

# Sahaviriya Steel Industries Plc., its Subsidiaries and Jointly-Controlled Entities Management's Discussion and Analysis (MD&A) Second Quarter of 2014 and Six Months of 2014 (Jan-Jun)

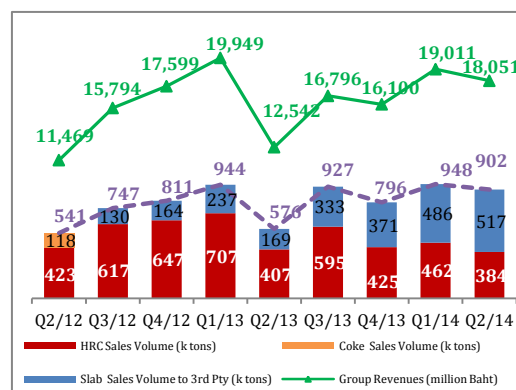


## 1. Highlights

	Unit: million Baht	Q2/2014	6M/2014
GROUP	Group LTIFR	0.95	2.48
	Group Revenues	18,051	37,062
	Group Sales Volume (k tons)	902	1,850
	Group EBITDA	0.3	76
	Group Net Profit (Loss)	(1,406)	(2,803)
	Net Debt <sup>1)</sup>	51,487	
	Interest-Bearing Debt/Equity Ratio(x)	6.80	
HRC	HRC Sales (k tons)	384	846
	HRC Production Volume (k tons)	382	779
	HRC Average Selling Price (USD/ton)	682	674
	HRC Spread (USD/ton)	117	122
	HRC Rolling Margin (%) <sup>2)</sup>	17.1%	18.1%
	HRC EBITDA (USD/ton)	46.2	55.8
Upstream	Slab Sales Volume (k tons)	646	1,362
	Slab Production Volume (k tons)	670	1,366
	Slab Average Selling Price (USD/ton)	520	521
	Slab Sales Volume to 3 <sup>rd</sup> Parties	80%	74%
	Slab Spread (USD/ton)	189	165
	Slab Margin (%) <sup>2)</sup>	36.4%	31.7%

<sup>1)</sup> Net Debt = Interest-Bearing Debt - Cash and Cash Equivalents

<sup>2)</sup> HRC Rolling Margin = HRC Spread/Average Selling Price;  
Slab Margin = Slab Spread



### Highlights in Q2/2014

- Upstream Business recorded positive EBITDA for the first time in June 2014 since acquisition in 2011.
- Upstream Business achieved its highest quarterly Slab Sales Volume to 3<sup>rd</sup> party customers of 517k tons, or 80% of total Slab Sales Volume.
- For the case of *Safeguard Measure on HRC without other element added (thickness 0.9 – 50 mm. and width 600 – 3,048 mm.)*, DFT announced the Provisional Measure for 200 days in the Royal Gazette being effective from 7 Jun 14 to 23 Dec 14.
- For the case of *Anti-dumping Measure on HRC whose origins are from 14 countries*, DFT announced the Notification for investigation of the Sunset Review and extension of AD duty imposition for another year in the Royal Gazette being effective from 23 May 14 to 22 May 15.

## 2. Business Outlook on Q3/2014

- HRC prices expected to unchanged QoQ. HRC Rolling Margin expected to in range of 18-19%.
- HRC Sales Volume expected to increase 4-6% QoQ; whilst HRC Apparent Steel Supply expected to approx. 1.7 million tons, unchanged QoQ.
- Slab prices expected to decrease 3-5% QoQ; whilst Slab Margin expected to be in range of 36-38%.
- Slab Sales Volume expected to increase 4-6% QoQ, with approx. 70-80% to 3<sup>rd</sup> party customers.

## 3. Group CEO's Messages

"Our biggest achievement in Q2/2014 was reaching positive monthly EBITDA for the **Upstream Business** in June, the first time since we acquired the business in 2011. This marks the turn-around point for the business. On the consolidated basis, we also achieved positive Group EBITDA, albeit small, for two quarters consecutively, despite the revenue drop in the HRC Business which was impacted by the prolonged political situation in Thailand.

**Upstream Business** again nearly halved its EBITDA loss compared to the previous quarter, as the business continued to improve. Though Slab Average Selling Price remained the same, we achieved 32% higher Slab Spread, largely because of weak iron ore and coal prices and our ability to flexibly adjust our raw material recipe to take advantage of this situation. As global steel slab demand continues to step up following global economic recovery, we achieved 6% higher Slab Sales Volume to 3<sup>rd</sup> Parties, reaching 517k ton or 80% of total sales, both our highest quarterly record; and sales to North American market reached 42%. This highlights the strength of the underlying business environment and the opportunity for this business going forward.

**HRC Business** lagged as the Thai political situation continued to unfold throughout the quarter. Despite HRC Sales Volume dropping 17% and HRC Spread dropping 6%, we still managed to turn a net profit for the business, which was quite satisfactory as sales volume had been extraordinarily low.

Operationally, we continue to execute our two-pronged strategy. Firstly, to innovate and deliver better products and service to our customers. Secondly, to integrate across our various businesses to achieve best-in-class practice, operational excellence, synergy, continuous optimization, project execution and business improvement. Through the AAA Projects, our value creation pipeline is being populated both in the near-term and medium-term with interesting projects that would deliver quick returns.

"We see the future outlook moderately positive. Thai political situation is calm post the 22nd May coup d'etat, construction and industrial activity is recovering following overall improving economic sentiment. The incoming government is signaling economy as its first priority and infrastructure investment as its cornerstone policy. This should lead to stronger demand for steel going forward for the next few years. **HRC Business** sales will rise in Q3 from its Q2 low and further more in Q4 and 2015. Globally, fear of China slowdown seems to be abating and the U.S. continues to lead global economic recovery, contributing further to the underlying fundamentals for our **Upstream Business**. While the Ukraine situation remains unclear and increasing Russia sanction being the likely outcome, we have taken steps to de-risk ourselves from that and expect minimal negative impact. We also expect overall metal spread to remain healthy as the raw material oversupply situation continues to exacerbate."

## 4. Industry Overview and Outlook

### Steel Industry in Q2/2014

**World Steel Industry:** World crude steel production in Q2/2014 was approx. 415 million tons, up 3.0% QoQ, mainly driven by China, whose production was at 209 million tons, up 3.7% QoQ, while crude steel production of other countries in Asia was approx. 72 million tons, up 2.1% QoQ. Crude steel production in Europe, North America, and South America slightly increased.

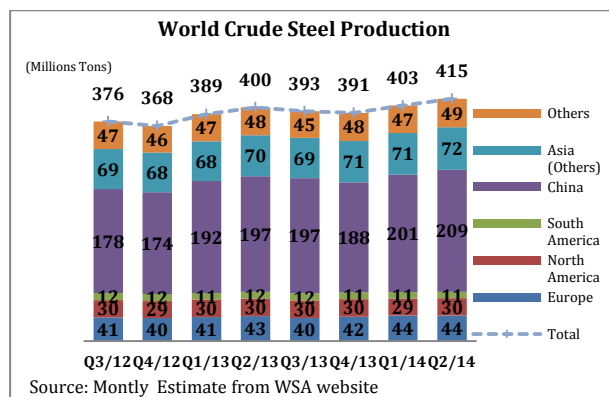


Figure 1: World Crude Steel Production

Iron ore, slab, and HRC prices decreased from the previous quarter. The average price of iron ore IODEX 62% Fe CFR China in Q2/2014 was USD 89-119/ton, down from USD 105-135/ton. The average price of HRC CFR East Asia Import was USD 517-532/ton, down from USD 535-565/ton. The average price of slab CFR East Asia Import was USD 495-515/ton, down from USD 532-552/ton, as shown in Figure 2.

