

## Press release

London, April 1st 2010: **Stemcor announces full year audited results 2009**

### Highlights

- Stemcor lost money in the first half of 2009 but posted a pre-tax profit of £18.6m in the second half
- Overall pre-tax loss for the year of £16.6m
- Volumes 21% down in the first half but rebounded 24% in the second half
- Steel invoiced down from 9.2m tonnes to 6.2m tonnes (-33%)
- Raw Materials invoiced up from 5.8m tonnes to 6.3m tonnes (+9%)
- International trading in both steel and raw materials remained profitable, despite the global recession
- Downstream activities in distribution and stockholding lost money due in part to a sharp decline in volumes
- Heavy provisions made against specific counterparty risks and against stock in the Continental European distribution business
- In India, AMTC increased iron ore mining volumes and the BRPL pellet plant is on track for commencing production mid 2010

### Chairman's statement

The last 18 months have been turbulent and difficult. The depression of 2009, caused by the financial crisis of 2008, was more severe and painful for the steel industry in the developed world than any depression since the 1930s.

The deterioration in both prices and demand for steel in the first half of 2009 was worse than had been generally predicted. The majority of steelmakers and steel stockholders have not surprisingly reported losses for the full year. Stemcor is also reporting a loss, of £17 million before tax and £26 million after tax. Some of our businesses performed very well and as a result we paid tax in those jurisdictions where we made good profits. This suggests that the overall loss we reported could have been avoided. Stemcor is not a steelmaker and we do not have the large fixed costs that can cripple others in a recession. We can make our margin whether prices are moving up or down, whatever the absolute price level may be. We do, however, hold some unsold stocks or unsold forward positions, which are modest in relation to our overall turnover. When there is a collapse in price, our unsold positions result in losses on our bottom line, either through sales below our purchase cost or through net realizable value provisions. It is therefore of paramount importance to control our overall unsold exposure, particularly when prices are expected to fall.

We did not control our unsold positions properly in 2008 in some of the distribution businesses that we had acquired in recent years on the European continent. This had a disproportionately adverse impact on our results in 2009. Our engineering steel business also had a very poor year in 2009, as the collapse in the automotive and machinery sectors reduced demand even more than for other steel products. In our remaining businesses in the US, the UK and Asia, we anticipated the collapse in pricing and took preemptive action to reduce our positions. Some losses were made throughout the Group as a result of customers cancelling or trying to renegotiate their purchases, but on the

whole we handled this remarkably well, thanks to our excellent staff. We recorded a further substantial loss due to a default on a large structured finance transaction with a CIS group that should have been repaid through deliveries of steel. Even after provision for this default, our business in emerging markets was profitable, but not profitable enough to compensate for our losses in distribution in Europe and in engineering steels.

The main lesson that we have learnt from this experience is to tighten up further on risk management. We live in a time of increased volatility which heightens the importance of risk controls. We have appointed our Group Treasurer, Michael Broom, as our new Risk Director. He is strengthening the risk management function with additional resources and he is upgrading our systems. We aim to have the highest risk standards and best procedures within our industry. In Continental Europe our Deputy Chairman, Philip Edmonds, and our Group Managing Director, Julian Verden, are reorganizing our operations. We feel confident that the mistakes that we made in 2009 will not be repeated.

Many steel makers and steel stockholders have reacted to the losses they made in 2009 with drastic actions, such as closures, disposals and large reductions in overheads and cost base. We reduced headcount in some of our businesses, but overall we believe that we have the right people and that we have excellent businesses capable of delivering substantial profits. The reductions in headcount in some of our units have been more than countered by expansion in other areas.

Turning to mining, our 50% share in Aryan Mining in Orissa, India, has proved a very successful investment. Good progress was made on constructing our pellet plant, Brahmani River Pellets, also in Orissa, and we are expecting to commence actual production later on in 2010. In building these two companies we have created valuable assets which we expect will generate substantial profits in the future.

Most of the products that we trade do not come from our own investments, although structured financial arrangements to secure product and trade flows remain an important part of our activities. Given the overall economic climate, 2009 was an excellent year for our core international trading activities and we expect this to continue in 2010. Our business in raw materials such as pig iron, scrap and coke has expanded rapidly. Our international steel trading business is no longer increasing at the rate experienced in earlier years, but growth in emerging markets is providing us with good opportunities for development.

Our distribution businesses in Europe suffered badly in the first half of 2009, particularly so in Germany. The German businesses did, however, recover to break even in the second half and we remain confident about their inherent strength. We are working hard to improve systems and risk management and we expect a strong return to profitability from all our German units in 2010. In our engineering steel activities, 2009 bore the cost of new greenfield developments, but we expect a return from these investments from 2010 onwards. Our general steel stockholding businesses are still relatively small in relation to our overall activities or compared to our larger competitors. In 2009 our steel stockholding businesses made a loss before tax of half a million pounds which, given the steep collapse in prices, was an acceptable result, but we expect much improved results from stockholding in 2010. We would like to grow this activity by making further acquisitions of steel stockholders, alongside supporting continued growth in international trading and mining.

