



Management's Discussion and Analysis (MD&A)

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

For the Second Quarter of 2012

1. Second Quarter of 2012 Highlight

- Lost-Time Injury Frequency Rate (LTIFR) of 2.28, -14.5% QoQ and -1.9% YoY.
- Sale and service revenues of Baht 11,469 million, -27% QoQ while +21% YoY.
- HRC shipment of 423 k tons, -15% QoQ while +28% YoY.
- Premium Value Products accounted for approx. 40% of total shipments near Q1/2012 level.
- HRC spread of USD 115/ton, +27% QoQ and +12% YoY with HRC Rolling Margin* of 15.8%
- Negative HRC EBITDA/ton at USD 12.1/ton, declining from USD 37.2/ton in Q1/2012 and from USD 6.2/ton in Q2/2011.
- HRC Business set up new provisions for loss on diminution in value of inventories and loss under onerous contracts of Baht 451 million, or about USD 33.5/ton
- Coke sales of 118 k tons and slab sales of 335 k tons; all slabs were sold within the Group of companies, with the slab spread of USD 7/ton.
- Negative Group EBITDA of Baht 3,612 million, more in negative of 92% QoQ and also declining from negative EBITDA of Baht 335 million in Q2/2011.
- Net loss of Baht 5,022 million, loss increased 77% QoQ and accordingly reported more loss from Baht 1,053 net loss in Q2/2011.
- NET Debt** of Baht 52,532 million, + 13% QoQ.
- Additional investment in SSI UK by investing more of its share capital with the fund raised by the issuance of Convertible Debenture amounting Baht 2,250 million. As a result, SSI UK's share capital paid became GBP 293.2 million, or equivalent to USD 471.45 million
- First shipments of 48 k tons slab from SSI UK arriving to Thailand on 15 June 2012. Up to end of June, the Company has received slab from SSI UK totaling approx. 134 k tons.

Note: *HRC Rolling Margin = HRC Spread/average selling price, **Net Debt = Interest Bearing Debt – Cash and cash equivalents

2. First Half of 2012 Highlight

- Lost-Time Injury Frequency Rate (LTIFR) of 2.47, +3.6% YoY.
- Sale and service revenues of Baht 27,211 million, +26% YoY.
- HRC shipment of 920 k tons, +8% YoY.
- Premium Value Products accounted for approx. 41% of total shipments.
- HRC spread of USD 102/ton, -24% YoY with HRC Rolling Margin* of 13.7%
- HRC EBITDA/ton at USD 14.5/ton, -61% YoY, including new provisions set up for losses on inventories and under onerous contract totaling Baht 90 million or approx. USD 2.6/ton.
- Coke sales of 393 k tons and slab sales of 335 k tons; all slabs were sold within the Group of companies, with the slab spread of USD 7/ton.
- Negative Group EBITDA of Baht 5,491, net loss of Baht 7,863 million.

Note: *HRC Rolling Margin = HRC Spread/average selling price, **Net Debt = Interest Bearing Debt – Cash and cash equivalents

3. Business Outlook on Q3/2012

- HRC domestic demand in Q3 will slightly improve as Apparent Steel Supply will increase to approx. 1.55 MT, or +7% QoQ.
- HRC shipments are expected to be the same level as Q1/2011.
- HRC average selling price and slab price are likely to soften while HRC Rolling Margin is expected to be in range of 13% - 15%.
- For Iron and Steel Making business, slab shipments are expected to be approx. 700 k tons, which 15% total sale will be sold to external parties, with the slab spread in range of USD 100 - 120/ ton.

About the Company

Sahaviriya Steel Industries Plc. or the Company is ASEAN's largest fully-integrated flat steel producer with 4 million tons annual capacity of hot rolled steel sheet in coils (HRC). The Company focuses on the development and production of high-grade steel sheets to cater to the region's growing demand in various sectors such as automobile, energy, transportation and construction sectors. Sahaviriya Steel Industry UK Limited ("SSI UK"), a wholly-owned subsidiary, acquired a fully-integrated iron-steel making facility located at Teesside in the northeast of UK. The 3.6 million tons per annum steel plant, now renamed SSI Teesside, will supply high-grade steel slabs to feed SSI's growing demand along with many other rolling mills around the world. In addition, the Company has joint-venture investments in 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 plants in Thailand of group of the Company are located on a world-class coastal industrial site in Bang Saphan, Prachuap Khirikhan Province, 400kms 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 on a large economy of scale. SSI extends its engineering capabilities into its wholly-owned subsidiary, West Coast Engineering Co., Ltd. or WCE, which specializes 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 further information, please visit the Company's website at <http://www.ssi-steel.com>

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)
Sale and service Revenues	11,469	Sahaviriya Steel Industries Plc. (Hot Rolled Steel Coil)	(393)	(166)
Group EBITDA*	(3,612)	Sahaviriya Steel Industries UK Limited (Iron and Steel Making)	-	(3,581)
Net Profit (Loss)	(5,022)	Prachuap Port Co., Ltd. (Deep Sea Port)	-	33
EPS (Baht)	(0.28)	West Coast Engineering Co., Ltd. (Engineering and Maintenance Service)	-	19
D/E Ratio**	3.13	Thai Cold Rolled Steel Sheet Plc. (Cold Rolled Steel Coil)	1,644	228

* EBITDA = Earning Before Interest, Tax, Depreciation and Amortization Expenses

** D/E Ratio = Interest Bearing Debt/Equities

*** TCRSS is accounted for under equity method and not included in Group EBITDA

4. Industry Outlook and Business Results

Steel Industry in Q2/2012

World Steel Industry: Due to the economic crisis in Europe, originated in Greece and then spreading to Ireland and Spain, combining with the unexpected slow growth in China's GDP in May-June; the steel consumption in June 2012 significantly has declined. As a result, world crude steel production in June 2012 was 127.9 million tons or decreased 0.1% YoY (Source: World Steel Association or WSA) However, economic growth in other regions such as Asia or America has continued to grow constantly, cancelling out the effects from smaller growth in Europe and China. All in all, global steel industry outlook in Q2/2012 remains sluggish. According to WSA's report, world crude steel production in Q2/2012 was 390.1 million tons, decreasing 1.76% YoY but increasing 3.5% QoQ.

Regarding the gross production of steel in each region, most of them have been increasing YoY such as North America, where mostly affected from improvements in the U.S. unemployment situation as well as in other economic indicators. Besides, expectation on the U.S. economic recovery after the 2012 presidential election also contributed to an increase in regional steel production volume for Q2/2012.

For the first half of 2012, world crude steel production was approx. 766.9 million tons, or increased 0.9% YoY, whereas North America's gross production in H1/2012 increased 7.2% YoY. The numbers of steel production in other regions are shown in Table 2 below.

