment and management process. The corporate risk management function coordinates the processes and reports to the Board of Directors of the Company on risk and risk management on a regular basis. The risk management system is designed and implemented to identify, assess, reduce and mitigate risks that arise in the course of the Company's business at an early stage. Identified risks are regularly reviewed together with an assessment of the potential impact and related probability. Such risks are managed Group wide through numerous organizational and procedural measures. Organizationally the responsibility for risk assessment and management is allocated to the business Groups. Corporate functions provide the necessary support and controlling activities to ensure effectiveness of the risk management system.

3. GOING CONCERN

In May 2013, the Stemcor Holdings Limited Group (the "Group") defaulted on the repayment of its one-year European Revolving Credit Facility ("RCF"). The European RCF default in turn led to a cross-default on the Group's Asian RCF and the three-year European RCF. The European RCFs were owed by Stemcor Trade Finance Limited (a UK entity), and the Asian RCF was owed by Stemcor S.E.A. Pvt Limited (a Singapore entity). The Group entered into negotiations with a steering committee of the Group's senior lenders (the "Co Comm") and agreed to a series of Global Standstill Agreements.

STEMCOR RISK MANAGEMENT AG, ZUG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013 (with 2012 comparative figures)

Following an in-depth independent business review (IBR) of the Group's business plans by Co Comm and its advisors, a solvent Group-wide Refinancing Plan (the "Refinancing Plan") was agreed in principle in August 2013, was sanctioned by the UK courts under two Schemes of Arrangement in February 2014 and was completed in March 2014. The principal aspects of the Refinancing Plan are:

- a \$1.15 billion syndicated committed trade finance facility ("SCTFF") to finance the Group's global trading business until 31 December 2015; and
- a \$1.30 billion Term Loan to refinance the one-year and three-year European RCFs and Asian RCF debt until 31 December 2015 (the "Term Debt").

Under the SCTFF and Term Debt, the Group has covenanted to make minimum Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA"), retain minimum Net Current Assets and retain minimum free cash balances on a specified part of the business defined with the lenders as 'core' as well as covenanting to provide information to the Lenders through to December 2015. *Future trading will need to be in line with forecasts to ensure that a breach does not result due to a failure to meet the financial targets, which are assessed on a quarterly basis.*

The Term Debt is to be repaid via an amortisation schedule, plus mandatory prepayments from, selling the Group's Indian assets, selling or winding up other non-core businesses, reducing working capital and the refinance of any unpaid balance outstanding at maturity.

The Term Debt also has financial covenants around the disposal of certain assets based on the Group's business plan and the subsequent IBR performed by the Co Comm's advisors. *Any failure to achieve these quarterly targets will cause a breach in the new Term Debt and cross default on the SCTFF.*

The Group is running a sales process to sell its Indian assets, including Brahmani River Pellets Limited and Aryan Mining Limited. Proceeds from the sale of these assets will be used to pay down part of the Term Debt and forms a key part of the amortisation plan. An Investment Bank has been mandated to support the Group with the sale, including the production of an Information Memorandum, managing the bidders, co-ordinating the data room and due diligence and liaising with the Group. The process is on-going.

The Group's financing of its Indian assets was restructured in December 2013, as part of an agreement with creditors to create a stable platform for the sales process. The current Indian loan agreements contain a condition that provides the Indian Lenders with a Put Option that enables them to call their debt should Stemcor not have signed a sales agreement for the sale of the Group's Indian assets by 30 June 2014. Following an Indian Court order issued in May 2014, 26 mines, including Aryan Mining Limited, had to stop mining in the State of Odisha. This Court order has delayed the Indian assets sale process and a sales agreement has not been signed by 30 June 2014.

Since 30 June 2014, management have agreed heads of terms with the Indian Lenders and are confident that the Indian assets will be refinanced shortly. The Indian Lenders have not exercised their Put Option and have not called their debt. Given the fact that the Indian refinancing has not yet been completed, a waiver has been agreed with the SCTFF and Term Debt holders to ensure that any potential cross defaults triggered by the Put Option on the Indian facilities are waived until 31 August 2014, which is expected to be the period required to complete the Indian refinancing.

