

Management's Discussion and Analysis (MD&A)

Sahaviriya Steel Industries Public Company Limited, its Subsidiaries and Jointly-Controlled Entities

For the Second Quarter of 2011

1. Highlight Q2/2011

Table 1: Financial Highlight of the Company, its Subsidiaries and Jointly-Controlled Entities

Consolidated	Million Baht	Separate Financial Statements	EBITDA/Ton (Baht)	EBITDA (Million Baht)
Revenue	9,511	Sahaviriya Steel Industries PLC Hot Rolled Steel Coil	191	63
EBITDA	(337)	Thai Cold Rolled Steel Sheet PLC Cold Rolled Steel Coil	1,537	175
Net profit	(1,072)	Prachuap Port Co., Ltd.	-	48
EPS (Baht)	(0.06)	West Coast Engineering Co., Ltd.	-	20
D/E Ratio	1.7x	Sahaviriya Steel Industries UK Limited	-	(410)

2. Company and its subsidiaries' Operating results

Table 2: Summary of Consolidated Financial Results

Consolidated Financial Statement

(Million Baht)	Q2/2011	Q2/2010	+/-
Sale and Service Revenue	9,511	11,886	-20%
COGS	9,509	10,554	-10%
SG&A	583	232	+151%
EBITDA	(337)	1,341	-125%
Financial Cost	519	198	+162%
Income Tax Expense	3	7	-57%
Gain/(Loss) from FX	(67)	36	-286%
Net Profit	(1,072)	918	-216%
EPS (Baht)	(0.06)	0.07	-186%

Separate Financial Statement (Sahaviriya Steel Industries PLC only)

(USD/Ton)	Q2/2011	Q2/2010	+/-
Average Selling Price	761	660	+15%
Metal Spread	103	158	-35%
EBITDA	6.2	68.3	-91%

Table 3: Financial Results by Business

(Million Baht)	Q2/2011	Q2/2010	+/-
<b><u>Sale &amp; Service Revenue</u></b>			
Consolidated	9,511	11,886	-20%
HRC Business	7,734	11,805	-34%
Deep Sea Port Business	32	47	-32%
Engineering & Maintenance Service Business	68	34	+102%
Iron and Steel Making Business	1,677	0	N.A.
<b><u>EBITDA</u></b>			
Consolidated	(337)	1,341	-125%
HRC Business	63	1,198	-95%
Deep Sea Port Business	48	74	-36%
Engineering & Maintenance Service Business	20	27	-27%
Iron and Steel Making Business	(410)	0	N.A.
Elimination of Related Parties Transaction	(58)	42	
<b><u>Profit/(Loss)Net</u></b>			
Consolidated	(1,072)	939	-216%
HRC Business	(391)	841	-147%
Deep Sea Port Business	22	45	-52%
Engineering & Maintenance Service Business	7	12	-44%
Iron and Steel Making Business	(662)	0	N.A.
Elimination of Related Parties Transaction	(37)	41	
Non-controlling Interest	(11)	(22)	

Noted: Related transaction record for TCR and Redcar recorded as Equity Method

### 3. Analysis of Consolidated Financial Status

Table 4: Condensed Consolidated Statements of Financial Position

Million Baht	Q2/2011	Q1/2011	+/-
<b>Assets</b>			
Inventories	21,779	19,648	+11%
Other Current Assets	6,111	4,575	+34%
Property, Plant and Equipment	34,192	33,851	+1%
Other Non-Current Assets	4,905	4,897	+0%
<b>Total Assets</b>	<b>66,987</b>	<b>62,971</b>	<b>+6%</b>
<b>Liabilities</b>			
S/T Debt and Current Portion of L/T Interest Bearing Debt	19,344	15,741	+23%
Other Current Liabilities	4,823	3,378	+43%
L/T Interest Bearing Debt	17,906	17,874	+0%
Other Non Current Liabilities	125	121	+3%
<b>Total Liabilities</b>	<b>42,125</b>	<b>37,114</b>	<b>14%</b>
<b>Equity</b>			
Equity attribute to Equity Owners of the Company	23,954	25,030	-4%
Non-Controlling Interests	835	828	+1%
<b>Total Equity</b>	<b>24,789</b>	<b>25,858</b>	<b>-4%</b>
<b>Total Liabilities and Equity</b>	<b>66,987</b>	<b>62,971</b>	<b>+6%</b>

## Financial position and Liquidity as of 30 June 2011

Current Ratio was at 1.15x on consolidated basis, a decrease QoQ from 1.27x as a result of an increase in S/T loan and current portion of L/T debt.

Trade and Notes Receivable was Baht 3,892 Million, increased by 52% QoQ with a major portion being trade receivable from the Company's jointly controlled entity and other related companies.

Net Inventories Balance was recorded at Baht 21,779 Million a decrease of 11% QoQ.

Liabilities totaled Baht 42,198 Million, an increase of 14% QoQ resulting from the increase in utilization of S/T borrowings and L/T loans from financial institutions.