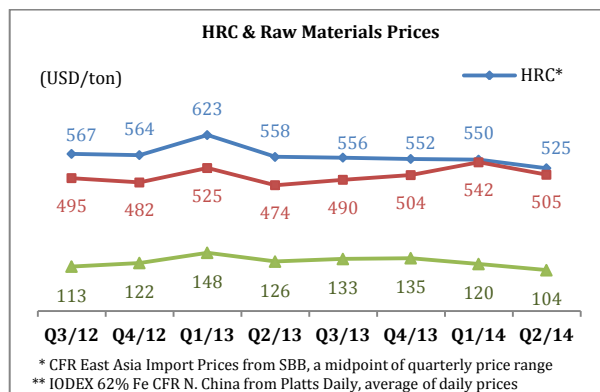


Figure 2: HRC, Slab and Iron Ore Prices in 2012 – 2014 (Price for Q2/2014 is an average up to 6 Aug 2014)

**Thailand Steel Industry:** In Q2/2014, Thailand's Apparent Steel Supply (ASS) was approx. 4.2 million tons, up 2.5% QoQ, as shown in Figure 3. Domestic production volume increased 1.8% QoQ, and import volume increased 12.9% QoQ. Long steel products ASS reduced by 3% QoQ, due to domestic economy and construction sector slowdown amidst political unrest situation in Thailand. However, flat steel products ASS rose 6% QoQ, as one

domestic producer resumed production after a long period of shutdown, whilst production volume in the downstream industry such as HA/EA improved resulting in higher consumption in flat steel. Production volume of A/C and fridge rose 15.7% and 11.7% QoQ respectively, supported by increased demand during summer season. However, auto production volume in Q2/2014 shrank by 15.9% QoQ, as shown in Figure 4.

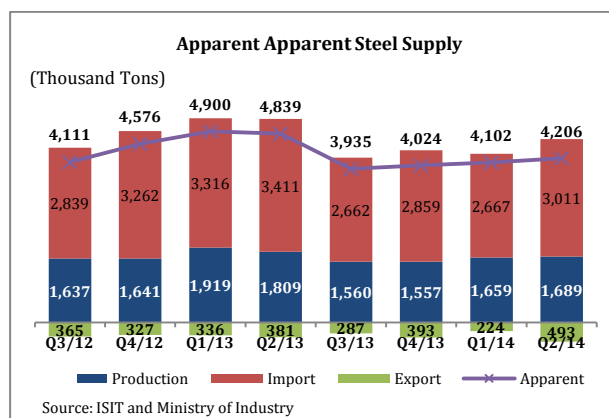


Figure 3: Domestic Apparent Steel Supply

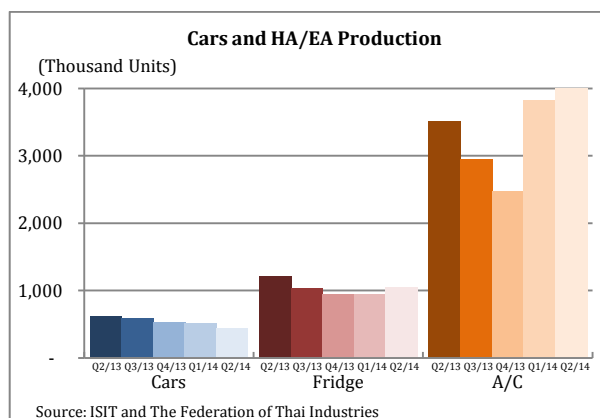


Figure 4: Domestic Production of Car, Fridge, and A/C

**Thailand HRC Industry:** In Q2/2014, domestic HRC Apparent Steel Supply was approx. 1.7 million tons, up 19.6% QoQ, as demand of HRC in Q1/2014 was the lowest in 7 quarters since Q3/2012, as shown in Figure 5. HRC domestic production was 704k tons, up 29.6% QoQ, as one domestic producer resumed production after a long period of shutdown. Import volume was 1 million tons, up 12.3% QoQ.

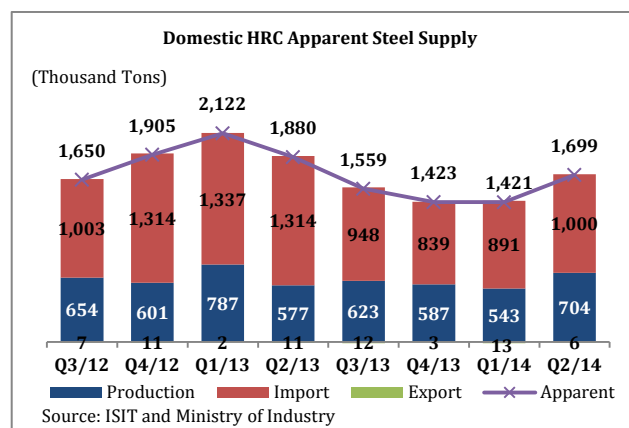


Figure 5: Domestic HRC Apparent Steel Supply

### Outlook on Steel Industry in Q3/2014

**World Steel Industry:** U.S. economy continues to show signs of recovery and is expected to grow approx. 4%. The EU economy is still weak and is further supported by the European Central Bank (ECB)'s continuance of Quantitative Easing (QE) policy. Asian economy largely continues to grow with fears of China slowdown abating. Accordingly, steel production in these 3 main regions is anticipated to slightly increase in Q3/2014. For China, the biggest steel producer of the world making its quarterly highest production volume in Q2/2014, should maintain its production level in Q3/2014.

As for prices in Q3/2014, the Company expects that iron ore prices will decrease to be in the range of USD 93-98/ton, while slab prices and HRC prices should maintain in the range of USD 495-515/ton and USD 517-532/ton respectively.

**Thailand Steel Industry:** In Q3/2014, domestic HRC Apparent Steel Supply is expected to be unchanged from Q2/2014 at 1.7 million tons. Meanwhile, HRC Apparent Steel Supply in 2014 will be approx. 6.4 million, as shown in figure 6.

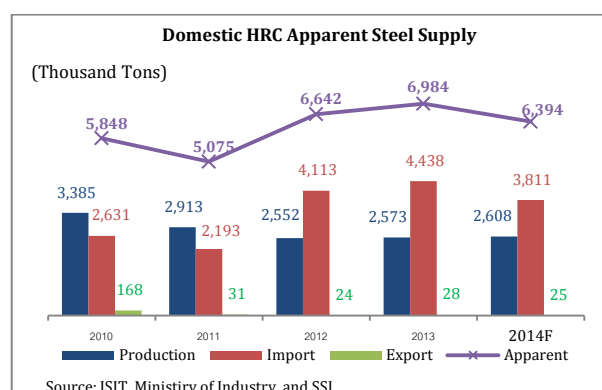


Figure 6: Estimate for Domestic HRC Apparent Steel Supply

## 5. Performance of the Company, its Subsidiaries and Jointly-Controlled Entities

Table 1: Financial Highlights in Q2/2014 of the Company, its Subsidiaries and Jointly-Controlled Entities

Unit: million Baht	2014 Q2	2014 Q1	+/- QoQ	2013 Q2	+/- YoY	2014 Jan-Jun	2013 Jan-Jun	+/- YoY
Group Sales Volume <sup>1)</sup> (k tons)	902	948	-5%	576	+57%	1,850	1,520	+22%
Group Sales Revenue	18,051	19,011	-5%	12,542	+44%	37,062	32,491	+14%
Group Cost of Goods Sold	18,433	19,461	-5%	13,468	+37%	37,894	33,862	+12%
Group Gross Profit (Loss)	(382)	(450)	+15%	(925)	+59%	(832)	(1,371)	+39%
Group EBITDA <sup>2)</sup>	0.3	75	-100%	(887)	+100%	76	(87)	+187%
Group Net Profit (Loss)	(1,406)	(1,397)	-1%	(465)	-202%	(2,803)	(1,243)	-126%

<sup>1)</sup> Group Sales Volume = HRC Sales Volume + Slab Sales Volume Sold to 3<sup>rd</sup> Parties

<sup>2)</sup> EBITDA = Net Profit + Interest + Tax + Depreciation and Amortisation

### Consolidated

**Q2/2014 Results** The Company and its subsidiaries recorded sales and service revenues Baht 18,051 million, down 5% QoQ, due to a 15% QoQ decrease in revenues in HRC Business which was impacted by the domestic political situation, despite Upstream Business's Slab Sales Volume to 3<sup>rd</sup> party customers growing 6% QoQ, reaching the highest quarterly record. Total cost of sales and service

was Baht 18,433 million, down 5% QoQ, following lower group sales volume. Sales and service revenues increased 44% YoY, from a 207% increase in Slab Sales Volume to 3<sup>rd</sup> party customers in Upstream Business. Group sales ratio of HRC: Slab (after eliminating related transactions) reduced from 70:30 in Q2/2013 to 48:52 in Q2/2014.

