



## Management's Discussion and Analysis (MD&A)

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

#### For the Third Quarter of 2012

##### **1. Third Quarter of 2012 Highlight**

- **Lost-Time Injury Frequency Rate (LTIFR) of 3.49, +60% QoQ and +55% YoY.**
- **Sale and service revenues of Baht 15,794 million, +38% QoQ and +18% YoY.**
- **HRC shipment and tolling of 617 k tons; HRC shipment of 588 k tons, +39% QoQ and +42% YoY, the second highest quarterly shipment since Q1/2010. HRC tolling of 29 k tons.**
- **Premium Value Products accounted for approx. 36% of total shipments, down from 40% in Q2/2012. Sales volume of PVPs of 221 k tons, or increases 32% from 168 k tons in previous quarter.**
- **HRC spread of USD 87/ton, -24% QoQ and -26% YoY with HRC Rolling Margin\* of 12.4%**
- **HRC EBITDA/ton at USD 15.4/ton, increasing from negative USD 12.1/ton in Q2/2012 but declining from USD 17.8/ton in Q3/2011.**
- **Slab sales of 679 k tons; 20% of which were sold to external parties, with the slab spread of USD 44/ton.**
- **Negative Group EBITDA of Baht 3,169 million, less in negative of 12% QoQ whilst more in negative of 43% YoY.**
- **Net loss of Baht 4,782 million, less in negative of 5% QoQ whilst more in negative of 55% YoY.**
- **NET Debt\*\* of Baht 53,781 million, + 2.4% QoQ.**
- **Recorded the new highest level of daily HRC production for the second time in 2012, with 12,449 tons per day on 20 September 2012, after previous record of 11,778 tons per day on 5 August 2012.**
- **SSI UK achieved accumulative slab production of 1 million tons on 13 September 2012, since the production restarted in April 2012.**
- **Received the National Outstanding Industrial Establishment Award in category of Labor Welfare/Relations for 10 consecutive years (2003-2012) on 6 September 2012, as only one Thai corporate among the six recipients of the same award this year.**

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

##### **2. Nine Months of 2012 Highlight (Jan – Sep 2012)**

- **Lost-Time Injury Frequency Rate (LTIFR) of 2.75, +17% YoY.**
- **Sale and service revenues of Baht 43,005 million, +23% YoY.**
- **HRC shipment and tolling of 1,537 k tons: HRC shipment of 1,508 k tons, +19% YoY, with Premium Value Products proportion of approx. 39% of total shipments.**
- **HRC spread of USD 96/ton, -25% YoY with HRC Rolling Margin\* of 13.3%**
- **HRC EBITDA/ton at USD 14.9/ton, -52% YoY, including net provisions for losses from diminution in value of inventories and under onerous contract of USD 121 million or approx. USD 2.3/ton.**
- **Coke sales of 423 k tons and slab sales of 1,014 k tons, with the slab spread of USD 32/ton.**
- **Negative Group EBITDA of Baht 8,660, and net loss of Baht 12,644 million.**

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

### **3. Business Outlook on Q4/2012**

- **HRC domestic demand in Q4/2012 is expected to stabilise comparing to previous quarter, as HRC Apparent Steel Supply will be approx. 1.64 million tons.**
- **HRC shipments are expected to be the same level as Q3/2012.**
- **HRC average selling prices and slab prices are likely to stabilise, and HRC Rolling Margin is expected to be in range of 11% - 13%.**
- **For Iron and Steel Making business, slab shipments are expected to be approx. 630 k tons, 25% of which will be sold to external parties.**

### **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 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 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	15,794	Sahaviriya Steel Industries Plc. (Hot Rolled Steel Coil)	488	287
Group EBITDA*	(3,169)	Sahaviriya Steel Industries UK Ltd. (Iron and Steel Making)	-	(3,506)
Net Profit (Loss)	(4,782)	Prachuap Port Co., Ltd. (Deep Sea Port)	-	101
EPS (Baht)	(0.26)	West Coast Engineering Co., Ltd. (Engineering & Maintenance Service)	-	22
D/E Ratio**	4.35	Thai Cold Rolled Steel Sheet Plc. (Cold Rolled Steel Coil)	1,157	136