Debt to Equity Ratio The Company and subsidiaries had total equities of Baht 24,789 Million and total liabilities of Baht 42,198 Million. As a result, D/E ratio increased from 1.44x on 31 March 2011 to 1.70x as of 30 June 2011 due to increase borrowing.

### 4. Industry Overview

Major flood and hurricane in Australia in the beginning of 2011 led to big rise in coal and iron ore prices which in turn pushed up the slab cost of the Company. Q2 slab arrival was 370,789 tons at an average cost of USD 729 per ton, an increase of 30% from Q1/2011. However, the domestic price of commercial grade HRC did not keep pace with the cost increase as the suggested ceiling price set by the Department of Internal Trade, Minister of Commerce had been kept at Baht 24,500 per ton. Political uncertainties in Q2/2011 also caused delay in many infrastructure projects. At the same time, domestic steel market was affected by import of boron-added HRC from China causing some domestic customers to remain wary and defer their purchases. Dumping by producers from China and Vietnam adversely affected domestic cold rolled coil market as well. This consequently weakened the Company's domestic HRC sales to cold rolling mills which dropped by 77% YoY.

The earthquake and natural disaster in Japan on 11 March 2011 had a huge impact on the whole supply chain to the automotive industry with the effect becoming evident in Q2/2011 which saw the domestic consumption of Pickled and Oiled HRC (P/O) dropping by 36% YoY.

#### 4.1 HRC Business (Sahaviriya Steel Industries PLC)

The Company's HRC (Hot Rolled Coils) sales volume for Q2/2011 was recorded at 329,963 tons with the average selling price of Baht 23,092 per ton (approximately USD 761 per ton). HRC and P/O sales of Baht 7,619 Million and other revenue of Baht 115 Million, or a total of Baht 7,734 Million, is 34% lower QoQ. Sales of Premium Value Products contributed to 32% of total sales revenue.

Gross profit before allowance for diminution in value of inventories was recorded at Baht 79 Million, equivalent to 1.02% of revenue, whereas gross profit after allowance for diminution in value of inventories was recorded at Baht 62 Million or equivalent to 0.8% of revenue.

The Company's EBITDA was Baht 63 Million, decreasing by 95% QoQ, with net loss of Baht 391 million, which equaled to a loss of 0.02 Baht per share.

As of 30 June 2011, the Company's retained earnings (unappropriated) was recorded at Baht 1,303 million declining from Q1/2011 by Baht 391 million resulting from net loss in Q2/2011, but increasing by Baht 65 million when compared to that of year end result of 2010 resulting from operating profit in the first half of 2011.

#### 4.2 Deep Sea Port Business (Phachuap Port Company Limited)

In Q2/2011 Phachuap Port ("PPC") recorded a total throughput of 643,754 tons, reducing by 41% YoY, resulting from the volatility in the steel industry in Thailand in 2011 as mentioned above.

The business plan of PPC in 2011 remains focused in increasing external revenue beyond intra-group businesses. In Q2/2011, PPC generated a total revenue of Baht 2 Million from non-related companies, an increase of 88% YoY. In addition, in Q2/2011, PPC was able to start new business from container cargo handling by serving clients exporting to Myanmar via Prachuap Port and Ranong Port. PPC recorded Baht 377,987 of revenue from this new business initiative.

In Q2/2011, PPC realized a total revenue of Baht 64 Million, 33% lower YoY, EBITDA Baht 48 Million, 36% lower YoY, and a total net profit of Baht 22 Million a decrease of 52% YoY.

#### **4.3 Engineering Service Business (West Coast Engineering Co.,Ltd)**

West Coast Engineering (“WCE”) continued to grow its revenue base by expanding beyond intra-group business to both domestic and foreign markets, such as Germany, Italy, Australia and England. The breakdown of revenue is as followed:

- 1) Revenue from Maintenance Contracts was recorded at Baht 59 Million, 4% lower YoY.
- 2) Revenue from General Maintenance was recorded at Baht 20 million, 9% higher YoY.
- 3) Revenue from Fabrication Work was recorded at Baht 35 million, 171% higher YoY.
- 4) Revenue from Engineering Service was recorded at Baht 26 million, 67% higher YoY.
- 5) Revenue from Spare Parts was recorded at Baht 24 million, 31% higher YoY.
- 6) Revenue from Project Engineering was recorded at Baht 16 million, 1% lower YoY.

WCE realized a total revenue of Baht 180 Million for Q2/2011, an increase of Baht 33 Million or 26% YoY, from an increase in service revenue. Gross profit was recorded at Baht 25 Million, 18% lower YoY as a result of increase in equipment costs and wages. EBITDA, profit before tax and net profit was recorded at Baht 20 Million, 27% lower YoY, Baht 10 Million, 37% lower YoY, and Baht 7 Million, 44% lower YoY, respectively. Earning per share equaled 0.92 Baht per share.