The Company and its subsidiaries reported gross loss Baht 382 million, EBITDA Baht 0.3 million, and net loss Baht 1,406 million or negative EPS Baht 0.04 per share. Gross loss improved QoQ, due to Slab Spread improvement. Conversely, EBITDA decreased and net loss was higher QoQ, following lower revenues in HRC Business. Despite YoY operating performance improvement following Slab Spread improvement and lower cost in the Upstream Business, the Company and its subsidiaries still suffered net loss due to below-break-even production level of Upstream Business. YoY, net loss was higher compared to

**6M/2014** The Company and its subsidiaries recorded sales and service revenues Baht 37,062 million, up 14% YoY following substantially increased Slab Sales Volume to 3<sup>rd</sup> party customers in Upstream Business despite lower HRC Sales Volume in HRC Business. Sales ratio of HRC: Slab (after eliminating related transactions) reduced from 76:24 in 6M/2013 to 51:49 in 6M/2014. Total cost of sales and service was Baht 37,894 million, up 12% YoY following an increase in group sales volume but at a lower rate than revenue growth supported by lower cost in Upstream Business.

The Company and its subsidiaries reported gross loss Baht 832 million, EBITDA Baht 76 million, and net loss Baht 2,803 million or negative EPS Baht 0.09 per share with

Q2/2013 as there was a one-off reversal of income tax liability Baht 1,865 million in that quarter. Profitability ratios are as shown in a table below.

	Q2/2014	Q1/2014	Q2/2013
NP Margin (%)	(7.8)	(7.4)	(3.7)
ROA* (%)	(7.2)	(6.8)	(2.3)
ROE* (%)	(74.4)	(61.8)	(14.9)
EPS (Baht)	(0.04)	(0.04)	(0.02)

**Note:** \* Annualised figures for comparison purpose

profitability ratios shown in a table below. Compared with the same period last year, gross loss was smaller and EBITDA improved due to Slab Spread improvement and lower cost in the Upstream Business. However, net loss was higher YoY as the same period last year had a one-off item of income tax liability reversal Baht 1,860 million.

	Jan-Jun 2014	Jan-Jun 2013
NP Margin (%)	(7.6)	(3.8)
ROA* (%)	(6.9)	(2.9)
ROE* (%)	(67.4)	(19.5)
EPS (Baht)	(0.09)	(0.04)

**Note:** \* Annualised figures for comparison purpose

### **HRC Business (the Company)**

**Table 2: Performance Highlight of HRC Business**

Unit: USD/ton	2014 Q2	2014 Q1	+/- QoQ	2013 Q2	+/- YoY	2014 Jan-Jun	2013 Jan-Jun	+/- YoY
Average Selling Price	682	667	+2%	693	-2%	674	723	-7%
Average Cost of Goods Sold	634	612	+4%	652	-3%	622	671	-7%
HRC Spread <sup>1)</sup>	117	127	-8%	130	-10%	122	137	-11%
HRC Rolling Margin <sup>2)</sup>	17.1%	19.0%		18.7%		18.1%	19.0%	
HRC EBITDA <sup>3)</sup>	46.2	63.8	-28%	17.4	+166%	55.8	54.6	+2%
Sales Volume (k tons)	384	462	-17%	407	-6%	846	1,114	-24%
Production Volume (k tons)	382	397	-4%	444	-14%	779	1,208	-36%

<sup>1)</sup> HRC Spread excludes the provision for loss on decline in value of inventories or the reversal thereof.

<sup>2)</sup> HRC Rolling Margin = HRC Spread/Average Selling Price

<sup>3)</sup> 6M/2013 HRC EBITDA includes gain on sales of investments in TCRSS Baht 225 million occurred in Q1/2013.

**Revenues:** **Q2/2014**, the Company recorded sales and service revenues Baht 8,602 million, down 15% QoQ and 1% YoY. HRC Sales Volume was 384k tons, down 17% QoQ and 6% YoY due to slowdown economic amidst domestic political unrest adversely affecting domestic steel consumption since late 2013. The seizing power of the National Council for Peace and Order (NCPO) at the end of May 2014 helped mitigate the political unrest and boost confidence of local business; with positive economic outcome expected in the later half of the year. HRC Average Selling Price in Q2/2014 was Baht 22,175/ton (approx. USD 682/ton), up 2% QoQ supported by higher

sales volume of Premium Value Products contributing to 42% of total HRC Sales Volume, whilst down 2% YoY following steel prices in world markets.

**6M/2014**, the Company recorded sales and service revenues Baht 18,772 million, down 23% YoY, with HRC Sales Volume of 846k tons, down 24% YoY following lower domestic demand affected by political situations. HRC Average Selling Price was Baht 21,967 ton (approx. USD 674/ton), down 7% YoY following the steel prices in world market. Premium Value Products contributed 40% of total HRC Sales Volume.

**Expenses:** **Q2/2014**, the Company recorded **Cost of sales and service** Baht 8,002 million, comprising total cost of sales Baht 8,006 million, and the reversal of provision for loss on decline in value of inventories Baht 4 million. Cost of sales and service decreased 14% QoQ mainly from lower sales volume, and decreased 4% YoY due to better production efficiency. **SG&A** was Baht 232 million; up 3% QoQ and 66% YoY resulted from the reclassification on a

production process improvement expense previously included in costs of sales and service to be part of SG&A expense according to the Company's policy since Q1/2014. **Interest Expense** was Baht 420 million; down 9% QoQ and 16% YoY resulted from lower raw materials import and lower inventory level, including no loss on Interest Rate Swap as occurred in Q1/2014 and Q2/2013.

**6M/2014**, the Company recorded **Cost of sales and service** Baht 17,319 million, comprising total cost of sales Baht 17,348 million, and the reversal of provision for loss on decline in value of inventories Baht 29 million. Cost of

sales and service decreased 24% QoQ following lower HRC Sales Volume. **SG&A** was Baht 457 million; up 10% YoY resulted from the reclassification on a production process improvement expense previously included in costs of sales

and service to be part of SG&A expense. **Interest Expense** was Baht 882 million; down 12% YoY resulted from lower raw materials import and lower inventory level, including

**HRC Spread:** Q2/2014, recorded at USD 117/ton or HRC Rolling Margin of 17.1%, down from USD 127/ton in Q1/2014, and down from USD 130/ton in Q1/2013.

**Profits:** Q2/2014, the Company recorded gross profit Baht 599 million, HRC EBITDA Baht 586 million, and net profit Baht 27 million; down 30%, 39%, and 92% QoQ respectively. HRC EBITDA/ton was USD 46.2/ton (including the reversal of provision for loss on decline in value of inventories USD 0.3/ton); down from USD 63.8/ton in Q1/2014 due to the lower HRC production and HRC Spread. Compared with Q2/2013, gross profit and EBITDA grew by 63%, and 198% respectively. The Company also turned to net profit from net loss of Baht 473 million due to better production efficiency, lower interest expense, and no provision for loss under onerous contract as occurred in Q2/2013.

no loss on Interest Rate Swap occurred in the same period of 2013, as earlier explained.

**6M/2014,** recorded HRC Spread at USD 122/ton or HRC Rolling Margin of 18.1%, down from USD 137/ton in the same period as 2013.

**6M/2014,** the Company recorded gross profit Baht 1,452 million, HRC EBITDA Baht 1,548 million, and net profit Baht 374 million; down 13%, 14% and 5% YoY respectively. HRC EBITDA/ton was USD 55.8/ton (including the reversal of provision for loss on decline in value of inventories USD 1.1/ton); up from USD 54.6/ton in the same period as 2013 due to lower HRC Sales Volume and HRC Spread, including no gain on sales of investment in jointly-controlled entity of Baht 225 million as occurred in Q1/2013.