Looking to the future, we have a strong business model and a solid platform for resuming growth. We divide our business into four different activities: Mining, International Trading in raw materials and steel, Distribution in developed markets and Stockholding. Finance remains at the heart of all these business activities. The broad range of our services allows us to cover the whole spectrum of the steel industry and contributes to our knowledge and expertise. Our tag line encapsulates our ambition: Every step in steel. There are still many opportunities for us to grow and all the businesses in the Group's current portfolio have a part to play in our future development.

Our overall budget for 2010 predicts a return to a good level of profits. A lot can still go wrong between now and the end of the year, as we saw in 2008. Steel prices are currently rising rapidly but the more they rise, the more likely a downward reaction becomes. Volatility is here to stay but I do not expect the movements in the real economy to necessarily follow the swings in steel prices. A double dip recession later this year looks increasingly unlikely as the world, driven by emerging markets, embarks once more upon overall growth. I am therefore confident that we can put the annus horribilis of 2009 behind us and I look forward to resuming our growth and profitable development.

Peter Blohm, having reached the age of 70, has retired from the Board, although he still remains employed within the Group after spending 50 years in the steel trade. Peter joined us in 1989 to establish our first subsidiary in the USA, where we have since made profits every year, despite the vicissitudes of the American economy. More recently Peter acted as our Risk Director. I would like to thank him for his substantial contribution over the years.

My thanks also to all our customers, suppliers and bankers for their continued support during a particularly challenging year and to all our staff for their dedicated hard work and commitment

**Ralph Oppenheimer**  
Executive Chairman  
25 March 2010

All the financial information set out below is extracted from the audited financial statements of Stemcor Holdings Limited:

**Consolidated profit and loss account  
for the year to 31 December 2009:**

	Year to 31/12/2009 £'m	Year to 31/12/2008 £'m
<b>Turnover</b>	<b>3,540</b>	<b>6,288</b>
Cost of sales	(3,438)	(6,072)
<b>Gross Profit</b>	<b>102</b>	<b>216</b>
Distribution costs and administrative expenses	(107)	(120)
<b>Operating profit</b>	<b>(5)</b>	<b>96</b>
Exceptional items	15	17
Net interest payable	(27)	(61)
<b>Profit on ordinary activities before tax</b>	<b>(17)</b>	<b>52</b>
Taxation	(9)	(17)
<b>Profit on ordinary activities after tax</b>	<b>(26)</b>	<b>34</b>
Minority Interests	(3)	2
<b>Profit attributable to shareholders</b>	<b>(29)</b>	<b>36</b>

**Consolidated Balance Sheet as at 31 December 2009:**

	<b>31/12/2009</b>	<b>31/12/2008</b>
	<b>£'m</b>	<b>£'m</b>
<b>Fixed assets</b>	188	118
<b>Current assets</b>		
Stocks	285	730
Debtors	866	1,221
Investments	18	11
Cash at bank and in hand	178	266
	<hr/> 1,347	<hr/> 2,228
<b>Creditors: amounts falling due within one year</b>		
Bank loans and overdrafts	(749)	(1,338)
Creditors and accruals (net)	(387)	(578)
	<hr/> (1,136)	<hr/> (1,916)
<b>Net current assets</b>	211	312
<b>Total assets less current liabilities</b>	<hr/> 399	<hr/> 430
<b>Creditors: amounts falling due after more than one year</b>	(197)	(185)
<b>Net assets</b>	<hr/> 202	<hr/> 245
Shareholders' funds	186	234
Minority interests	16	11
<b>Total equity</b>	<hr/> 202	<hr/> 245

**Editor's notes**

Stemcor is the world's largest independent steel trader by tonnes traded.

Stemcor plays a pivotal role in the steel industry, acting as a trading intermediary between producers and purchasers and providing a range of value-adding services. Steel goods traded include a wide range of long, flat, tube and semi-finished products. Raw materials for the production of steel include iron ore, pig iron, coal, coke, ferroalloys and scrap.

Stemcor now employs approximately 1,400 people in its network of 80 offices in 40 countries across the globe. For the financial year ending 31 December 2009, Stemcor handled 15.2 million tonnes of steel and associated raw materials, with turnover of £3.5 billion.

Stemcor's services span every step in the steel supply chain, from the provision of steel-making raw materials to producers through to the delivery of processed steel to end-users. The Group's core competencies comprise finance, raw materials, steel trading, distribution and stockholding. Stemcor's breadth of expertise, from minehead to factory floor, enables it to offer integrated supply chain solutions that deliver competitive advantage both to producers and purchasers of steel.

Stemcor does not own any steel mill, nor is any mill a shareholder in the Company. This independence ensures that it is objective in matching exact customer needs in terms of quality, specifications, financial terms and delivery.

Stemcor was formed in London in 1951 and is a privately owned company. The majority of shares are held by the Oppenheimer family, represented on the Board by Ralph Oppenheimer (Executive Chairman) and Philip Edmonds (Deputy Chairman), with the balance of shares held by employees.

## **Contact**

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