



บริษัท สหวิริยาสตีลอินดัสตรี จำกัด (มหาชน)
SAHAVIRIYA STEEL INDUSTRIES PUBLIC COMPANY LIMITED

ISO 9001, ISO 14001
 TIS 18001
 ISO/TS 16949
 ISO/IEC 17025

ผู้นำตลาดเหล็กแผ่นชั้นคุณภาพพิเศษอาเซียนและสร้างผลตอบแทนแก่ผู้มีส่วนได้เสียอย่างยั่งยืน
 (Market Leader of High - Grade Steel Sheets in ASEAN, Creating Sustainable Value for Stakeholders)
 A MEMBER OF SAHAVIRIYA GROUP

No. S.E.C. 122/2015

16 September 2015

Re : To clarify information on the second quarter financial statements ended 30 June 2015

Attn : President
 The Stock Exchange of Thailand

Ref : SET's letter no. BorJor 0567/2015 dated 9 September 2015 Re: Request for clarification on the second quarter financial statements ended 30 June 2015

With reference to the Stock Exchange of Thailand ("SET") requesting Sahaviriya Steel Industries Public Company Limited (the "Company") to clarify information on the second quarter financial statements ended 30 June 2015 reviewed by an independent auditor, consolidated net loss for the three-month and six-month periods was Baht 3,236 million and Baht 6,262 million respectively, with negative equity of Baht 1,777 million. The auditor has drawn attention in the report on review of the financial statements regarding operating performance and liquidity shortfall of the Company and its subsidiaries that the Group's current liabilities exceeded its current assets by Baht 52,765 million and had cumulative deficit of Baht 33,953 million. Such circumstances indicated the existence of a material uncertainty which might cast significant doubt about the Group's ability to continue as going concerns. The Group has implemented policies and procedures in an attempt to manage its liquidity risk and other circumstances including obtaining waivers from lenders of breaches of the terms of the loan agreements with financial institutions, increasing share capital and rescheduling the repayment of loan principal, details as formerly explained.

Pursuant to SET regulations regarding Delisting of Securities, B.E. 2542, the Company may possibly be delisted from SET if the Company's financial statements for the year as audited by the independent auditor showed equity of less than zero equity. In order to brighten shareholders and investors for their further investment decision concerning the Company's approaches to improving its financial position, the Company would like to inform additional information as follows:

1. Causes of continuous losses and liquidity shortfall

SSI Reply: The Group began to record operating losses since 2011 after it acquired Upstream Business in the United Kingdom. Details of historical operating results are as follows:

In 2011, back at that time, steel prices were at a high level, and Upstream Business started to purchase raw materials for its slab production. However, due to the delay of SSI UK Restart Project, the slab production commencement was also postponed. Later on, steel prices were declining, which required both Upstream business and HRC Business to set up provision for loss on decline in inventories and provision for loss under onerous contracts, resulting in consolidated net loss of Baht 981 million.

In 2012, Upstream Business successfully cast the first slab in April. Nevertheless, production cost was high as the production volume was just ramping up, so the production was still under an optimal level. In addition, impacts from declining global steel prices required the Group to set up provision for loss under onerous contracts, resulting in consolidated net loss of Baht 15,918 million.

In 2013, the overall operating results of both Upstream Business and HRC Business were enhanced. Upstream Business commissioned the pulverized Coal Injection (PCI) technology in July which helped to reduce energy costs and increase productivity, resulting in a reduction in Unit Conversion Cost of Upstream Business. However, the production level of Upstream Business was still below-break-even point, leading to consolidated net loss of Baht 7,053 million.

In 2014, the operating performance of Upstream Business was much improved, and its EBITDA successfully turned to positive in the second half of the year. However, Upstream Business still made loss as production volume was not enough to cover depreciation and interest expenses, resulting in consolidated net loss of Baht 4,903 million.

For 6 months in 2015, as global steel prices have been decreasing sharply and continuously since late 2014 while cost of raw materials was at a high level due to costly previous stock, the Group recorded net loss of Baht 6,262 million slashing shareholders' equity to negative Baht 1,777 million. Apart from the negative factors causing loss as earlier explained, there is another big burden of interest expenses approx. Baht 1,700 million per annum, incurred from loan for initial investment and working capital in Upstream Business as heavy manufacturing industry generally requires intensive capital. Thus, the Group's liquidity has been distressed.