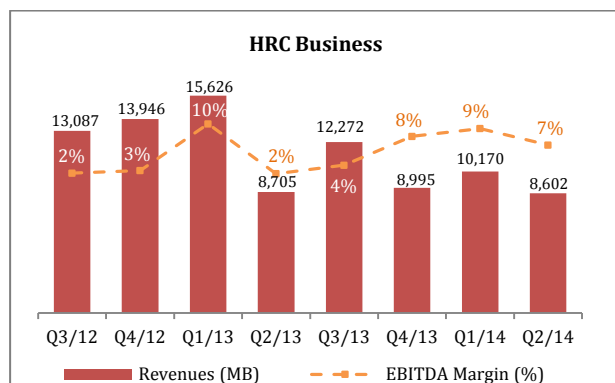


Figure 7: Revenues and EBITDA Margin of HRC Business

### Upstream Business (SSI UK)

Table 3: Performance Highlight of Upstream Business

Unit: USD/ton	2014 Q2	2014 Q1	+/- QoQ	2013 Q2	+/- YoY	2014 Jan-Jun	2013 Jan-Jun	+/- YoY
Average Selling Price	520	522	-0.4%	517	+1%	521	513	+2%
Average Raw Material Cost	331	379	-13%	384	-14%	356	388	-8%
Slab Spread <sup>1)</sup>	189	144	+32%	133	+42%	165	126	+32%
Slab Margin <sup>2)</sup> (%)	36.4%	27.5%		25.7%		31.7%	24.5%	
Sales Volume (k tons)	646	717	-10%	696	-7%	1,362	1,366	-0.3%
Sales Volume to 3 <sup>rd</sup> Party Customers (k tons)	517	486	+6%	169	+207%	1,003	406	+147%
Slab Sales Volume to 3 <sup>rd</sup> Party Customers	80%	68%		24%		74%	30%	
Production Volume (k tons)	670	696	-4%	710	-6%	1,366	1,333	+2%

<sup>1)</sup> Slab Spread excluded the provision for loss on decline in value of inventories or the reversal thereof.

<sup>2)</sup> Slab Margin = Slab Spread/Average Selling Price

**Revenues:** Q2/2014, SSI UK recorded total sales and service revenues Baht 11,309 million, down 10% QoQ and 4% YoY following 10% QoQ and 7% YoY decrease in Slab Sales Volume to 646k tons, whilst Slab Average Selling Price slightly down by 0.4% QoQ, but up by 1% YoY to USD 520/ton. Revenues after eliminating related parties transactions were Baht 9,233 million from 517k tons of Slab Sales Volume sold to 3<sup>rd</sup> party customers, the highest quarterly sales contributing 80% of total sales volume.

**6M/2014,** SSI UK recorded total sales and service revenues Baht 23,822 million, up 5% YoY despite 0.3% YoY decrease in Slab Sales Volume to 1,362k tons. However, Slab Average Selling Price went up 2% YoY; Baht depreciated approx. 9% during the first half year, compared with the same period of the previous year. Revenues after elimination of related parties transactions were Baht 17,921 million from 1,003k tons of Slab sold to 3<sup>rd</sup> party customers, or approx. 74%.

**Expenses:** Q2/2014, SSI UK recorded **Cost of sales and service** Baht 12,333 million, comprising total cost of sales of Baht 12,387 million and the reversal of provision for loss on decline in value of inventories Baht 53 million. Total cost of sales and service decreased 11% QoQ and 7% YoY as Slab Sales Volume decreased, and cost of raw material per ton declined following a decrease in raw material prices and blend optimization. Average PCI Injection Rate declined from 115 kg/thm in Q1/2014 to 98 kg/thm in Q2/2014 due to planned annual shutdown for maintenance from late April till the beginning of May resulting in lower-than-normal PCI Injection Rate. Conversion cost increased due to lower production volume and cost of maintenance from the planned annual shutdown. **SG&A** was Baht 104 million, and the reversal of provision set up for loss under onerous contracts was Baht

130 million. **Interest Expense** was Baht 361 million, the same level as Q1/2014 and Q2/2013.

6M/2014, SSI UK recorded **Cost of sales and service** Baht 26,210 million, comprising total cost of sales of Baht 26,332 million and the reversal of provision for loss on decline in value of inventories Baht 122 million. Total cost of sales and service increased 1% YoY; despite a reduction in raw material cost per ton following decreased raw material prices, but conversion cost per unit increased due to cost of maintenance from the planned annual shutdown. **SG&A** was Baht 208 million, and the reversal of provision set up for loss under onerous contracts was Baht 218 million. **Interest Expense** was Baht 726 million; down 7% YoY resulted from improved efficiency in raw material procurement.

**Slab Spread:** Q2/2014, recorded at USD 189/ton or Slab Margin of 36.4%, up from USD 144/ton in Q1/2014 and USD 133/ton in Q2/2013.

6M/2014, recorded Slab Spread at USD 165/ton or Slab Margin of 31.7%, up from USD 126/ton in the same period of the previous year.

**Profits:** Q2/2014, SSI UK recorded gross loss Baht 1,025 million, negative EBITDA Baht 531 million, and net loss Baht 1,347 million. Loss was lower QoQ, compared with Q1/2014 where gross loss was Baht 1,363 million, EBITDA was negative Baht 883 million, and net loss was Baht 1,701 million; as a result of higher Slab Spread and lower operation cost. Compared with Q2/2013, loss was also lower YoY where gross loss was Baht 1,385 million; EBITDA was negative Baht 1,601 million due to higher Average Selling Price and lower cost of raw material contributing to better Slab Spread. However, net loss worsened YoY compared with net profit Baht 63 million in

Q2/2013 as there was a one-off reversal of deferred tax liabilities Baht 1,870 million as occurred in Q2/2013.

6M/2014, SSI UK recorded gross loss Baht 2,388 million, negative EBITDA Baht 1,413 million, and net loss Baht 3,048 million. Loss was lower YoY, where gross loss was Baht 3,251 million; EBITDA was negative Baht 2,034 million due to higher Average Selling Price whilst lower cost of raw material contributed to better Slab Margin. However, net loss was bigger YoY from net loss Baht 1,712 million as there was a one-off reversal of deferred tax liabilities Baht 1,870 million as earlier explained.

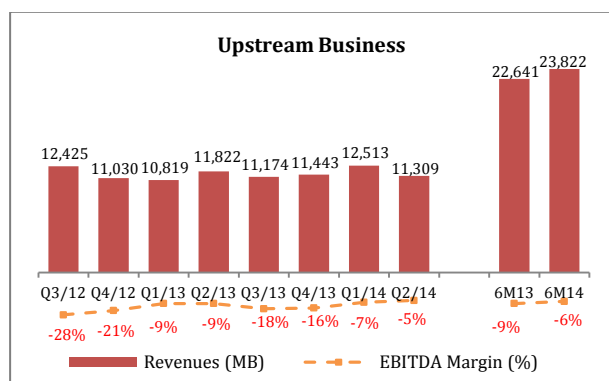


Figure 8: Revenues and EBITDA Margin of Upstream Business

### Port Business (PPC)

**Revenues:** Q2/2014, PPC recorded total service revenues Baht 59 million, down 12% QoQ and 42% YoY from lower throughput volume and lower revenues from PPC Shore Crane.

**Profits:** Q2/2014, PPC recorded gross profit Baht 20 million, EBITDA Baht 36 million, and net profit Baht 6 million, or down 32%, 18%, and 52% QoQ respectively mainly due to revenues decrease. Compared with Q2/2013, gross profit, EBITDA, and net profit decreased by 67%, 51%, and 84% respectively, mainly caused by a

6M/2014, PPC recorded total service revenues Baht 126 million, down 42% YoY from lower throughput volume and lower revenues from PPC Shore Crane.

sharp drop in revenues while most costs of sale and service are fixed-cost.

6M/2014, PPC recorded gross profit Baht 48 million, EBITDA Baht 80 million, and net profit Baht 20 million, or down 61%, 47%, and 77% respectively from lower throughput volume since Q1/2014 as earlier explained.

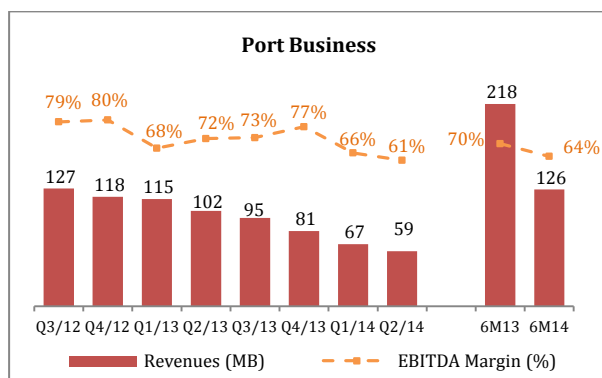


Figure 9: Revenues and EBITDA Margin of Port Business

### Engineering Business (WCE)

**Revenues: Q2/2014.** WCE recorded total sales and service revenues Baht 229 million, up 7% QoQ including:

- 1) Maintenance Management Business Baht 66 million, down 25%, due to reduced orders in the long-term maintenance contracts from customers within SSI Group.
- 2) Machinery Engineering Business Baht 10 million, down 34%.
- 3) Steel Structure and Fabrication Business Baht 11 million, down 38% due to low new orders received.
- 4) Engineering Procurement and Construction Business Baht 142 million, up 54% due to an increase in delivered projects.