Table 2: World Crude Steel Production

Unit: million tons	2012		2011	%	%	2012	2011	%
Region	Q2	Q1	Q2	QoQ	YoY	Jan-Jun	Jan-Jun	YoY
Europe	45.1	43.9	47.5	+2.7	-5.3	88.9	93.2	-4.8
North America	32.2	31.2	29.9	+3.2	+7.1	63.4	59.1	+6.8
South America	11.7	11.9	12.7	-1.7	-8.5	23.6	24.5	-3.8
China	183.0	174.2	180.7	+5.1	+1.3	357.2	350.7	+1.8
Asia (ex. China)	70.0	67.6	68.3	+3.6	+2.4	137.6	136.5	+0.8
Others	48.1	48.0	48.3	+0.2	-0.4	96.1	96.3	-0.2
Total	390.1	376.8	383.2	3.5	-1.76	766.9	760.2	+0.9

Source: World Steel Association

In terms of steel prices, the average prices during the first two month of Q2/2012 slightly increased; however, due to the significant drop in steel demand in June, prices of HRC CFR East Asia Import decreased by 3.5% MoM dropping to level of USD 612-645 per ton in June 2012. Considering average prices in Q2/2012 altogether, HRC CFR East Asia Import was traded in range of USD 638-659 per ton on average, increasing 0.3% QoQ. Meanwhile, the average prices of slab (raw material) in Q2/2012 were in range of USD 573-595 per ton.

Table 3: Average Prices of Slab, HRC, and Other Raw Materials

	Q1/2012 (USD/ton) actual	Q2/2012 (USD/ton) estimate	Q2/2012 (USD/ton) actual *
Coking Coal (Premium HCC FOB Australia)	214 – 220	210 – 220	215 - 224
Iron Ore (63% Fe CFR China)	146 – 148	149 – 152	144 – 146
Iron Ore (IODEX 62% Fe CFR North China)	142 – 144	N.A.	140 – 142
Slab (CFR East Asia import)	580 – 590	600 – 612	573 – 595
Slab (FOB Latin export)	565 – 595	560 – 585	558 – 581
HRC (CFR East Asia import)	638 – 655	653 – 667	638 – 659
HRC (Ex-mill US Midwest)	776 – 797	N.A.	711 – 726

*Source: *SBB-Steel Business Briefing website; except for Iron Ore (IODEX 62% Fe CFR North China) which is calculated from daily prices from SBB-Steel Markets Daily Report*

Thailand Steel Industry- In Q2/2012, manufacturers who use steel for raw materials, especially in automotive and home appliance segments, had higher production volume comparing to those in Q1/2012, according to the numbers of cars and home appliances produced shown in Table 4. This is mainly because some those companies could start to operate with full capacity after recovering from the Flood in 2011.

Table 4: Car and Home Appliance Production in Thailand

Production Volume	Q1/2012	Q2/2012
Cars*	499 thousand units	550 thousand units
Refrigerators**	1.2 million units	1.3 million units
Air Conditioners**	2.4 million units	3.6 million units

Remark: * Car Production information published by Thailand Automotive Institute

** Refrigerators and Air Conditioners Production information published by Bank of Thailand

For HRC domestic production, the volume produced in Q2/2012 was 534,381tons, decreasing from 765,000 tons in Q1/2012 and less than expectation of 690,000 tons produced, due to production cut during the long national holidays in April as well as increasing numbers of cheap imported products, especially those flat sheet steels with chromium and boron added. In fact, volume of HRC imported in Q2/2012 was 917,208 tons, increasing 4.4% QoQ from 878,824 tons of HRC imported in Q1/2012.

Table 5: Apparent Steel Supply

Apparent Steel Supply				
	Q1/2012 (USD/ton) actual	Q2/2012 (USD/ton) estimate	Q2/2012 (USD/ton) actual *	Growth (%)
Domestic Production	765,000	690,000	534,831	-30%
Import	878,824	880,000	917,208	+4.4%
Export	3,428	-	2,960	-
Total	1,640,396	1,570,000	1,448,629	-12%

Source: Iron and Steel Institution of Thailand (ISIT)

To sum it up, HRC domestic production in H1/12 was 1,296,356 tons or decreased 16% YoY, whilst HRC import volume was 1,796,032 tons or increased 26% YoY.

Q2/2012 Results

The Company and its subsidiaries recorded sale and service revenues of Baht 11,469 million, decreased 27% QoQ due to the declining sale volume of HRC business, and also the changing revenue structure of iron and steel making business from selling coke to external parities to producing and selling slabs within the Group of Companies. On the other hand, the Group's revenues increased 21% YoY since the sale volume of HRC business became back to normal level comparing to the sharp decline in sale volume in Q2/2011. However, abnormally high material costs as well as conversion costs of iron and steel making business, combining with the provision for losses on diminution of values in inventories and under onerous contracts set up for the period due to falling prices of steels globally; the Company and its subsidiaries reported net loss of Baht 5,022 million in Q2/2012, comparing to net loss of Baht 2,841 million in Q1/2012 and Baht 1,053 million in Q2/2011 respectively.

HRC Business The Company could retain HRC sales volume near the normal level in Q2/2012 in spite of the long national holidays in April and the ongoing market dumping from imported flat sheet with chromium and boron added. HRC sales volume amounted 423 k tons in Q2/2012, decreasing from 497 k tons in Q1/2012, with total sale and service revenues of Baht 9,853 million. Besides, the Company has been focusing on increasing the portion of Premium Value Products in total sales, of which in Q2/2012 accounted for 40%, consisting of 2% of Innovated Value Products, 12% of High-grade Innovated Value Products, 12% of High-grade Products, and 14% of Unique Products.

HRC spread increased to USD 115 /ton from that in Q1/2012 with HRC Rolling Margin at about 15.8% since raw material cost has declined relatively faster than HRC selling price. However, the large drop in steel prices caused the Company to set up more provision on loss from diminution in value of inventories of Baht 169 million and on loss under onerous contract of Baht 282 million. As a result, HRC EBITDA/ton of Q2/2012 has become negative USD 12.1/ton (which including the effects of such provisions set up approx. USD 33.5 /ton), decreased from that of USD 37.2/ton in Q1/2012.

Iron and Steel Making Business produced its first slab in April, and recorded sale and service revenues of Baht 7,424 million, consisting of revenues from slab sale of 335 k tons and coke sale of 118 k tons. The average slab selling price was at USD 551/ton, while the average cost of raw materials was at USD 544/ton since most of them were bought in Q4/2011, when the price level was generally high, resulting in slab spread being at USD 7/ton. Due to the high cost of raw materials bought in Q4/2011, combining with the high conversion cost during the initial stage of production resulted from the fixed-cost of Baht 500 million in April, as well as the new provisions set up for loss from diminution in value of inventories of Baht 35 million and for loss under onerous contract of Baht 264 million; iron and steel making business reported net loss of Baht 4,384 million, or becoming more in negative of 54% QoQ.

H1/2012 Results

The Company and its subsidiaries recorded sale and service revenues of Baht 27,211 million, increased 26% YoY due to an increase in revenues from iron and steel making business, of which there was no revenues from its operation yet during the first three months of 2011. However, cost of sale and service, including other expenses for the period, increased faster than the revenues; the Company and its subsidiaries recorded net loss of Baht 7,863 million for H1/2012, increasing in negative from net loss of Baht 818 million in H1/2011 (excluding the gains from business acquisition).

HRC Business The Company could boost its HRC sales volume to the normal level, even when it got affected by the dumping from imported flat sheet with chromium and boron added. HRC sales volume in H1/2012 increased to 920 k tons from 854 k tons in H1/2011. Moreover, the portion of Premium Value Products in total sales was accounted for approx. 41%, which consisting of 5% of Innovated Value Products, 10% of High-grade Innovated Value Products, 11% of High-grade Products, and 15% of Unique Products respectively.