STEMCOR RISK MANAGEMENT AG, ZUG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013 (with 2012 comparative figures)

Until the Indian assets are refinanced, the Group's Indian lenders can exercise their Put Option and seek repayment of the debt. Should the Group be unable to pay, the Indian lenders could enforce security over the Group's Indian assets and take control of the sale process, potentially impacting the realisation achieved. Under an orderly sale, controlled by management, we expect the disposal of the Indian assets will lead to an accounting profit as these assets are recorded in the Group balance sheet at historical cost.

The Group has incurred further losses in 2013 due to (i) lower trading levels due to restricted access to finance and (ii) exceptional restructuring and finance costs. As a consequence of these losses, and without any revaluation of the Indian Assets, the Group presents both a net liability position and a net current liability position as at 31 December 2013. The refinancing on 19 March 2014, resulted in \$992m of the term debt becoming repayable in a period greater than 12 months (31 December 2015), improving the Group's current position to net current assets.

Following the successful refinancing, the Group's core business has returned to profit. The Group's results for the six months ended 30 June 2014 are in line with the IBR and ahead of the EBITDA covenants.

The directors are aware of the following uncertainties facing the business:

- Realisation of non-core assets, including sale of the Group's Indian operations, at a value sufficient to repay the Term Debt;
- The ability of management to retain control of the Indian operations sales process is dependent on refinancing the Group's existing Indian loans and being able to service future Indian repayments. Loss of control of this process may impact the realisation achieved;
- Failing to meet the amortisation profile of the Term Debt from the sale or wind down of non-core businesses or reducing working capital causing a breach in covenants; and
- Future trading may not be in line with the latest forecasts due to factors such as an inability to re-establish certain counter-party relationships affected by the credit downgrade of the Group during 2013, liquidity constraints as a result of the new financing structure, a failure to complete downsizing quickly enough to improve EBITDA, or deterioration in the overall steel trading environment.

The uncertainties may lead to an inability of the Group to generate sufficient cash flow and achieve sufficient EBITDA to comply with its financial covenants.

The directors recognise that these uncertainties represent material uncertainties which may cast significant doubt upon the Group's ability to continue as a going concern and therefore the Group may be unable to continue to realise assets and discharge liabilities in the normal course of business.

The Directors believe the new financing agreements will allow the Group to finance prospective trades, and rebuild its business in a controlled manner and trade profitably. The Directors have reviewed current trading, cash flow projections and the facility agreements as part of their assessment of the Group's ability to continue as a going concern.

STEMCOR RISK MANAGEMENT AG, ZUG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013 (with 2012 comparative figures)

After making reasonable enquiries and carefully considering the matters described above, the Directors have a reasonable expectation that the Group will be able to meet its liabilities as they fall due and will have adequate resources to continue in operational existence for the foreseeable future. The financial statements do not include adjustments that would result if the Group were unable to continue as a going concern, which would include writing down the carrying value of assets to their recoverable amount and providing for any further liabilities that might arise.

The Directors of Stemcor Risk Management AG expect the company to continue to provide hedging services for the Stemcor Group. After making reasonable enquiries and carefully considering the matters regarding the Stemcor Group described above, the Directors of Stemcor Risk Management AG have a reasonable expectation that the Company will be able to meet its liabilities as they fall due and will have adequate resources to continue in operational existence for the foreseeable future.

Stemcor Risk Management AG currently has deposited with Stemcor Trade Finance Limited USD 1,502,835 which is repayable upon demand. The Directors regard this amount as recoverable based on Stemcor group management's assessments regarding going concern and consequently no adjustment has been made. The material uncertainty on Stemcor group level also represents a material uncertainty on Stemcor Risk Management AG level which may cast doubt on whether Stemcor Risk Management AG can continue as a going concern.

STEMCOR RISK MANAGEMENT AG, ZUG

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS (expressed in Swiss francs)

The Directors of Stemcor Risk Management AG propose that the balance of available earnings at December 31, 2013 amounting to CHF 2,637,844 (2012: CHF 3,306,700) be carried forward.