**Profits: Q2/2014.** WCE recorded gross profit Baht 10 million; negative EBITDA Baht 25 million; and net loss Baht 32 million, down 62%, 323%, and 1963% QoQ respectively due to an expense adjustment on a loss-making delivered project of Baht 25 million. Compared to Q2/2013, gross profit, EBITDA, and net profit decreased by 74%, 208%, and 358% YoY respectively following the earlier explanation.

Compared YoY, sales and service revenues was at the similar level as Q2/2013. Revenues from external customers apart from the Company and its subsidiaries accounted to 79% of total sales and service revenues.

**6M/2014.** WCE recorded total sales and service revenues Baht 444 million, down 4% YoY. Revenues from external customers apart from the Company and its subsidiaries accounted for 68% of total sales and service revenues.

**6M/2014.** WCE recorded gross profit Baht 35 million; negative EBITDA 14 million; and net loss 30 million, down 58%, 126%, and 203% YoY respectively due to the expense adjustment as earlier explained.

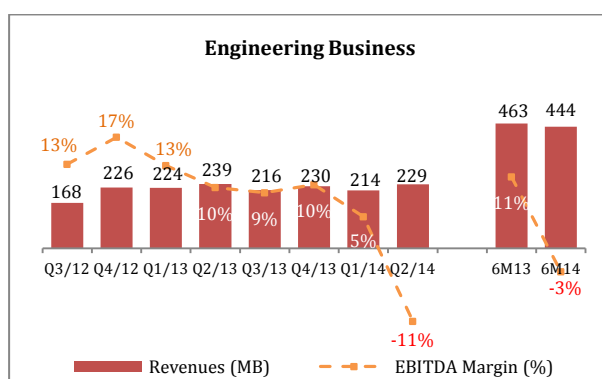


Figure 10: Revenues and EBITDA Margin of Engineering Business

### CRC Business (TCRSS)

**Revenues: Q2/2014.** TCRSS recorded total sales Baht 3,143 million, up 12% QoQ and 12% YoY; following increased CRC Sales Volume of 124k tons, or up 12% QoQ and 17% YoY respectively due to its success to gain more market share in galvanized steel sheet segment, despite highly competitive market environment and the reduction in auto production since Q1/2014.

**6M/2014.** TCRSS recorded total sales Baht 5,955 million, down 1% YoY. CRC Sales Volume increased by 5% YoY to 236k tons, but the average selling price decreased by 6% YoY following the market's condition, and the price reduction in the auto industry which lowered the production target in 2014. However, CRC Sales Volume increased from its success to gain more market share in galvanized steel sheet segment.

**Profits: Q2/2014.** TCRSS recorded gross profit Baht 86 million, EBITDA Baht 154 million; and net profit Baht 6 million, down by 495%, 1368%, and 105% QoQ respectively compared with Q1/2014, resulted from lower amount of provision for loss on decline in value of inventory and provision for loss under onerous contracts totalling Baht 44 million. TCRSS also recorded FX gain Baht 12 million compared with Baht 4 million FX loss in Q1/2014. Compared with Q2/2013, gross profit, EBITDA,

and net profit decreased by 50%, 25%, and 89% respectively due to a 2% higher raw material cost resulted from Baht depreciation and a 5% lower average selling price following the market's condition.

**6M/2014.** TCRSS recorded gross profit Baht 64 million, EBITDA Baht 164 million; and net profit Baht 103 million, down by 85%, 68%, and 158% QoQ respectively due to higher cost of raw materials affected by Baht depreciation, and lower average selling price as earlier explained.

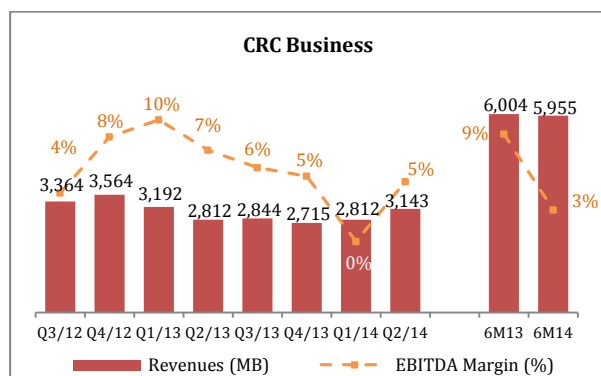


Figure 11: Revenues and EBITDA Margin of CRC Business

## 6. Consolidated Financial Status

### Consolidated Financial Position as at the End of Q2/2014

#### Trade and Notes Receivable- Net

As at 30 June 2014, trade and notes receivable netted Baht 4,904 million, down 4% from the end of 2013; mainly from lower sales and service revenues in HRC Business during 6M/2014.

#### Inventory

As at 30 June 2014, inventory netted Baht 11,947 million, down 31% from 31 December 2013, mainly from effective inventory management and lower cost of raw materials.

#### Current Ratio

As of 30 June 2014, current ratio was 0.53x; decreased from the end of 2013 mainly from falling inventory as earlier explained.

#### Liabilities and Liquidity Management

As at 30 June 2014, the Company and its subsidiaries had total liabilities Baht 69,021 million, down 7% from 31 December 2013 due to a decrease in accounts payable and current liabilities of the Company and its subsidiaries.

The Company and its subsidiaries had total Interest-Bearing Debts Baht 51,756 million whilst Net Debt was Baht 51,487 million. The debts consisted of short-term

Table 4: Inventories Classification as at the End of Quarter

Unit: million Baht	30 Jun 2014	31 Dec 2013	% Chg.
Raw Materials (Slab, iron ore, coking coal, & coke)	4,450	5,717	-22%
Raw Materials in Transit (Slab)	2,851	6,201	-54%
Finished Goods and Work-in-process (HRC & HRC-P/O)	2,614	3,906	-33%
Tools and Spare Parts	2,351	2,036	+15%
Less: Provision for loss on decline in value of inventories	(319)	(473)	+33%
<b>Net Inventories</b>	<b>11,947</b>	<b>17,387</b>	<b>-31%</b>

Table 5: Financial Ratios

Financial Ratios	31 Jun 2014	31 Dec 2013
Current Ratio (x)	0.53	0.64
Interest-Bearing Debt to Equity Ratio (x)	6.80	4.89

borrowings and current portion of long-term interest-bearing debts Baht 25,074 million, whilst long-term interest-bearing debts Baht 26,682 million.

Total shareholders' equity decreased 28% to Baht 7,611 million mainly due to SSI UK's operating loss. Therefore, Interest-Bearing Debt to Equity ratio went up to 6.80x from 4.89x as at 31 December 2013.

### Cash Flow

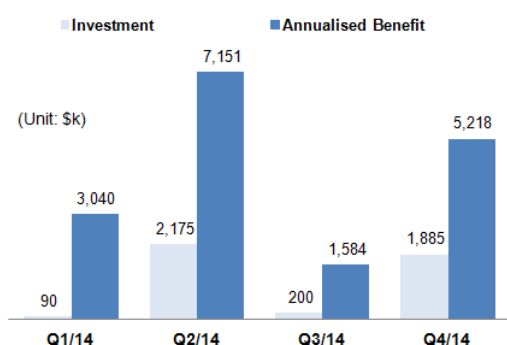
As at 30 June 2014, the Company and its subsidiaries's ending cash was Baht 269 million; a slight increase in net change in cash and cash equivalents from Baht 170 million the end of 2013, as detailed in Table 14, consisting of:

- Net cash received from operating activities of Baht 1,815 million consisting of (1) cash outflows from operation Baht 428 million, which included net loss of the Company and its subsidiaries for the period of Baht 2,927 million caused by reasons mentioned above; and (2) cash inflows from net change in working capital Baht 2,243 million mainly resulted from a reduction in inventories.
- Net cash used in investing activities Baht 257 million was mainly from additional investments in fixed assets and intangible assets Baht 405 million. However, the group had net cash inflows from currency translation differences Baht 148 million.
- Net cash used in financing activities was Baht 1,460 million; mainly consisting of cash paid for finance cost, repayment on bank overdrafts and short-term loans, and cash received from short-term loans from related parties.