HRC spread decreased from that in H1/2011 to USD 102 /ton resulted from the low level of HRC spread during Q1/2012 due to the high cost of raw materials bought since Q3/2011 as well as the larger volume sold comparing to those in Q2/2012. Besides, it also got affected from the net new provisions set up for loss from diminution in value of inventories and for loss under onerous contract of Baht 90 million. Therefore, HRC EBITDA/ton declined to USD 14.5/ton from level of USD 37.2/ton in H1/2011.

Iron and Steel Making Business The preparation to restart the steel-making operation was completed and the first steel slab was produced in April. However, in Q1/2012, revenues were only came from coke business since there was no steel slab production until mid-April; and then it started to generate revenues from slab sale accordingly. Regarding the results of H1/2012, iron and steel making business recorded revenues from steel slab sales of 335 k tons and coke sales of 393 k tons. Due to high cost of raw materials as well as high conversion cost during the initial stage of production, combining with the net provisions set up for loss from diminution in value of inventories and for loss under onerous contract of Baht 25 million; net loss for H1/2012 amounted to Baht 7,233 million.

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

Table 6: Summary of Consolidated Financial Results

Unit: million Baht	2012	2012	+/-	2011	+/-	2012	2011	+/-
	Q 2	Q 1	QoQ	Q 2	YoY	Jan-Jun	Jan-Jun	YoY
Sale and service revenues	11,469	15,742	-27%	9,511	+21%	27,211	21,528	+26%
Cost of sale and service	(14,655)	(17,312)	-15%	(9,549)	+54%	(31,976)	(20,359)	+57%
SG&A	(528)	(600)	-12%	(524)	+1%	(1,128)	(901)	+25%
Provision for loss under onerous contracts	(546)	(5)	N.A.	96	N.A.	(551)	0	N.A.
Gain on business acquisition	0	0	N.A.	0	N.A.	0	5,271	N.A.
EBITDA	(3,612)	(1,879)	-92%	(335)	N.A.	(5,491)	5,603	+198%
Interest expense	(809)	(684)	+18%	(512)	+57%	(1,493)	(731)	+104%
Depreciation and amortization	(598)	(286)	+109%	(203)	+195%	(884)	(393)	+125%
Income tax	(3)	8	-136%	(3)	N.A.	5	(7)	+172%
Realized FX gain (loss)	(105)	(249)	+58%	(137)	+23%	(354)	(247)	-43%
Unrealized FX gain (loss)	153	230	-34%	70	+118%	382	105	+263%
Net profit (loss)	(5,022)	(2,841)	-77%	(1,053)	-377%	(7,863)	4,473	276%
EPS (Baht)	(0.28)	(0.16)	-77%	(0.06)	-335%	(0.43)	0.25	-273%

Note: *EBITDA for H1/2011 calculated from net profit which included gain from business acquisition

Table 7: Financial Results by Business

Unit: million Baht	2012		+/-	2011	+/-	2012	2011	+/-
	Q 2	Q 1	QoQ	Q 2	YoY	Jan-Jun	Jan-Jun	YoY
<u>Sale and Service Revenues</u>								
Consolidated	11,469	15,742	-27%	9,511	+21%	27,211	21,528	+26%
HRC Business	9,853	11,584	-15%	7,734	+27%	21,437	19,680	+9%
Iron and Steel Making Business	1,535	4,085	-62%	1,677	-8%	5,620	1,677	+235%
Deep Sea Port Business	32	28	+13%	32	-2%	60	68	-12%
Engineering & Maintenance Service Business	49	45	+8%	68	-28%	94	103	-9%
<u>EBITDA</u>								
Consolidated	(3,612)	(1,879)	-92%	(335)	N.A.	(5,491)	5,603	-198%
HRC Business	(166)	569	-129%	57	N.A.	402	965	-58%
Iron and Steel Making Business*	(3,581)	(2,486)	-44%	(410)	N.A.	(6,067)	4,579	-232%
Deep Sea Port Business	33	52	-37%	50	-34%	85	101	-15%
Engineering & Maintenance Service Business	19	17	+11%	19	-3%	36	43	-16%
Elimination of Related Parties Transaction	84	(32)		(51)		52	(84)	
<u>Profit/(Loss)</u>								
Consolidated	(5,022)	(2,841)	-77%	(1,053)	N.A.	(7,863)	4,473	N.A.
HRC Business	(733)	7	N.A.	(391)	-87%	(726)	151	N.A.
Iron and Steel Making Business	(4,384)	(2,849)	-54%	(620)	N.A.	(7,233)	4,247	N.A.
Deep Sea Port Business	3	27	-91%	24	-89%	29	49	-40%
Engineering & Maintenance Service Business	8	5	+40%	7	+9%	13	17	-24%
Elimination of Related Parties Transaction	90	(18)		(62)		72	36	
Non-Controlling Interest	(6)	(13)		(11)		(19)	(27)	

Note: Revenues of each business unit is shown as net revenues after deducting related parties transaction while EBITDA and Profit/(Loss) are shown as amount before deducting related parties transaction.

EBITDA of H1/2011 calculated from consolidated financial statement and EBITDA of Iron and Steel Making Business are calculated from net profit which included gain from business acquisition.

TCRSS and Redcar Bulk Terminal Ltd recorded under equity method

Table 8: Performance Highlight of Sahaviriya Steel Industries Plc.

Unit: USD/Ton	2012		+/-	2011	+/-	2012	2011	+/-
	Q 2	Q 1	QoQ	Q 2	YoY	Jan-Jun	Jan-Jun	YoY
Average Selling Price	731	752	-3%	761	-4%	743	746	-0.5%
Average Cost of Goods Sold	706	751	-6%	753	-6%	730	698	+5%
HRC Spread*	115	91	+27%	103	+12%	102	134	-24%
HRC EBITDA	(12.1)	37.2	-132%	6	-298%	14.5	37.2	-61%
Sales Volume (k tons)	423	497	-15%	330	+28%	920	854	+8%
Production Volume (k tons)	368	499	-26%	279	+32%	867	818	+6%

Note: *HRC Spread excluded the provision for loss on diminution in value of inventories or the reversal thereof.

Table 9: Performance Highlight of Sahaviriya Steel Industries UK

Unit: USD/Ton	2012
	Q2
Iron and Steel Making Business	
Average Selling Price	551
Average Raw Material Cost	544
Slab Spread	7
Sales Volume (k tons)	335
Production Volume (k tons)	477

Explanations on the Company and its Subsidiaries' Operating Results for Q2/2012

Revenues

The Company and its subsidiaries recorded a total sale and service revenues of Baht 11,469 million, decrease 27% QoQ but increased 21% YoY, with the core revenues driven by:

HRC Business recorded 423 k tons sale, decreased 15% QoQ but increased 28% YoY with average selling price of Baht 23,064/ton (approximately USD 731/ton), decreased 3% QoQ and 4% YoY. HRC and scrap sale revenue totaled Baht 9,853 million:

- Decreasing 15% QoQ as a result of smaller sales volume due to long holidays in April and the continuing effects from dumping of imported flat sheet steels with chromium and boron added
- Increasing 27% YoY due to an increase in sales volume converging to its normal level as a result of 1) implementing the Company's policy to competitively maintain market share after the dumping of flat sheet steels with chromium and boron added imported from China 2) increasing steel demand comparing to those in Q2/2011 affected by the Earthquake incidents in Japan.