\* EBITDA = Earning Before Interest, Tax, Depreciation and Amortisation 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 Q3/2012**

**World Steel Industry:** Due to the ongoing economic crisis in EU, especially in Spain, whose Gross Domestic Products (GDP) is expected to shrink by 0.4% in Q3/2012, combining with the continuing slow growth in China's GDP since Q2/2012, which not only analysts forecasted that China's GDP growth rate in Q3/2012 will decline from 7.6% in previous quarter to be around 7.4%, but also the Purchasing Manager Index (PMI) declined to level below 50% in September 2012 (49.8%); the world steel industry has been decelerating in Q3/2012 resulted primarily from EU and Chinese economies as indicated above. As a result, world crude steel production in Q3/2012 was 376.0 million tons, increasing 0.4% QoQ and decreasing 3.6% YoY. Regarding the gross production of steel in each region, most of them have been decreasing QoQ, especially in EU. In August and September of 2012, many regions have initiated various measures to stimulate economies; for example, the United States declared another round of quantitative easing (QE3) to repurchase mortgages-backed securities (MBS) for USD 40 billion per month, whilst EU agreed to establish European Stability Mechanism (ESM) funds to maintain its stability, and also China announced more of its infrastructure investment spending plan. As a result, those measures have merely affected finance and investment sectors, but no noticeable impact to real sector and overall economies in Q3/2012. However, it is expected that those measures will take effects on manufacturing sectors by late Q4/2012 to Q1/2013.

For the period of nine months of 2012, world crude steel production was approx. 1,141.74 million tons, or decreased by 0.1% YoY, whereas South America's and EU's gross production in 9M/2012 decreased 4.6% YoY and 4.6% YoY respectively. The numbers of steel production in each region are shown in Table 2 below.

**Table 2: World Crude Steel Production**

Unit: million tons	2012		2011	%	%	2012	2011	%
Region	Q3	Q2	Q3	QoQ	YoY	Jan-Sep	Jan-Sep	YoY
EU	40.4	45.1	42.4	-10.4	-4.7	129.6	135.9	-4.6
North America	30.1	32.2	30.1	-6.5	0.0	92.8	89.3	+3.9
South America	11.4	11.7	12.3	-2.6	-7.3	35.1	36.8	-4.6
China	178.4	183.0	174.8	-2.5	+2.1	534.6	533.3	+0.2
Asia (ex. China)	68.5	70.0	67.5	-2.1	+1.5	206.2	204.0	+1.1
Others	47.2	48.1	47.4	-1.9	-0.4	143.4	143.2	+0.1
<b>Total</b>	<b>376.0</b>	<b>390.1</b>	<b>374.5</b>	<b>-3.6</b>	<b>+0.4</b>	<b>1,141.7</b>	<b>1,142.5</b>	<b>-0.1</b>

Source: World Steel Association

In terms of steel prices, due to an impact from the EU economic crisis and a significant drop in Chinese domestic steel consumption level, the average prices of iron ore in Q3/2012 declined to USD 116 – 119 per ton, or decreased by over 19% QoQ. As a result, average prices of HRC CFR East Asia Import in Q3/2012 were in range of USD 552 –582 per ton, or decreased by over 13% QoQ. Meanwhile, the average prices of slab in Q3/2012 were in range of USD 487 – 503 per ton, or decreased by 15% QoQ.

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

	Q2/2012 (USD/ton) Actual*	Q3/2012 (USD/ton) Estimate	Q3/2012 (USD/ton) Actual *
Coking Coal (Premium HCC FOB Australia)	215 - 224	190 – 221	164 – 180
Iron Ore (63% Fe CFR China)	144 – 146	128 – 130	116 – 119
Iron Ore (IODEX 62% Fe CFR North China)	140 – 142	124 – 126	112 –114
Slab (CFR East Asia import)	573 – 595	500 – 513	487 – 503
Slab (FOB Latin export)	558 – 581	550 – 560	545 – 557
HRC (CFR East Asia import)	638 – 659	576 – 604	552 – 582
HRC (Ex-mill US Midwest)	711 – 726	675 – 692	628 – 644

*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:** As a result of declining global economy, especially in EU, the domestic production for exports has been declining as well. However, the government’s measures to stimulate domestic consumption through various campaigns have helped industrial sectors to continue their production. Besides, manufacturers who use steel for raw materials, especially in automotive segment, had higher production volume comparing to those in Q2/2012, according to the numbers of cars produced in Q3/2012, of which increased to 649 thousand units with its capacity utilisation rate of 104%. While the production of home appliances showed a seasonal decline in Q3/2012, especially for air conditioners which already passed its peak demand period during summer.