## 7. Ongoing Projects

### Upstream Business's AAA Projects

SSI UK has an investment plan in AAA projects, a series of small projects which require small amount of capital expenditure and low technology/delivery risk but contribute high return and quick payback. These investment projects aim to improve the business's competitiveness and profitability. There are 21 near-term AAA projects planned in 2014 requiring capital expenditure approx. USD 4.35 million. Expected benefits are approx. USD 17 million per annum with detailed plan as show below:



			RCO Online Gas Analyser
	Boiler 2	SBCO Small Booster (Pipework)	SBCO Benzole Plant Optimization (Phase II)
	Boiler 3	Inline COG CV Analyser	RCO Ammonia Liquor Storage Tanks
	E.C.Motor (1)	SBCO-Nalco 3D Trasar Water Monitoring	Concast Water Pretreatment Water Softening)
	RBF Cooling Circuit 1&3 VSD's	Torpedo 46	Ladle Lid Weight
RCO Benzole Stream	Drawing Office Setup	Rail Grease Flange	Coke Screening
RCO Nalco 3D Trasar	Scrap Bay Grab	Vibration Data Collectors	Existing 400V 3rd Sizing Machine Upgrade
Q1/14	Q2/14	Q3/14	Q4/14

Examples of the AAA Projects delivered in Q2/2014:

### RBF CC1 and CC3 Cooling Circuit VSD's

The project was to change the control logic which will allow the automated control of the fans to match the coolant temperature to ensure the number of fans running is the only ones needed for optimum cooling effect. Also to convert one of the fans to VSD (Variable Speed Drive) operation allows fine tuning of the water temperature control resulting in a further power reduction.

The investment was USD 0.02 million. The aim of the project was to drastically reduce the amount of wasted power in both circuits whilst still being able to achieve the existing temperature set points. This is to result in a saving approx. USD 0.16 million per annum.



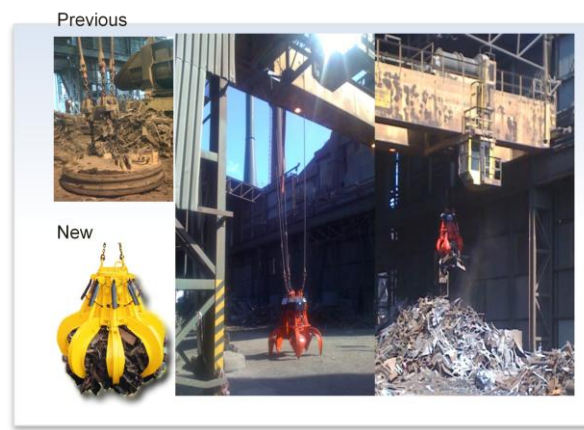
This picture shows the VSD on Circuit 1

### **Scrap Bay Grab Project**

The Scrap Bay Grab was installed on overhead crane No.175 during April 2014, to convey cheaper scrap more quickly from the scrap bay to the steelmaking process.

The test result was good; the grab can lift the cheaper scrap more efficiently: 6.9% heavier weight and 37% faster than the previous magnet-based system.

Since April 2014, the project has delivered USD 0.03 million benefit, with USD 0.04 million investment. The project is expected to contribute benefit approx. USD 0.71 million per annum.



This picture illustrates previous and current scrap grab and grab during operation

## **8. Recent Development**

### **Events in Q2/2014**

#### **Key Development in Manufacturing**

##### **Zero Scrap Project**

The trend of scrap loss unable to be rolled into product has been decreasing steadily from 0.19% in 2013, 0.17% in Q1/2014, and 0.10% in Q2/2014 which is the lowest level since hot strip mill expansion capacity to 4 million tons per annum in 2005. The significant drop of scrap loss originated from the Zero Scrap Campaign implemented in 2013. In early 2014, the Company established an incentive

program aiming to reduce scrap loss in process to any production or maintenance team which can produce zero scrap for 20 days consecutively. In Q2/2014, the Zero Scrap Project generated cost savings approx. Baht 3.5 million (compared with 2013 base), or Baht 14 million per year.

##### **Recent Development of WCE**

At the end of Q2/2014, WCE had a backlog order for all businesses of Baht 401 million to be delivered within this year including 1) Maintenance Management Business Baht 61 million; 2) Machinery Engineering Business Baht 24 million; 3) Steel Structure and Fabrication Business Baht 29 million; and 4) Engineering Procurement and Construction Business Baht 287 million.

During Q2/2014, WCE received new orders amounting Baht 149 million, including 1) Maintenance Management Business Baht 102 million including full-year maintenance contracts of 3<sup>rd</sup> party customers Baht 34 million; 2) Machinery Engineering Business Baht 18 million; 3) Steel Structure and Fabrication Business Baht 17 million; and 4) Engineering Procurement and Construction Business Baht 12 million.

### **Good Corporate Governance and Corporate Social Responsibility**

- 1) On 4 April 2014, SSI together with members of Don Sa-nga Youth Council from Kamnerd Noppakhun Subdistrict, Bangsaphan District, constructed and
- 2) On 4 April 2014, SSI arranged activities for 140 elderly people in 7 Subdistricts of Bangsaphan District. 14 Staff from SSI organised a water-pouring ceremony and provided knowledge on the tradition and healthcare for elders by speakers from
- 3) On 11 April 2014, SSI in cooperation with Mae Ramphueng Subdistrict Administration in Bangsaphan District, arranged activities on Elder's
- 4) From April to June 2014, SSI collaborated with Cycling Club of Pongprasas Subdistrict and local administrations in Bangsaphan District, Prachuap Khiri Khan, arranged "Ride for Smiles" activity to support good health of local people. The participants were cleaning locations that they arranged activities, including Huaysaikao Temple, Hinkong Temple,

handed over a 360 SQ.M. (15 X 24 M) of "Anti-Drug Sport Playground Ban Don Sa-nga Honoring His Majesty the King" to Ban Don Sa-nga community.

Bangsaphan Hospital. SSI also organised recreational activities to entertain the elder and watched the performance of local elders at Pholwisut Club, Bangsaphan Hospital, Prachuap Khiri Khan.

Day 2014 in order to preserve traditional cultures of Thailand. There were approximately 450 elderly people joining the event.

Tongmaprao Temple, Tummarong Temple, Saihong Reservoir, Ban Kaomaka, Kaogaji Temple and Thung Khee Tai Health Station. There were total 347 participants in 2014 and the calculation of cumulative Carbon dioxide reduction was approximately 4.28 tons CO<sub>2</sub>e.

- 5) On 4 June 2014, SSI arranged the meeting session on "Sahaviriya Fund for Bangsaphan Educational Development 2014 (the third generation) Project" clarifying the administrators of schools in Bangsaphan District for an understanding before the recruitment, by presenting the 3-year education development plan. Chosen schools will receive total fund of Baht 1.2 million from Sahaviriya Group. This project was launched with an aim to develop and enhance the quality of local education in Bangsaphan District in 3 dimensions, including schools, teachers, and students in accordance with sustainable development concept.
- 6) On 5 June 2014, SSI arranged "The 6th SSI Beach Clean Up Project". There were 520 participants who are students, hotel operators, resort operators, traders and general public in Mae Rumphueng Subdistrict cleaning up and restoring the landscape of Mae Rumphueng beach for a distance of over 3 kilometers, in order to create awareness in the community to participate in the conservation and restoration of marine resources on the occasion of the World Environment Day.
- 7) SSI in cooperation with the working group, consisting of representatives from the community, school, and SSI, drafted local curriculum for Ban-Thakam School, Ban Donsumran School, Ban Chamuang School and Wat Napakkuang School under an approval from educational committee of each school. The local curriculum was developed under the subject "Steel in Daily Life" with an aim to raise awareness about available resources in the community to enhance educational outcomes of students and also allow students to participate in teaching system. This curriculum did not only encourage students eager to learn, but also develop creativity in communications. Each year, the participating students will receive 6 hours of knowledge from SSI staff.
- 8) SSI Volunteering Projects, were as follows:
  - SSI staff together with TCRSS, painted 3 school buildings at Matthayom Noppakhun School, Kumnuerd Noppakhun, Bangsaphan, Prachuap Kirikhan, in order to repair the damage after the huge flood and prepare for the new academic year 2014 for youths in Bangsaphan District.
  - SSI staff arranged volunteering activity under "25th Anniversary of SSI, 250 Goodness, A Thousand Hearts of SSI Arsa". The activity included repairing the crematorium at local temples as follows:
    - On 5 April 2014, At Don Aree Temple, Sai Thong Subdistrict.
    - On 28-30 May 2014, At Samkhum Temple, Chaikasem Subdistrict.
    - On 14-17 June 2014, At Chong Lom Temple, Changrak.