Premium Value Products are accounted for 40% of total sales in Q2/2012.

Iron and Steel Making Business started to produce slabs since mid-April, and accordingly recorded sale and service revenues totaling Baht 7,424 million, mainly from 335 k tons of slab sale with average selling price of USD 551/ton and 118 k ton of coke sale. However, all slabs are exclusively

sold within the Group of companies; the revenues after deduction of related party transaction then become Baht 1,535 million.

- Decreasing 62% QoQ as a result of changing revenue structure, from only selling coke to external parties to mainly selling slabs within the Group of companies.
- Decreasing 8% YoY resulted from smaller coke sale volume and the changing revenue structure as mentioned above.

Deep Sea Port Business recorded service revenue from other customers apart from the Company and its subsidiaries of Baht 32 million:

- Increasing 13% QoQ due to an increase in total throughput volume by 48% QoQ.
- Decreasing 2% YoY due to decreasing commission fee revenues collected from agencies that provide services to the Company.

Engineering and Maintenance Service Business recorded service revenue from other customers apart from the Company and its subsidiaries of Baht 49 million,

- Increasing 8% QoQ as a result of increasing revenue from continuing projects in engineering and project management which initiated since Q1/2012 totaling Baht 13.7 million.
- Decreasing 28% YoY due to the decrease in revenues from customers in cement and paper industries as well as overseas client of Baht 35.1 million; whereas the increase in revenues from providing high technology engineering service and project management of Baht 30.5 million.

Cost of sale and service

The Company and its subsidiaries recorded cost of sale and service of Baht 14,655 million, decreasing 15% QoQ but increasing 54% YoY.

HRC Business recorded total cost of goods sold of Baht 9,676 million including cost of sale of Baht 9,507 million and new provision set up for loss from diminution in value of inventories of Baht 169 million.

- Decreasing 14% QoQ due to a decrease in sales volume of 15% YoY.
- Increasing 26% YoY due to an increase in sales volume of 27% YoY.

Iron and Steel Making Business recorded cost of sale and service totaling Baht 10,839 million including cost of sale of Baht 10,804 million and new provision set up for loss from diminution in value of inventories of Baht 35 million.

- Increasing 78% QoQ due to the additional cost from slab production.
- Increasing 490% YoY due to an increase in coke sale volume as well as the additional costs from slab making operation.

Gross Profit

The Company and its subsidiaries recorded gross loss of Baht 3,186 million, decreased in loss of Baht 1,616 million from gross loss of Baht 1,570 million in Q1/2012, and also decreased from gross loss of Baht 38 million in Q2/2011.

HRC Business recorded gross profit of Baht 177 million.

- Decreasing 54% QoQ despite the fact that HRC spread improved from USD 91/ton in Q1/2012 to USD 115/ton in Q2/2012, or increased 27% QoQ; due to the declining sales volume of 15% QoQ and new provision set up for loss from diminution in value of inventories of Baht 169 million.

- Increasing 186% YoY resulted from an increase in HRC spread from USD 103/ton to USD 115/ton or 12% increase YoY as well as the larger sales volume by 28% YoY.

Iron and Steel Making Business recorded gross loss of Baht 3,415 million.

- Increasing in more loss from Baht 2,022 million in Q1/2012 due to the declining selling prices affected by global steels situation with the high costs of raw materials used from stock inventories. Moreover, large amount of raw materials required at an initial stage of production as well as new provision set up for loss from diminution in value of inventories of Baht 35 million also contributed to an increase in gross loss for the period.
- Increasing in more loss from Baht 160 million in Q2/2011 due to the price fluctuations in global steel market as well as high fixed-cost during the initial stage of production as mentioned above.

Selling and General Administrative Expense (SG&A)

The Company and its subsidiaries recorded Baht 528 million, decreasing 12% QoQ and increasing 1% YoY.

HRC Business recorded SG&A of Baht 174 million

- Increasing 22% QoQ due to an increase in administrative expenses of Baht 33 million or +40% QoQ resulted from the higher employment cost and transportation cost.
- Decreasing 1% YoY due to a decrease in administrative expenses from Baht 128 million in Q2/2011 to Baht 114 as less financial advisory fee incurred in the period, whilst selling expenses increased Baht 13 million as sales volume increased by 28% YoY.

Iron and Steel Making Business recorded SG&A of Baht 327 million

- Decreasing 24% QoQ due to a decrease in expenses related to legal advisory in an attempt to secure debt financing.
- Increasing 124% YoY following the start of slab operation.

Provision for loss under onerous contracts The Company and its subsidiaries recorded provisions for loss under onerous contracts of Baht 546 million in Q2/2012, which are the provision for HRC business of Baht 282 million and for iron and steel making business of Baht 264 million since the Company has its obligations outstanding under onerous contracts at the end of quarter.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

The Company and its subsidiaries recorded negative EBITDA of Baht 3,612 million, or decreased to more negative by 92% YoY from negative EBITDA of Baht 335 in Q2/2011.

HRC Business recorded negative EBITDA of Baht 166 million, or equivalent to HRC EBITDA of USD 12.1/ton or approx. Baht 393/ton, (which including the effect of new provisions set up of USD 33.5/ton or approx. Baht 1,066/ton).

- Decreasing 130% QoQ or decreasing EBITDA/ton by 129% QoQ.
- Decreasing 398% YoY or decreasing EBITDA/ton by 390% YoY.

Iron and Steel Making Business recorded negative EBITDA of Baht 3,581 million, decreased to more negative from negative EBITDA of 2,486 million in Q1/2012, and from negative 410 in Q2/2011 as a result of reasons mentioned above.

Interest Expense

The Company and its subsidiaries recorded interest expenses of Baht 809 million, increasing 18% QoQ and 57% YoY.

HRC Business recorded interest expense of Baht 444 million

- Increasing 7% QoQ resulted from an increase in short-term interest rate on loan used for raw materials procurement.
- Increasing 29% YoY due to an increase in short-term loan used for raw materials procurement, consequences from interest rate raised, and loss from entering into the interest rate swap contracts.

Iron and Steel Making Business had interest expenses burden of Baht 358 million, increasing 35% QoQ and 118% YoY due to an increase in outstanding amount of short-term loan to improve its liquidity and long-term loan to invest in SSI UK restart project.

Others

The Company and its subsidiaries recorded its share of profits from jointly-controlled entities using equity method of net loss of Baht 10 million, decreasing from share of profits of Baht 35 million in Q1/2012. Such share of loss comprised of loss from Cold Rolled Coil business of Baht 23 million and profit from deep sea port business in UK of Baht 13 million.

Cold Rolled Coil Business with shipment volume of 138 k tons, recorded sale revenue of Baht 4,058 million

- Increasing 21% QoQ as the clients in automotive industries accelerated its production activities to deliver its products to customers after recovery from the Flood incidents. However, despite an increase in sale volumes sold to domestic customers, the steel prices uncertainty led to the declining selling prices by 5%; and accordingly, cold rolled-coil business recorded gross profit of Baht 182 million, decreasing by 8% QoQ. Consequently, EBITDA amounted to Baht 228 million, decreasing 4% QoQ; while net profit was Baht 49 million, or decreased by 27% QoQ.
- Increasing 16% YoY mostly resulted from an increase in sales volume. Accordingly, gross profit increased by 225% YoY whilst EBITDA increased by 70% YoY, and net profit increased 220% YoY.