Since Upstream Business started its slab production in 2012, cost reduction programs have been created progressively ever since. Competitive enhancement has also been gradually built up from production efficiency improvement. New product development was another milestone. In addition, high-quality slabs with capability to compete with manufacturers globally have been proven from the Upstream Business's success on broadening its market to all over the world including Asia, Europe, North America, and Africa. The operating results of Upstream Business have been improving since its operation restart proven by lower losses quarter by quarter and positive EBITDA in the second half of 2014 as earlier explained. However, with unfavorable steel market factors including China' overcapacity since Q4/2014 due to its export tax rebate system, severely weakening RUB, and the economic slowdown in China and Russia have led to the overwhelming steel exports from both countries, especially from China which its export was all-time high. As a result, current slab prices have fallen by more than 40% compared with the average price of more than USD500 per ton in 2014. The price drop exceeded the cost reduction achieved by Upstream Business which could save by more than 30%, thus Upstream Business's EBITDA was dragged down into negative in the first half of 2015.

2. The Company's approaches to improving financial position, operating performance, and liquidity in an attempt that the Company is not possibly delisted

SSI Reply: The Company has implemented programs to enhance liquidity as well as improve operation continuously as follows:

In 2012, the Company issued and offered 8,743.93 million newly issued ordinary shares to existing shareholders and person under the Private Placement, at the offering price of Baht 0.68 per share, totaling subscription proceeds of Baht 5,945.87 million.

In 2013, the Company issued and offered 5,085.63 million newly issued ordinary shares to existing shareholders and person under the Private Placement, at the offering price of Baht 0.68 per share, totaling subscription proceeds of Baht 3,458.23 million.

In 2015, the Extraordinary General Meeting of Shareholders No. 26, which was held on 20 April 2015, approved the capital increase plan of the Company by issuing and offering no more than 16,000 million newly issued ordinary shares to

person under the Private Placement, who was not a connected person of the Company, with a restrictive period of one year since the approval date. The Company is under negotiation with potential investors who are interested in the Company's business.

For liquidity enhancement and burden relief purpose while awaiting new funds, the Company was supported an interest-free loan of up to Baht 1,700 million from a director for six months. The first loan drawdown was on 21 July 2015, and the outstanding balance as at 15 September 2015 is Baht 637 million.

The Group has been well supported by financial institutions. Although, due to the delay of receiving the waivers by the balance sheet date, the long term debt of Baht 20,595 million was reclassified as current liabilities, the Group has obtained the waivers of breaches of loan rescheduling and covenant ratios from all financial institutions in August 2015. All financial institutions have also agreed that payment of outstanding principal and interest due at 30 June 2015 to be rescheduled to 30 September 2015 and 30 December 2015. Additionally, the Group is in the process of rescheduling principal and interest repayment due at 30 September 2015 to be rescheduled to 30 December 2015.

In addition, the Group is in the process of working on the plan to improve its operating performance and financial position as follows:

1. Business restructuring plan, by cutting cost and stopping loss in Upstream Business, and focusing on procuring slabs at a competitive price to generate profit in HRC Business. A sharp drop in steel prices is boosting competitiveness to HRC Business, as well as enhancing high profit margin especially in Premium Value Products (PVPs). Moreover, an opportunity to grow in ASEAN market is broadened as ASEAN's current steel consumption of 60 million tons per annum is projected to mount to 80 million tons per annum in the next three years. Meanwhile, healthy growth in domestic steel demand of 17 million tons per annum is expected to continue. In addition, the government's economic initiatives and mega projects, an improvement in household spending, and ongoing urbanization in Thailand will also further drive HRC Business.
2. Group's financial restructuring plan, i.e. capital increase, in order to enhance liquidity and strengthen financial position of the Group.

The plan is projected to finalize and be implemented by the end of 2015 in an attempt that the Company's financial statements for the year as audited by the independent auditor do not show equity of less than zero. After the plan conclusion, the information memorandum will be submitted to SET accordingly.

Please be informed accordingly.

Yours sincerely,

-Signature-

(Win Viriyaprapaikit)
President