**Table 4: Car and Home Appliance Production in Thailand**

Production Volume	Q2/2012	Q3/2012
Cars*	550 thousand units	649 thousand units
Refrigerators**	1.3 million units	1.3 million units
Air Conditioners**	3.6 million units	2.65 million units

Remark: \* Car Production information published by Thailand Automotive Institute

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

For domestic HRC production, the volume produced in Q3/2012 was 654,483 tons, increasing from 534,381 tons in Q2/2012, below an expectation of 750,000 tons produced, due to production cut by some manufacturers, whose production is less than expected approximately 100,000 tons. In the meantime, the volume of HRC imported in Q3/2012 was 1,002,551 tons, increasing 9.31% QoQ from 917,208 tons of HRC imported in Q2/2012. Therefore, the domestic HRC Apparent Steel Supply in Q3/2012 totaled 1,650,488 tons, or increased by 13.93% QoQ.

**Table 5: HRC Apparent Steel Supply**

<b>HRC Apparent Steel Supply</b>				
	Q2/2012 (USD/ton) Actual*	Q3/2012 (USD/ton) Estimate	Q3/2012 (USD/ton) Actual *	<b>Growth (%)</b>
Domestic Production	534,831	750,000	654,483	+22.47
Import	917,208	800,000	1,002,551	+9.31
Export	2,960	-	6,546	+121.15
<b>Total</b>	<b>1,448,629</b>	<b>1,550,000</b>	<b>1,650,488</b>	<b>+13.93</b>

*Source: Iron and Steel Institution of Thailand (ISIT) for actual numbers of Q2/2012 and Q3/2012; and the Company's estimates for Q3/2012*

To sum it up, HRC domestic production in 9M/2012 was 1,950,161 tons, or decreased by 13.6% YoY; whilst HRC import volume was 2,798,583 tons, or increased 28.69% YoY.

### **Q3/2012 Results**

The Company and its subsidiaries recorded sale and service revenues of Baht 15,794 million, increased by 38% QoQ due to the increasing sale volume of HRC and Iron and Steel Making Business, and increased by 18% YoY due to the increasing sale volume of HRC Business and the changing revenue structure of Iron and Steel Making Business from selling coke to external parties to producing and selling slabs within the Group of Companies and external parties. Total costs of sale and service was Baht 18,730 million. However, the decreasing in selling price while abnormally high material costs as well as conversion costs of Iron and Steel Making Business, combining with the net provision for losses from diminution in values of inventories and the reversal of provisions under onerous contracts for the period of Baht 56 million; the Company and its subsidiaries reported net loss of Baht 4,782 million in Q3/2012, comparing to net loss of Baht 5,022 million in Q2/2012 and Baht 2,965 million in Q3/2011 respectively.

HRC Business In Q3/2012, the Company could sell HRC products achieving its second highest quarterly shipment volumes after Q1/2010, despite the ongoing market dumping from imported flat sheet with chromium and boron added. HRC sale and tolling volume totaled 617 k tons consisting of HRC sales volume of 588 k tons in Q3/2012, increasing from 423 k tons in Q2/2012, and HRC tolling volume of 29 k tons, resulted in total sale and service revenues of Baht 13,087 million. Besides, the Premium Value Products accounted for 36% of total sales consisting of 7% of Innovated Value Products, 7% of IVP- High grade, 12% of High grade Products, and 10% of Unique Products.