Profit/(Loss)

The Company and its subsidiaries recorded net loss of Baht 5,022 million, increase in loss from net loss of Baht 2,841 million in Q1/2012 and from net loss of Baht 1,053 million in Q2/2011 respectively.

HRC Business recorded net loss of Baht 733 million (including provisions set up for loss from diminution in value of inventories of Baht 169 million, provision for loss under onerous contracts of Baht 282 million, realized gain on FX of Baht 1 million, and unrealized loss on FX of Baht 62 million)

- Decreasing QoQ from net profit of Baht 7 million in Q1/2012.
- Increasing in more loss of 87% YoY from net loss of Baht 391 million in Q2/2011.

Iron and Steel Making Business recorded net loss of Baht 4,384, increased in loss by 54% QoQ, and an increase in loss from net loss of Baht 620 million in Q2/2011.

Explanations on the Company and its Subsidiaries' Operating Results for H1/2012

Revenues

The Company and its subsidiaries recorded a total sale and service revenues of Baht 27,211 million, increased 26% YoY, with the core revenue driven by:

HRC Business recorded revenues from HRC and scrap sale of Baht 21,437 million, increased 9% YoY, due to an increase in sales volume by 8% to 920 k tons with average selling price of Baht 23,092/ton (approximately USD 743/ton). Premium Value Products are accounted for 41% of total sales, near its level in H1/2011 of 42%.

Iron and Steel Making Business The process of preparation for the restart of slabs production was completed and the first steel slab was produced in April thus recorded sale and service revenues of Baht 11,509 million. However, in Q1/2012, no steel slab production and the core revenues were from coke operation; whilst revenues from slab sale were included in Q2/2012 onwards. For the results of H1/2012, iron and steel making business recorded revenues from slab sale of 335 k tons and coke sale of 393 k tons. Since all the slab shipments in the period were sold within the Group of companies, sale and service revenue after deduction of related parties transaction become Baht 5,620 million, increasing from Baht 1,677 million of those in H1/2011, which included only three-month-operating results of coke business.

Deep Sea Port Business recorded service revenue from other customers apart from the Company and its subsidiaries of Baht 60 million, or decreasing by 12% YoY due to a decrease in total throughput volume by 4% QoQ.

Engineering and Maintenance Service Business recorded service revenue from other customers apart from the Company and its subsidiaries of Baht 94 million, decreased 9% YoY due to a decrease in revenues from customers in cement, paper, and overseas segments.

Cost of sale and service

The Company and its subsidiaries recorded cost of sale and service of Baht 31,967 million, or increased by 57%.

HRC Business recorded total cost of goods sold of Baht 20,872 million, or increased by 13% YoY, mostly resulted from an increase in sales volume. Cost of goods sold consisted of cost of HRC sale of Baht 20,880 million, cost of scrap sale of Baht 189 million, and the reversal of provision for loss from diminution in value of inventories totaling Baht 197 million. Thus, such cost of HRC sale could be translated into cost of sale per ton approx. of USD 730/ton, increasing from USD 698/ton in H1/2011 due to the rising cost of raw materials.

Iron and Steel Making Business recorded cost of sale and service of Baht 16,945 million consisting of cost of sales totaling Baht 17,184 million and the reversal of provision for loss from diminution in value of inventories totaling Baht 238 million. An increase in cost of sale for the period was resulted from the high level of fixed-cost during the initial stage of slab production, where large amount of raw materials also required, as well as the higher cost of sale and other expenses related to slab production.

Gross Profit

The Company and its subsidiaries recorded gross loss of Baht 4,756 million, decreased from gross profit of Baht 1,169 million in H1/2011.

HRC Business recorded gross profit of Baht 565 million decreasing 53% YoY due to the declining HRC Spread to level of USD 102/ton decreasing by 24% of those in H1/2011.

Iron and Steel Making Business recorded gross loss of Baht 5,436million, increased in more loss of Baht 160 million in H1/2011.

Selling and General Administrative Expense (SG&A)

The Company and its subsidiaries recorded Baht 1,128 million, increased from Baht 901 million in H1/2011 or an increase by 25% YoY.

HRC Business recorded SG&A of Baht 317 million decreasing by 6% YoY as a result of less consulting fee paid in financing activities.

Iron and Steel Making Business recorded SG&A of Baht 761 million, increasing by 125% YoY mainly resulted from additional costs incurred in slab making production and also the longer period of operations comparing to three-month-operation of only coke business in H1/2011.

Provision for loss under onerous contracts The Company and its subsidiaries recorded provisions for loss under onerous contracts of Baht 551 million in H1/2012, which are the provision for HRC business of Baht 287 million and for iron and steel making business of Baht 264 million to reflect the decline in value of inventories due to the falling prices of steel and other raw materials of the Company.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

The Company and its subsidiaries recorded negative EBITDA of Baht 5,491 million, decreased from positive EBITDA of Baht 5,603 million in H1/2011.

HRC Business recorded EBITDA of Baht 402 million or equivalent to HRC EBITDA of Baht 437/ton (approximately USD 14.5/ton), decreasing by 58% YoY.

Iron and Steel Making Business recorded negative EBITDA of Baht 6,067 million, decreased from positive EBITDA of Baht 4,579 million in H1/2011.

Interest Expense

The Company and its subsidiaries recorded interest expenses of Baht 1,493 million, increasing 104% YoY.

HRC Business recorded its interest expense of Baht 857 million, or increased by 57% YoY, as a result of increasing short-term loans used for raw materials procurement, consequences from interest rate raised, and loss from entering into the interest rate swap contracts.

Iron and Steel Making Business had interest expenses burden of Baht 623 million, increased by 259% YoY due to an increase in outstanding amount of short-term loan to improve its liquidity and long-term loan to invest in SSI UK restart project.

Others

The Company and its subsidiaries recorded its share of profit using equity method from jointly controlled entities of Baht 25 million, increased by 38% YoY. The profits shared consisted of share of loss from Cold Rolled Coil business of Baht 4 million and profit from deep sea port business in UK of Baht 29 million.

Cold Rolled Coil Business recorded shipment volume of 247,333 tons and its sale revenue of Baht 7,425 million, which decreasing by 1% YoY due to the decline in sales volume as a result of slower growth in steels industry in 2012. Consequently, gross profit totaled Baht 379 million near its level in H1/2011, where as EBITDA has declined to Bath 465 million, or decreased by 7% YoY. Lastly, net profit decreased by 24% YoY to Baht 117 million in H1/2012.

Profit/(Loss)

The Company and its subsidiaries recorded net loss of Baht 7,863 million, and decreased from net profit of Baht 4,473 million in H1/2011.

HRC Business recorded a net loss of Baht 726 million, decreasing by 580% YoY due to the decline in HRC Spread. Such loss included net provisions set up of Baht 90 million, realized loss on FX of Baht 31 million, and unrealized gain on FX of Baht 131 million)

Iron and Steel Making Business recorded net loss of Baht 7,233 million, or increase in more loss of Baht 1,044 million in H1/2011 (excluding the gain from business acquisition of Baht 5,291 million).