### **Current Status of Trade Remedy Measures against Imported Hot-rolled Flat Steel and Cold-rolled Flat Steel**

The Company has filed petitions for two Trade Remedy Measures, which are Anti-dumping Measure and Safeguard Measure, against imported hot-rolled flat steel

to Department of Foreign Trade ("DFT"), Ministry of Commerce, for review and investigation. The current status of each measure is as follows:

- 1) Safeguard Measure
  - For the case of *Safeguard Measure on HRC without other element added (thickness 0.9 – 50 mm. and width 600 – 3,048 mm.)*, DFT announced the Provisional Measure for 200 days in the Royal Gazette being effective from 7 Jun 14 to 23 Dec 14.
- 2) Anti-dumping Measure
  - For the case of *Anti-dumping Measure on HRC whose origins are from 14 countries*, DFT announced the Notification for investigation of the Sunset Review and extension of AD duty imposition for another year in the Royal Gazette being effective from 23 May 14 to 22 May 15.

### **Development on Capital Structure**

- The Company is on process, and will continue to buy back the remaining 279 units of Subordinated Convertible Debentures.

## Appendix

Table 6: World Crude Steel Production

Unit: million tons	2014	2014	+/-	2013	+/-	2014	2013	+/-
Region	Q2	Q1	QoQ	Q2	YoY	Jan-Jun	Jan-Jun	YoY
EU	43.85	43.79	+0%	42.95	+2%	87.65	84.42	+4%
North America	29.80	29.49	+1%	30.09	-1%	59.28	59.80	-1%
South America	11.18	10.81	+3%	11.73	-5%	21.99	22.86	-4%
China	208.56	201.05	+4%	197.34	+6%	409.61	389.09	+5%
Asia (ex. China)	72.39	70.87	+2%	70.06	+3%	143.26	137.98	+4%
Others	49.15	47.00	+5%	47.90	+3%	96.16	94.48	+2%
<b>Total</b>	<b>414.93</b>	<b>403.02</b>	<b>+3%</b>	<b>400.07</b>	<b>+4%</b>	<b>817.95</b>	<b>788.62</b>	<b>+4%</b>

Source: World Steel Association

Table 7: Average Prices of Slab, HRC, and Other Raw Materials

	Q1/2014 (USD/ton) Actual <sup>1)</sup>	Q2/2014 (USD/ton) Estimate	Q2/2014 (USD/ton) Actual <sup>1)</sup>	Q3/2014 (USD/ton) Estimate <sup>2)</sup>
Coking Coal (Premium HCC FOB Australia)	120.22	110.94	111.43	110.87
Iron Ore (IODEX 62% Fe CFR North China)	105-135	114-119	89-119	93-98
Slab (CFR East Asia import)	532-552	530-540	495-515	495-515
Slab (FOB Latin export)	495-508	505-520	490-505	480-500
HRC (CFR East Asia import)	535-565	528-558	517-532	517-532
HRC (US domestic EXW Indiana) <sup>3)</sup>	N.A.	N.A.	670-683	665-683

**Sources:** <sup>1)</sup> Quarterly average prices are from SBB-Steel Business Briefing website, except Coking Coal (Premium HCC FOB Australia) and IODEX 62% Fe CFR North China average prices are calculated from SBB-Steel Markets Daily Report

<sup>2)</sup> Quarterly estimated prices are based on average prices from SBB-Steel Business Briefing website up to 6 Aug 2014, except IODEX 62% Fe CFR North China are calculated from SBB-Steel Market Daily Report

<sup>3)</sup> Prices are quoted in unit of USD/short ton, which can be converted by factor of 1 short ton = 0.9072 metric ton

Table 8: Car and Home Appliance Production in Thailand

Production Volume (in million units)	Q2/2014	Q1/2014	% QoQ	Q2/2013	% YoY
Car Production <sup>1)</sup>	0.44	0.52	-16%	0.62	-30%
Refrigerator Production <sup>1)</sup>	1.05	0.94	+12%	1.22	-14%
Air Conditioner Production <sup>2)</sup>	4.44	3.84	+16%	3.51	+26%

**Sources:** <sup>1)</sup> Car Production information published by Thailand Automotive Institute

<sup>2)</sup> Refrigerators and Air Conditioners Production information published by Bank of Thailand

Table 9: HRC Apparent Steel Supply

	Q1/2014 (tons) Actual	Q2/2014 (tons) Estimate	Q2/2014 (tons) Actual	% QoQ	Q2/2013 (tons) Actual	% YoY
Domestic Production	543,396	620,000	704,175	+30%	577,010	+22%
Import	891,066	820,000	1,000,429	+12%	1,313,936	-24%
Export	13,486	3,000	5,722	-58%	10,604	-46%
<b>Total</b>	<b>1,420,976</b>	<b>1,437,000</b>	<b>1,698,882</b>	<b>+20%</b>	<b>1,880,342</b>	<b>-10%</b>

**Source:** Iron and Steel Institution of Thailand for actual data and the Company's estimate

Table 10: HRC Apparent Steel Supply (Estimate for 2014)

	2013 (tons) Actual	Q1/2014 (tons) Actual	Q2/2014 (tons) Actual	Q3/2014 (tons) Re- estimate	Q4/2014 (tons) Re- estimate	2014 (tons) Re- estimate	% YoY
Domestic Production	2,573,497	543,396	704,175	700,000	660,000	2,607,571	+1%
Import	4,438,308	891,066	1,000,429	1,000,000	920,000	3,811,495	-14%
Export	27,835	13,486	5,722	3,000	3,000	25,208	-9%
<b>Total</b>	<b>6,983,970</b>	<b>1,420,976</b>	<b>1,698,882</b>	<b>1,697,000</b>	<b>1,577,000</b>	<b>6,393,858</b>	<b>-8%</b>

Source: Iron and Steel Institution of Thailand for actual data, and the Company's estimate

Table 11: Summary of Consolidated Financial Results

**Consolidated**

Unit: million Baht	2014 Q2	2014 Q1	+/- QoQ	2013 Q2	+/- YoY	2014 Jan-Jun	2013 Jan-Jun	+/- YoY
Sale and service revenues	18,051	19,011	-5%	12,542	+44%	37,062	32,491	+14%
Cost of sales and service	18,433	19,461	-5%	13,468	+37%	37,894	33,862	+12%
Gross profit (loss)	(382)	(450)	+15%	(925)	+59%	(832)	(1,371)	+39%
SG&A	369	356	+4%	255	+45%	726	666	+9%
Provision for loss under onerous contracts (reversal)	(129)	(88)	-47%	34	-486%	(218)	(487)	+55%
Gain on sales of investments in jointly-controlled entity	-	-	-	-	-	-	363	-100%
EBITDA <sup>1)</sup>	0.3	75	-100%	(887)	+100%	76	(87)	+187%
Interest expense	786	832	-6%	863	-9%	1,617	1,789	-10%
Depreciation and amortisation	628	639	-2%	581	+8%	1,267	1,227	+3%
Income tax (reversal)	(8)	2	-427%	(1,865)	+100%	(5)	(1,860)	+100%
Realised FX gain (loss)	(170)	32	-638%	600	-128%	(139)	421	-133%
Unrealised FX gain (loss)	24	11	+125%	(890)	+103%	35	(527)	+107%
Net profit (loss)	(1,406)	(1,397)	-1%	(465)	-202%	(2,803)	(1,243)	-126%
EPS (Baht)	(0.04)	(0.04)	-1%	(0.02)	-119%	(0.09)	(0.04)	-97%

<sup>1)</sup> 6M/2013 Group EBITDA includes gain on sales of investment in TCRSS Baht 363 million occurred in Q1/2013.