HRC spread decreased to USD 87/ton from that in Q2/2012 with HRC Rolling Margin at about 12.4% since HRC selling prices have been declining in consistence deteriorating prices in the world steel market. Moreover, the Company set up more provision on loss from diminution in value of inventories of Baht 303 million but recorded the reversal of provision for loss under onerous contract of Baht 273 million. As a result, HRC EBITDA/ton of Q3/2012 has become USD 15.4/ton (which including the effects of such provisions set up approx. USD 1.8 /ton), increased from that of negative USD 12.1/ton in Q2/2012. However, an increase in interest expenses from Baht 444 million to Baht 616 million resulted from the reclassification of the interests previously included in costs of raw materials amounting Baht 126 million caused the Company to record net loss in HRC Business of Baht 506 million.

Iron and Steel Making Business produced its first slab in April, and recorded sale and service revenues of Baht 12,425 million, consisting of revenues from slab sale of 679 k tons and coke sale of 30 k tons. The average slab selling price was at USD 544/ton, while the average cost of raw materials was at USD 500/ton, leading to the slab spread of USD 44/ton. Due to the declining selling prices together with the high cost of remaining raw materials, the slab spread was still insufficient to cover the current level of conversion cost. As a result, Iron and Steel Making Business reported net loss of Baht 4,266 million, or becoming less in negative of 3% QoQ.

### **Nine Months of 2012 Results (Jan – Sep 2012)**

The Company and its subsidiaries recorded sale and service revenues of Baht 43,005 million, increased by 23% YoY due to an increase in revenues from Iron and Steel Making Business by 76% YoY, resulted from the change in revenue structure from only producing and selling coke to producing and selling slab. Total costs of sale and service was Baht 50,696 million. However, the relatively higher costs of raw materials, conversion costs and increasing other expenditures, the volatility in steel prices in the world market, including net effect of the reversal of provision for loss from diminution in value of inventories and the provision for loss under onerous contract of Baht 172 million caused the Company to record net loss of Baht 12,644 million, comparing to net loss of Baht 3,877 million for the same period in 2011 (excluding the gains from business acquisition of Baht 5,271 million).

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 sale and tolling volume totaled 1,537 k tons in 9M/2012 whilst HRC sales volume increased to 1,508 k tons from 1,268 k tons in 9M/2011. Moreover, the portion of Premium Value Products in total sales was accounted for approx. 39%, which consisting of 6% of Innovated Value Products, 9% of IVP- High grade, 11% of High grade Products, and 13% of Unique Products respectively.

HRC spread decreased from that in 9M/2011 to USD 96/ton due to the declining world steel prices, the high level of raw material costs in Iron and Steel Making Business, and the net provisions set up for loss from diminution in value of inventories and for loss under onerous contract of Baht 121 million to reflect the decline in market prices. As a result, HRC EBITDA/ton dropped to USD 14.9/ton from level of USD 30.8/ton in 9M/2011, as interest expense increased from Baht 909 million to Baht 1,473 million, leading to net loss of Baht 1,232 million from HRC Business.

Iron and Steel Making Business produced its first slab in April, and started to generate revenues from slab sale since Q2/2012. Regarding the results of 9M/2012, Iron and Steel Making Business recorded revenues from steel slab sales of 1,014 k tons and coke sales of 423 k tons. However, due to the decreasing slab selling prices, combining with high level of raw material costs, conversion costs, and other expenditures during the initial stage of production; Iron and Steel Making Business recorded net loss of Baht 11,499 million for 9M/2012.

## 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 3	Q 2	QoQ	Q 3	YoY	Jan-Sep	Jan-Sep	YoY
Sale and service revenues	15,794	11,469	+38%	13,439	+18%	43,005	34,967	+23%
Cost of sale and service	(18,730)	(14,655)	+28%	(14,614)	+28%	(50,696)	(34,973)	+45%
SG&A	(718)	(528)	+36%	(1,068)	-33%	(1,846)	(1,968)	-6%
Provision for loss under onerous contracts	147	(546)	-127%	129	-14%	(404)	(129)	N.A.
Gain on business acquisition	-	-	N.A.	-	N.A.	-	5,271	N.A.
EBITDA	(3,169)	(3,612)	+12%	(2,100)	-51%	(8,660)	3,391	N.A.
Interest expense	(952)	(809)	+18%	(561)	+69%	(2,444)	(1,293)	+89%
Depreciation and amortisation	(643)	(598)	+8%	(302)	+113%	(1,527)	(694)	+120%
Income tax	(17)	(3)	N.A.	(2)	N.A.	(12)	(9)	+36%
Realised FX gain (loss)	(210)	(105)	-100%	20	N.A.	(564)	(21)	N.A.
Unrealised FX gain (loss)	(51)	153	-133%	(96)	-47%	331	(197)	+268%
Net profit (loss)	(4,782)	(5,022)	+5%	(2,965)	-61%	(12,644)	1,395	N.A.
EPS (Baht)	(0.26)	(0.28)	+5%	(0.17)	-51%	(0.69)	0.08	N.A.