5. Consolidated Financial Status

Table 10: Condensed Consolidated Statements of Financial Position

Unit: million Baht	Q2/2012	Q1/2012	+/- QoQ	Q2/2011	+/- YoY
Assets					
Account Receivable	4,665	5,157	-10%	3,892	+20%
Inventories	24,423	16,983	+44%	20,744	+18%
Other Current Assets	4,078	2,084	+96%	2,218	+84%
Total Current Assets	33,167	24,225	+37%	26,854	+24%
Property, Plant and Equipment	53,383	51,373	+4%	45,198	+18%
Investment in jointly-controlled entities	4,708	4,718	0%	4,831	-3%
Other Non-Current Assets	107	74	+44%	75	+42%
Total Assets	91,365	80,390	+14%	76,958	+19%
Liabilities					
S/T Debt and Current Portion of L/T Interest Bearing Debt	28,214	25,554	+10%	19,344	+46%
Account Payable	14,479	6,526	+122%	4,293	+237%
Other Current Liabilities	1,763	1,347	+31%	470	+275%
Total Current Liabilities	44,456	33,427	+33%	24,107	+84%
L/T Interest Bearing Debt	25,565	21,361	+20%	17,906	+43%
Other Non Current Liabilities	4,171	4,160	+0.3%	4,849	-14%
Total Liabilities	74,192	58,947	+26%	46,862	+58%
Equity					
Equity Attribute to Equity Owners of the Company	16,319	20,582	-21%	29,262	-44%
Non-Controlling Interests	853	861	-1%	835	+2%
Total Equity	17,173	21,443	-20%	30,097	-43%
Total Liabilities and Equity	91,365	80,390	+14%	76,958	+19%

Table 11: Financial Ratios

Financial Ratios	Q2/2012	Q1/2012
Current Ratio	0.75	0.72
Interest Bearing Debt to Equity Ratio	3.13	2.19

Consolidated Financial Position as at the end of Q2/2012

Trade and Notes Receivable totaled Baht 4,665 million, decreased Baht 492 million or decreased by 10%QoQ from Baht 5,157 million at the end of Q1/2012, without any bad-debt write-off or additional provisions set up during the period.

Inventories

Table 12: Inventories Classification as at the end of Q2/2012

Unit: million Baht	Q2/2012	Q1/2012	+/- QoQ
Raw Materials (slab, iron ore, coking coal, & coke)	11,219	9,486	+18%
Raw Materials in Transit (slab)	7,188	84	+8,457%
Finished Goods and Work-in-process (HRC & P/O)	4,613	5,922	(22%)
Tools and Spare Parts	2,423	2,399	+1%
Less: Provisions for loss from diminution in value of inventories	(1,020)	(907)	+12%
Net Inventories	24,423	16,983	+44%

Net inventories at the end of Q2/2012 amounted to Baht 24,423 million; increasing 44% QoQ due to an increase in raw materials, especially raw materials in transit. Most of raw materials in transit are slabs ordered from SSI UK during transporting process, and have its outstanding value of Baht 7,188 million at the end of Q2/2012, significantly increased from Baht 84 million at the end of Q1/2012. However, a total of Baht 1,020 million of allowances for decline in value has been taken against the inventories; whereas Baht 870 million has also been taken for provision from loss under onerous contract at the end of Q2/2012.

Current Ratio was at 0.75x, increasing from 0.72x at the end of Q1/2011 as a result of convertible debentures issuance, of which the company used the fund received to repay part of its short-term debt and keep the remains to be used as working capital. Consequently, the current assets increased in the faster rate relatively to the current liabilities. At the end of Q2/2012, current assets increased from Baht 24,225 million at the end of previous quarter to Baht 33,167 million, or increasing by 37% QoQ due to the growth in cash-at-hand and inventories. Meanwhile, current liabilities increased by 33% QoQ from Baht 33,427 million at the end of last quarter to Baht 44,456 million, mostly resulted from the change in trade payables of Baht 7,953 million or 122% increase QoQ as well as an increase in outstanding short-term loans to improve SSI UK's liquidity.

Liabilities and Liquidity Management Total liabilities equalled to Baht 74,192 million, or increased by 26% QoQ from Baht 58,947 million at the end of Q1/2012. Most of its liabilities were the borrowings from financial institution, subordinated loans from Sahaviriya Inter Steel Holding Limited (SISH) to support the investment and operation of Iron and Steel Making business, outstanding balance of convertible debentures and trade payable as at the end of Q2/2012. The Company and its subsidiaries had a total outstanding debt as at 30 June 2012 of Baht 50,572 million consisting of short-term borrowings totaling Baht 25,838 million (+16.5% QoQ), its current portion of long-term borrowings of Baht 1,331 million (-22.8% QoQ), and long-term borrowings of Baht 23,403 million (+9.6% QoQ). Besides, during the second quarter of 2012, the Company and its subsidiaries issued convertible debentures in an amount of Baht 2,250 million. According to the Accounting Principle, part of these convertible debentures was booked as long-term liabilities in an amount of Baht 1,938 million; and the remaining balance of Baht 311 million was booked as convertible rights.

Interest Bearing Debt to Equity Ratio Total equity of the Company and its subsidiaries was at Baht 17,173 million, decreasing Baht 4,270 million or decreased by 20% QoQ as a result of net loss incurred in the period. On the other hand, its outstanding interest bearing debt was at Baht 53,794 million at the end of Q2/2012, increased by 15% QoQ due to additional borrowings for the purpose of investing and improving its liquidity primarily in iron and steel making business. Consequently, interest bearing debt to equity ratio for the period of Q2/2012 was at 3.13x, increased from 2.19x as at the end of previous quarter, which exceeded the level set forth in the existing loan agreement. However, such breach of financial covenants has been informed to the existing lenders and granted waiver accordingly.

7. Ongoing Projects

Project	Capacity / Particulars	Budgeted Capital Expenditure	Target Key Milestone date
SSI UK Restart Project	3.6 mtpa slab production	USD 290 million	<ul style="list-style-type: none"> ▪ Restart on 15 Apr 2012 and first steel slab was produced on 18 Apr 2012 ▪ PCI to start by Q1/2013 ▪ Fully completed by March 2013

SSI UK Restart Project

The project to reinstate the assets and restart iron and steel-making at SSI Teesside plant, forecast as a total spend over 2 years (April 2011-March 2013) of USD 290 million, is progressing well with USD 276 million (excluded VAT) committed as at the end of June 2012, of which USD 216 million (excluded VAT) has been paid.

The refurbishment activities in all facilities of SSI UK Restart Project have been completed. Consequently, SSI UK started to blow hot air to relight its Blast Furnace on 15 April 2012 and the first steel slab was produced on 18 April 2012. Target slab output for 2012 is forecasted at 2.0 million tons and the production volume will ramp-up to 8,700 tons per day, or an annualised rate of 3.2 metric ton per annum by Q4/2012.

Progress on Pulverized Coal Injection (PCI) Project

SSI Teesside Plant has selected Siemens VAI (SVAI) to be a contractual developer of PCI Project. Hence, SVAI has its responsibility to provide engineering design, supply technology & equipment, and turnkey project management within the investment budget of USD 57 million (excluding VAT). At the end of June 2012, the committed expenditure on the procurement (excluding VAT) is approx. USD 51 million, and total cash payment has been made approx. USD 20 million (excluding VAT).

For the current status of PCI Project, the Civil and Foundation work has been progressing to 40% of completion, whereas erection work of the building's steel structure and machine installation has already been started. Expectedly, the PCI facility, upon its completion and being effectively operational from Q1/2013 onwards, will deliver significant cost savings associated with Blast Furnace fuel by USD 30/ton (calculation based on the fuel cost in Q2/2011).