#### **4.4 CRC Business (Thai Cold Rolled Steel Sheet PCL)**

In Q2/2011, Thai Cold Rolled Steel Sheet (“TCR”) recorded 113,685 tons of sales with sales revenue of Baht 3,508 Million, 34% decrease YoY. TCR recorded its gross profit at Baht 115 Million, 72% lower YoY given the increase in cost of fuel oil and higher fixed cost per production unit due to lower production volume during this period. As a result, it reported EBITDA of Baht 175 Million, 66% lower YoY and a net loss of Baht 41 Million, a 115% decline YoY.

#### **4.5 Iron and Steel Making Business (Sahaviriya Industrial Steel UK Limited)**

For Q2/2011, its first full quarter of business since the acquisition of Teesside Cast Products, Sahaviriya Industrial Steel UK Limited (“SSI UK”) realized its revenue from sales of coke and from toll manufacturing of coke product for a total amount of Baht 1,677 Million. SSI UK is still in the process of preparation for the re-start of slab production, therefore no slab sale had been recorded for the period. Fixed cost and selling and administrative expenses was Baht 794 million, with the major portion arising from non-operating part of the business. As a result, SSI UK posted negative EBITDA for Baht 410 Million with a net loss of Baht 662 Million.

SSI UK is in the process of appraising the fair value and goodwill (if any) of the acquired assets from the acquisition of Teesside Cast Products in Teesside, United Kingdom on 24 March 2011 in accordance with the accounting standard for its merger and acquisition transaction. At the moment, SSI UK is reviewing the appraisal value for the acquired fixed assets including land, plant and building, equipment and machineries which indicates that the fair value of acquired assets is higher than the purchase price. However, SSI UK is now assessing potential allowable expenses or provisions to be deducted from the fair value. These potential deductions include pre-operating expenses for re-start activities, expenses or reserves for employees' benefit, reserve for future environmental clean-up and impairment value for obsolete equipment and spares and stores. SSI UK expects that the difference between the appraised value and its acquisition cost will be higher than the total expenses and provisions combined and that acquired assets will be recognized at final fair value in Q3 2011.

#### 5. Explanation of difference in result of operation for Q2/2011 and 2010 more than 20%

##### Revenue

The Company and its subsidiaries recorded sale revenue of Baht 9,415 Million, 20% lower YoY, which was mainly from HRC sales revenue of Baht 7,626 Million, 35% lower YoY, due to 39% YoY drop in sale volume.

Revenue from scrap sales was recorded at Baht 115 Million, 28% lower YoY.

Sales and service revenue from subsidiaries was recorded at Baht 1,777 Million (including revenue from SSI UK of Baht 1,677 million), increasing from Baht 81 Million in Q2/2010.

Other income for the Company and subsidiaries was recorded at Baht 12 Million, 70% increase YoY.

##### COGS

The Company and its subsidiaries recorded COGS of Baht 9,434 Million, equivalent to 100% of Sales, increasing from 89% of Sales in Q2/2010.

The increase in COGS-to-sales ratio was driven by :

1. The Company's cost of raw material relative to sales increased from 76% in Q2/2010 to 87% of Sales in Q2/2011

2. A decrease of the Company's sales and production volume caused the fixed production cost per unit to increase from Baht 470 per ton in Q2/2010 to Baht 885 Baht per ton in Q2/2011
3. SSI UK's overhead expenses from non-operating part of the business totaling Baht 408 Million for Q2/2011 contributed to the overall increase in COGS-to-sales ratio for the period.

#### Gross Profit

The Company and its subsidiaries posted a gross profit of Baht 2 Million, Baht 1,333 Million decrease from Q2/2010

#### Selling and Administrative Expense

The Company and its subsidiaries recorded Selling and Administrative Expense of Baht 583 Million, 151% increase YoY, out of which Baht 387 Million of Selling and Administrative Expense was from SSI UK.

In Q2/2011, the Company reversed its allowance for diminution in value of inventories in an amount of Baht 96 Million, whereas in Q2/2010 the Company set aside Baht 28 Million for such allowance.

#### Financial Cost

Financial Cost of the Company and its subsidiaries amounted to Baht 519 Million, 163% increase YoY, due to higher L/T loans at the Company and SSI UK, and higher interest rate.

#### Others

Loss before share of profit from investment in jointly controlled entities amounted Baht 1,044 Million.

The Company realised Baht 0.4 Million from its share of profit from investment in jointly controlled entities accounted for under the equity method, 99% decrease YoY.

The subsidiaries' corporate income tax amounted THB 3 Million, 56% decrease YoY

#### Profit/(Loss)

The Company and its subsidiaries recorded Baht 1,072 Million of net loss in Q2/2011, compared to Baht 918 Million of net profit in Q2/2010.



## 6. Industry Outlook

The steel industry in the H2/2011 is expected to recover as supported by the following factors:

- 1) A new government, providing political stability and driving pro-growth policy.
- 2) Automotive industry recovering much faster than expected, with the car production in June 2011 back at the normal production rate of 150,000 units and total car production for year 2011 expected at 1,800,000 units.
- 3) Ministry of Commerce initiated an investigation on anti-dumping of boron-added HRC from China on 8 July 2011, and resolved a final determination in HRC dumping case from China and Malaysia resulting in a 5-year anti-dumping measure being effected from 11 August 2011