Table 12: Financial Results by Business

Unit: million Baht	2014 Q2	2014 Q1	+/- QoQ	2013 Q2	+/- YoY	2014 Jan-Jun	2013 Jan-Jun	+/- YoY
<b><u>Sale and Service Revenues</u><sup>1)</sup></b>								
<b>Consolidated</b>	<b>18,051</b>	<b>19,011</b>	<b>-5%</b>	<b>12,542</b>	<b>+44%</b>	<b>37,062</b>	<b>32,491</b>	<b>+14%</b>
HRC Business	8,602	10,170	-15%	8,705	-1%	18,772	24,331	-23%
Upstream Business	9,233	8,689	+6%	3,665	+152%	17,921	7,806	+130%
Port Business	35	33	+6%	48	-26%	69	96	-28%
Engineering Business	181	119	+51%	124	+45%	300	259	+16%
<b><u>EBITDA</u><sup>1)</sup></b>								
<b>Consolidated</b> <sup>2)</sup>	<b>0.3</b>	<b>75</b>	<b>-100%</b>	<b>(887)</b>	<b>+100%</b>	<b>76</b>	<b>(87)</b>	<b>+187%</b>
HRC Business <sup>3)</sup>	586	962	-39%	197	+198%	1,548	1,789	-14%
Upstream Business	(531)	(883)	+40%	(1,061)	+50%	(1,413)	(2,034)	+31%
Port Business	36	44	-18%	74	-51%	80	152	-47%
Engineering Business	(25)	11	-323%	23	-208%	(14)	52	-126%
Elimination of Related Parties Transaction	(66)	(59)		(120)		(125)	(47)	

Unit: million Baht	2014 Q2	2014 Q1	+/- QoQ	2013 Q2	+/- YoY	2014 Jan-Jun	2013 Jan-Jun	+/- YoY
<b>Net Profit (Loss)</b> <sup>1)</sup>								
<b>Consolidated</b> <sup>4)</sup>	<b>(1,406)</b>	<b>(1,397)</b>	<b>-1%</b>	<b>(465)</b>	<b>-202%</b>	<b>(2,803)</b>	<b>(1,243)</b>	<b>-126%</b>
HRC Business	27	347	-92%	(473)	+106%	374	395	-5%
Upstream Business	(1,347)	(1,701)	+21%	63	N.A.	(3,048)	(1,712)	-78%
Port Business	6	13	-52%	41	-84%	20	87	-77%
Engineering Business	(32)	2	N.A.	12	-358%	(30)	29	-203%
Elimination of Related Parties Transaction	(63)	(62)		(129)		(125)	(75)	
Non-controlling Interest	3	3		21		6	32	

<sup>1)</sup> Revenues of each business unit is shown as net revenues after elimination of related parties transactions while EBITDA and Profit (Loss) are shown as amount before elimination of related parties transactions.

<sup>2)</sup> 6M/2013 Group EBITDA includes gain on sales of investment in TCRSS Baht 363 million

<sup>3)</sup> 6M /2013 HRC EBITDA includes gain on sales of investment in TCRSS 225 million Baht

<sup>4)</sup> TCRSS and Redcar Bulk Terminal Ltd transactions are recorded under equity method.

**Table 13: Condensed Consolidated Statements of Financial Position**

Unit: million Baht	As of 30 Jun 14	As of 31 Dec 13	+/-
<b>Assets</b>			
Accounts Receivable	4,904	5,108	-4%
Inventories	11,947	17,388	-31%
Other Current Assets	4,386	5,659	-22%
<b>Total Current Assets</b>	<b>21,237</b>	<b>28,154</b>	<b>-25%</b>
Property, Plant and Equipment	51,090	52,425	-3%
Investments in jointly-controlled entities	3,976	3,839	+4%
Other Non-Current Assets	330	308	+7%
<b>Total Assets</b>	<b>76,632</b>	<b>84,726</b>	<b>-10%</b>
<b>Liabilities</b>			
S/T Debt and Current Portion of L/T Interest-Bearing Debts	25,074	23,869	+5%
Accounts Payable	8,808	12,614	-30%
Other Current Liabilities	6,442	7,560	-15%
<b>Total Current Liabilities</b>	<b>40,324</b>	<b>44,044</b>	<b>-8%</b>
L/T Interest-Bearing Debts	26,682	28,047	-5%
Other Non Current Liabilities	2,015	2,026	-1%
<b>Total Liabilities</b>	<b>69,021</b>	<b>74,116</b>	<b>-7%</b>
<b>Equity</b>			
Equity Attributable to Owners of the Company	6,837	9,794	-30%
Non-controlling Interests	774	816	-5%
<b>Total Equity</b>	<b>7,611</b>	<b>10,610</b>	<b>-28%</b>
<b>Total Liabilities and Equity</b>	<b>76,632</b>	<b>84,726</b>	<b>-10%</b>

Table 14: Condensed Statement of Cash Flow

Unit: million Baht	Jan-Jun 2014
<b>Net cash used in operating activities</b>	<b>1,815</b>
Proceeds from sale of investments in jointly-controlled entity	0
Purchases of property, plant and equipment	(379)
Currency translation differences	148
Other investments	(26)
<b>Net cash received from investing activities</b>	<b>(257)</b>
Net Proceeds from issuance of ordinary shares	0
Finance cost paid	(1,437)
Repayment on bank overdrafts and short-term loans from financial institutions	(324)
Proceeds from short-term loan from related parties	411
Repayment on long-term loans	(61)
Cash paid for buyback convertible debentures	0
Cash paid for other financing activities	(49)
<b>Net cash used in financing activities</b>	<b>(1,460)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>98</b>
Cash and cash equivalents at 31 December 2013	163
Effect of exchange rate changes on balance held in foreign currency	8
<b>Cash and cash equivalents at 30 September 2014</b>	<b>269</b>

#### About SSI

**Sahaviriya Steel Industries PLC.** or SSI is ASEAN's largest fully-integrated flat steel producer with 4 million tons annual capacity of hot rolled steel sheet in coils (HRC). SSI endeavors to supply premium-grade steel sheets to cater to the region's growing demand in various sectors such as automobile, energy, transportation and construction sectors. In the upstream business, SSI owns SSI Teesside, a 3.6 million tons per annum fully-integrated iron-steel making plant located in Redcar in the northeast of UK, through a wholly-owned subsidiary **Sahaviriya Steel Industries UK Limited** ("SSI UK"). SSI Teesside supplies premium-grade steel slabs to SSI to feed its growing demand, as well as to other rolling mills around the world. In the downstream business, SSI has investments in joint-venture downstream plants: namely **Thai Cold Rolled Steel Sheet PLC.** ("TCRSS") - Thailand's first and largest cold roll mill, and **Thai Coated Steel Sheet Co., Ltd.** ("TCS") - Southeast Asia's first and largest electro-galvanizing line. All SSI's plants in Thailand are located on a world-class coastal industrial site in Bang Saphan, Prachuap Khirikhan Province, 400km south of Bangkok on the western peninsula of Thailand, where they are efficiently integrated with its privately-owned deep-sea port (**Prachuap Port Co., Ltd.** or PPC), which allows import of raw materials and export of finished products in large economy of scale. SSI extends its engineering capabilities into its wholly-owned subsidiary, **West Coast Engineering Co., Ltd.** or WCE, which specialises in engineering, maintenance, spare parts production, fabrication, erection and commissioning service. Our people's passion and energy is captured in the Company's vision statement - "innovate premium value steel products and services for customers; generate consistent profit and sustainable value for stakeholders."

For more information, please visit <http://www.ssi-steel.com>

#### Disclaimer

This management's discussion and analysis ("MD&A") has been prepared to provide preliminary information for general investors and shareholders of the Company. This MD&A comprises several parts which contain the current information of the Company, its Subsidiaries and Jointly-Controlled Entities. However, the businesses and operations of the Company are subject to change, or an event may occur after the date of this MD&A which will affect the information contained therein. General investors and shareholders should consider other information together with the information contained herein.

Some information contained in this MD&A is based on forecasts, estimations or future expectations. Any information not based on events that have already occurred, or information based on beliefs and forecasts of the Company, can be identified with wordings "believe", "expect", "hope", "plan", "intend", "estimate", "assess" and other words of similar nature. Readers are requested to be particularly cautious when relying on information, which is based on future forecast, as such information is inherently subject to risks and uncertainties.