Introduction of SSI UK Slabs to Hi-end Customers Project

Since the Company is attempting to extend its client base in High-grade segments such as customers in re-rolling, home appliances and electrical appliances (HA/EA), and automotive businesses, where most of them require slab sources identification or specify the particular slab origins; thus, the Company has initiated the project to introduce High-grade HRC made of steel slabs from SSI UK to such hi-end

customers. The Company plans to receive the High Grade slab from SSI UK since Q2/2012; and High Grade HRC will be produced using those slabs and sold to customers for roughly 60,000 – 80,000 tons in the second half of 2012. Moreover, the Company also plans to further develop and will exclusively use slabs from SSI UK to produce all of High Grade products from 2013 onwards. In short, the Company expects to produce High-grade HRC and sell to this group of customers around 470 k tons in 2012 and increasing to around 970 k ton in 2013 respectively.

8. Recent Development

SSI UK Slab Utilization

After SSI UK has started its operation to produce its first slab since 18 April 2012, as at the end of June 2012, total SSI UK's slab of 134,000 tons has been delivered to SSI. 48,000 tons of which from the first shipment were rerolled to Hot Rolled Coil ("HRC") and had already shipped to customers. For the slab under second shipment of 86,000 tons, more than 90% of which has been utilized into the production process. In short, SSI UK's slab has been used for the production to serve the end users as following;

- 83.58% or 112,000 tons for Cut Sheet product
- 13.43% or 18,000 tons for Pipe/tube product
- 2.61% or 3,500 tons for Chechered product
- 0.37% or 500 tons for Cold Rolled product

For Q3/2012, the Company plans to receive additional slab of 378,000 tons, and accordingly will start to expand into high-grade premium product such as Cold Roll, Automotive and Gas Cylinder, which can be classified into each category as following;

- 79.37% or 300,000 tons for Cut Sheet product
- 14.42% or 54,500 tons for Pipe/tube product
- 2.65% or 10,000 tons for Chechered product
- 2.65% or 10,000 tons for Cold Rolled product
- 0.53% or 2,000 tons for Automotive product
- 0.40% or 1,500 tons for Gas Cylinder

During Q2/2012, the Company has completed the evaluation for product qualities in respect of chemical composition, mechanical properties, surface quality and cleanliness for each types and grades. The result complied with international standard with the same level with leading slab producers in Japan, Brazil and Australia. The product evaluation will continue in Q3/2012, whereby the proportion of high premium product production will be increasing.

Innovated Premium Products: "SuperFlat" and "You+"

In Q2/2012, the Company has introduced two new Innovated Value Products to its customers. The first one is "Superflat," which is developed by a special technique called "Superflat" to produce a very flat steel strip for hot rolled steel thickness less than 2 mm. This product is developed by utilizing special equipment, which is installed to skinpass no.3 machine. Such technique enhances its quality of flatness on the surface of hot rolled steel sheet, and it serves well to customers requiring high quality of steel sheets with very low waviness level. One highlight of the "SuperFlat" is that the waviness height of hot rolled steel sheet being well controlled to be less than 2 mm, compared to those of normal technique with its waviness height less than 10 mm. In short, "SuperFlat" provides more of choices in flat steel sheets to customers who require high quality of flatness.

Besides, the other new Innovated Value Products introduced in Q2/2012, "You+," is developed to serve customers under the concept of "Innovative Steel Solutions," especially for those one who require special characteristics of products and services beyond the SSI standard products. For examples, "You+" features low deviation of mechanical properties, narrow dimension tolerance, high quality of surface and other services such as product characteristics information, steel formability analysis and technical information assistant, etc. In Q2/2012, the Company has sent product specialists to gather customer's requirements,

and accordingly initiated the co-development project to particularly tailor to the customer's specific needs, which ending up with the pleasant feedback. However, having co-developed "You+" with only one customer in Q2/2012, the Company expects to acquire three more customers in Q3/2012.

Current Status of Anti-Dumping Measures against Imported Flat Hot-Rolled Steel

Presently, the company has been filing four anti-dumping cases against imported flat hot-rolled steel and cold-rolled coils to Department of Foreign Trade, Ministry of Commerce, for review and investigation. The current status of these four cases is as follows.

- For the case of request for review of anti-dumping duty rate of flat hot-rolled steel in coils and not in coils imported from South Korea (current duty rate 0%), Department of Foreign Trade has already approved initiation of investigation since 7 August 2012.
- For the case of flat hot-rolled steel with boron added imported from China, it is now pending Committee on Dumping and Subsidy to issue preliminary determination and impose provisional measures after request for collateral of import duty measures expired on 17 February 2012.
- For the case of flat hot-rolled alloy steel (added with alloy such as Boron, Chromium, and others) imported from South Korea, the company already filed complaint to Department of Foreign Trade on 8 May 2012 to initiate investigation. The Department is now verifying complaint data.
- For the case of cold-rolled coil imported from China, Vietnam and Taiwan, Department of Foreign Trade has already approved initiation of investigation since 7 August 2012.

Re-organizing Corporate Structure

To create harmony and efficiency in performing duties related to production technology, and also to align with its business vision emphasizing on innovation, the Company has adjusted the organizational structure by establishing the "Group Technology Office," with authority equivalent to Division. The new Office consists of 4 parts, namely Operational Technology Office, Technology Specialist Office, Strategic Technology Development Office, and Project Development and Cooperation Office. Consequently, Mr. Kittasak Mapanao has been appointed the first Chief Technology Officer, who directly reports to Chief Executive Officer. Lastly, for better flexibility and suitability to business operations, the Manufacturing Division has been restructured into 3 following functional sub-division, namely Operation, Maintenance, and one Sub-Division directly under Vice President of Manufacturing.

Corporate Actions on Capital Structure

In Q2/12, the Company has made the progress on financial structure for both the Company and subsidiaries which can be summarized as follow;

- On 14 May 2012, the Company and its Short-Term Lenders entered into Standstill Agreement whereby Short-Term Lenders waived their right to call on repayment of outstanding loans until 30 September 2012 with the consent from Long-Term Lenders to extend some of their repayment due in 2012.
- On 23 May 2012, the Company issued and offered convertible debenture to its existing shareholders on the pro rata basis for the amount of Baht 1,650 million; and on 5 June 12, convertible debenture of Baht 600 million had been issued and offered to private placement; thus, the total amount of transaction was of Baht 2,250 million.
- The Company used the proceeds of Baht 2,250 million from the issuance of such convertible debentures or equivalent to USD 71.45 million to increase its investment in SSI UK by acquiring more of its share capital. Afterwards, SSI UK's share capital paid increased to GBP 293.20 million (or equivalent to USD 471.45 million). Consequently, SSI UK used such proceeds of USD 18.9 million for its working capital and of USD 54.55 million to repay principal and interest on its Subordinated Bridging Loan borrowed from Sahaviriya Inter Steel Holding Limited ("SISH") during the additional fund raising for SSI UK restart project investment.
- On 8 June 2012, Extraordinary General Meeting ("EGM") of shareholders No. 1/2555 approved for General Mandate to allocate 7,273,643,293 of its newly issued ordinary shares for capital increase to

be offered to existing shareholders on pro rata basis through Right Offering and offered to specific investors through Private Placement.

- On 14 June 2012, the Board of Directors approved to extended maturity date of SISH's Subordinated Bridging Loan of USD 125 million with an interest at 7.5% per annum until 31 December 2012 (as of 30 June 2012, SSI UK had made the drawdown from SISH for the total amount of USD 81.1 million with the undrawn amount of USD 43.9 million, and outstanding amount of USD 31.24 million; SSI UK used the proceeds from convertible debenture issuance to repay part of its outstanding balance of SISH's Subordinated Bridging Loan as mentioned earlier).

Events after the End of Q2/2012 up to 14 August 2012

Corporate Actions on Capital Structure

- On 8 August 2012, the Company entered into the Memorandum of Understanding among SSI UK, Vanomet Holding AG ("Vanomet") and its Senior Lenders to preliminarily agree on terms and conditions for strategic investment in SSI UK ("MOU for Vanomet Strategic Investment"), which can be summarized as follow;
 - (1) Vanomet agreed upon the total investment of USD 170 million, of which consisting of USD 100 million for short-term loan and USD 70 million of revolving working capital facilities for SSI UK, whereby the Company and Vanomet will coordinate to convert the whole amount of short term loan into SSI's new ordinary shares and subject to Vanomet's sole discretion to convert part or all of USD 70 million revolving working capital loan into SSI's new ordinary shares.
 - (2) The Company agreed to convert USD 125 million of slab advance payment being paid to SSI UK into new ordinary shares of SSI UK.
 - (3) Senior Lenders agreed not to demand any prepayment of its outstanding debts owed by the Company and SSI UK until the completion of capital increase (which has to be completed by 14 November 2012); and also agreed to extend part of SSI UK's repayment sum coming due in 2012.
- On 14 August 2012, the Company entered into the Memorandum of Understanding with 3 out of 5 of Short-Term Lenders and Senior Lenders to preliminarily agreed on terms and conditions that Short-Term Lenders and Long-Term Lenders will provide financial back up for the Company to complete its capital raising activities ("MOU for Financial Backing"), which can be summarized as follow;
 - (1) The Company and Short-Term Lenders agreed to terminate the Standstill Agreement.
 - (2) Short-Term Lenders agreed to convert their working capital loan into 3 years amortizing term loan.
 - (3) Short-Term Lenders and Senior Lenders agreed to provide financial back up by not to demand any prepayment of its outstanding debts owed by the Company and SSI UK until the completion of capital increase (which has to be completed by 14 November 2012).
- On 14 August 2012, the Board of Directors agreed to propose for the approval from shareholders meeting to buy back convertible debenture from the holders and to increase the capital for the amount equivalent to USD 413 million. The objectives of utilizing of the proceeds received from the capital increase will be as follow;
 - (1) To increase capital in SSI UK for the amount equivalent to USD 100 – 170 million in order to repay whole amount of Vanomet's Shortterm Loan and partially or fully repay Vanomet's Revolving Working Capital Loan if Vanomet exercises its option to convert to SSI's shares under MOU for Vanomet Strategic Investment,
 - (2) To buy back the outstanding convertible debentures from the holders who exercise their right to sell back to the Company for the amount not more than Baht 1,800 million,
 - (3) To repay principal and interest on SISH's Bridging Loan in which SSI UK borrow from SISH during the capital increasing period for the equivalent amount not more than USD 33 million,
 - (4) The remaining will be used to support the Company's and SSI UK's business, debt reduction and/or working capital.

9. Business Outlook in Q3/2012

World Steel Industry- In Q3/2012, global steel market is expected to slow down in every region partly resulted from seasonality in market conditions as for Summer in Europe and America and the Rainy season in Asia. Besides, China's lessening economic growth since previous quarter; together with the worsening economic crisis in European Union also affects the excessive supply in steel market. Consequently, the estimate number of steel demand in each region is likely to be adjusted downward accordingly. However, the course of situation might be changing contingent to how the supply-cut decision of the large Chinese steel producers made as well as to how the actual Chinese GDP Growth deviating from consensus's estimate figure.

Lastly, steel prices in Q3/2012 are expected to be constantly decreasing as a result of shrinking steel demand and excessive steel supply in the market. In Table 13, the average and estimate prices of slab, HRC and its essential raw materials for the second and the third quarter of 2012 are presented below.

Table 13: Average Prices of Slab, HRC, and Other Raw Materials in Q2/2012 – Q3/2012

	Q2/2012 (USD/ton) estimate	Q2/2012 (USD/ton) actual*	Q3/2012 (USD/ton) estimate**
Premium HCC (FOB Australia)	210 – 220	215 – 224	190 – 221
Iron Ore (63% Fe CFR China)	149 – 152	144 – 146	128 – 130
Iron Ore (IODEX 62% Fe CFR North China)†	N.A.	140 – 142	124 – 126
Slab (CFR East Asia import)	600 – 612	573 – 595	500 – 513
Slab (FOB Latin export)	560 – 585	558 – 581	550 – 560
HRC (CFR East Asia import)	653 – 667	638 – 659	576 – 604
HRC (Ex-mill US Midwest)	N.A.	711 – 726	675 – 692

Sources: * SBB-Steel Business Briefing website; average prices in Q2/2012

**SBB-Steel Business Briefing website; average prices in Q3/2012 estimated as at 13 August 2012

† IODEX 62% Fe CFR North China average prices are calculated from SBB-Steel Markets Daily Report

Thailand Steel Industry- Having adjusted its GDP forecast for the year 2012 down to 5.7% from previously 6.0%, the Bank of Thailand reported its estimates on growths in private consumption and private investment for the year 2012 as 5.2% YoY and 14.7% YoY respectively, in line with the outlook of consumer confidence as well as business confidence index at level above 50 point indicating the improving confidence in domestic economy. Considering the recovery in manufacturing sector resulted from the government policy to boost the economy, the Company expects an increasing demand in domestic steel market comparing to the previous quarter, especially in automotive sectors which expected the production of 574,847 units and 1,149,694 units in Q3/2012 and H2/2012 respectively. However, there is the uncertainty in global economy, especially in Europe and China that might cause manufacturers to delay their material order decision.

According to the expectation on improving demand of HRC, the Company forecasts the Apparent Steel Supply of domestic steel will be increasing to level of 1.55 million ton in Q3/2012, or 7% increase from 1.44 million ton in Q2/2012.

Table 14: Apparent Steel Supply

Apparent Steel Supply				
	Q2/2012 (tons) estimate	Q2/2012 (tons) actual	Q3/2012 (tons) estimate	Growth Rate (%)
Domestic Production	690,000	534,381	750,000	+40%
Import	880,000	917,208	800,000	-13%
Export	-	2,960	-	-
Total	1,570,000	1,448,629	1,550,000	+7%

Source: Iron and Steel Institution of Thailand for Q2/2012, and the Company's estimate for Q3/2012

For Q3/2012, the Company is expecting HRC sales volume to remain at the same level as in Q1/2011. HRC average selling price and slab price are likely to soften while HRC Rolling Margin is expected to be in range of 13% - 15% with the target of Premium Value Products ratio at 46% of sales volume.

For Iron and Steel Making business, slab shipments are expected to be approx. 700 k tons, which 15% total sale will be sold to external parties, with the slab spread in range of USD 100 – 120/ ton.

Disclaimer

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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