Note: \*EBITDA for 9M/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 3	Q 2	QoQ	Q 3	YoY	Jan-Sep	Jan-Sep	YoY
<b><u>Sale and Service Revenues</u></b>								
<b>Consolidated</b>	<b>15,794</b>	<b>11,469</b>	<b>+38%</b>	<b>13,439</b>	<b>+18%</b>	<b>43,005</b>	<b>34,967</b>	<b>+23%</b>
HRC Business	13,087	9,853	+33%	10,373	+26%	34,524	30,052	+15%
Iron and Steel Making Business	2,584	1,535	+68%	2,994	-14%	8,204	4,670	+76%
Deep Sea Port Business	47	32	+48%	28	+69%	108	96	+12%
Engineering & Maintenance Service Business	76	49	+56%	45	+69%	170	149	+14%
<b><u>EBITDA</u></b>								
<b>Consolidated</b>	<b>(3,169)</b>	<b>(3,612)</b>	<b>+12%</b>	<b>(2,100)</b>	<b>N.A.</b>	<b>(8,660)</b>	<b>3,391</b>	<b>N.A.</b>
HRC Business	287	(166)	+272%	214	+34%	689	1,178	-42%
Iron and Steel Making Business*	(3,506)	(3,581)	-2%	(2,478)	-41%	(9,562)	2,164	N.A.
Deep Sea Port Business	101	33	+203%	35	+186%	187	137	+37%
Engineering & Maintenance Service Business	22	19	+16%	16	+37%	58	59	-1%
Elimination of Related Parties Transaction	(73)	83		113		(32)	(147)	
<b><u>Profit/(Loss)</u></b>								
<b>Consolidated</b>	<b>(4,782)</b>	<b>(5,022)</b>	<b>+5%</b>	<b>(2,965)</b>	<b>-61%</b>	<b>(12,644)</b>	<b>1,395</b>	<b>N.A.</b>
HRC Business	(506)	(733)	+35%	(270)	-77%	(1,232)	(119)	N.A.
Iron and Steel Making Business	(4,266)	(4,384)	+3%	(2,783)	-53%	(11,499)	1,577	N.A.
Deep Sea Port Business	64	3	N.A.	9	N.A.	93	59	+59%
Engineering & Maintenance Service Business	9	8	+25%	4	+112%	22	21	+5%
Elimination of Related Parties Transaction	(60)	90		83		13	(108)	
Non-Controlling Interest	(23)	(6)		(8)		41	(35)	

**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 9M/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 3	Q 2	QoQ	Q 3	YoY	Jan-Sep	Jan-Sep	YoY
Average Selling Price	700	731	-4%	807	-13%	726	766	-5%
Average Cost of Goods Sold	694	706	-2%	786	-12%	716	727	-2%
HRC Spread*	87	115	-24%	118	-26%	96	129	-25%
HRC EBITDA	15.4	(12.1)	+227%	17.8	-14%	14.9	30.8	-52%
Sales Volume (k tons)	588	423	+39%	414	+42%	1,508	1,268	+19%
Production Volume (k tons)	627	368	+70%	371	+69%	1,495	1,188	+26%

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	
	Q3	Q2
<b>Iron and Steel Making Business</b>		
Average Selling Price	544	551
Average Raw Material Cost	500	544
Slab Spread	44	7
Sales Volume (k tons)	679	335
Production Volume (k tons)	620	477

### **Explanations on the Company and its Subsidiaries' Operating Results for Q3/2012**

#### **Revenues**

The Company and its subsidiaries recorded a total sale and service revenues of Baht 15,794 million, increase 38% QoQ and 18% YoY, with the core revenues driven by:

HRC Business recorded 617 k tons of sale and tolling comprising 588 k tons of sale, increased 39% QoQ and 42% YoY with average selling price of Baht 21,871/ton (approximately USD 700/ton), decreased 4% QoQ and 13% YoY, and 29 k tons of tolling. To sum up, HRC and scrap sale revenue, including revenue from tolling services, totaled Baht 13,087 million:

- Increasing 33% QoQ due to an increase in sales volume by 39% QoQ resulted from pricing policy to competitively maintain market share against the dumping of flat sheet steels with chromium and boron added
- Increasing 26% YoY due to an increase in sales volume by 42% YoY

Premium Value Products are accounted for 36% of total sales in Q3/2012, down from 40% in Q2/2012. Whereas the volume of Premium Value Products sold in this quarter totaled 221 k tons, increasing from 168 k tons in previous quarter, or increasing by 32% QoQ.

Iron and Steel Making Business recorded sale and service revenues totaling Baht 12,425 million, mainly from 679 k tons of slab sales with average selling price of USD 544/ton and 30 k ton of coke

sales. However, 80% of all slab sales are sold within the Group of companies; the revenues after deduction of related party transaction then become Baht 2,584 million.

- Increasing 68% QoQ resulted from an increase in slab sale volume sold to external parties of 130 k tons, from previously no revenues from slab sale to external parties but only from coke sales.
- Decreasing 14% YoY due to the change in revenue structure, from only selling coke to external parties to mainly selling slabs within the Group of companies.

Deep Sea Port Business recorded service revenue from other customers apart from the Company and its subsidiaries of Baht 47 million:

- Increasing 48% QoQ due to an increase in total throughput volume (excluding the Company's and its subsidiaries') by 12% QoQ, and an increase in commission fee revenues collected from agencies.
- Increasing 69% YoY due to an increase in total throughput volume (excluding the Company's and its subsidiaries') by 30% QoQ, and an increase in commission fee revenues collected from agencies.

Engineering and Maintenance Service Business recorded service revenue from other customers apart from the Company and its subsidiaries of Baht 76 million,

- Increasing 56% QoQ due to an increase in revenues from continuing projects initiated since Q1/2012 for client in construction and machine manufacturing sectors totaling Baht 25.2 million, or increased by Baht 8.4 million from Q2/2012; including Baht 5.1 million revenues from engineering and project management in metal structure construction for oversea customers, who is an industrial machinery parts manufacturer.
- Increasing 69% YoY due to an increase in revenues from providing high technology engineering services to client in construction and machine manufacturing sectors of Baht 25.2 million, and from providing project management services to client in paper industry of Baht 9.7 million, to client in electrical appliance parts industry of Baht 5.5 million, and to client in gas cylinder industry of Baht 3.3 million.

### **Cost of sale and service**

The Company and its subsidiaries recorded cost of sale and service of Baht 18,730 million, increasing by 28% QoQ and 28% YoY. It comprised cost of sale of Baht 18,377 million, provisions set up for loss from diminution in value of inventories of Baht 203 million, and cost of service of Baht 149 million.

HRC Business recorded total cost of sale and service of Baht 13,260 million, consisting of total cost of sale of Baht 13,195 million, as a total of Baht 12,892 million cost of goods sold and Baht 303 million of net provision set up for loss from diminution in value of inventories, whereas cost of services amounted to Baht 65 million.

- Increasing 37% QoQ due to an increase in sales volume of 39% YoY.
- Increasing 34% YoY due to an increase in sales volume of 42%YoY.

Iron and Steel Making Business recorded cost of sale and service totaling Baht 15,292 million including cost of sale of Baht 15,392 million and reversal of provision for loss from diminution in value of inventories of Baht 100 million.

- Increasing 41% QoQ due to an increase in slab sales volume.
- Increasing 227% YoY due to the incremental costs from slab production.

### **Gross Profit**

The Company and its subsidiaries recorded gross loss of Baht 2,935 million, decreased to less gross loss by 8% QoQ, but increased to more gross loss of Baht 1,175 million in Q3/2011.

HRC Business recorded gross loss of Baht 102 million, most of all was gross loss from HRC and scrap selling

- Decreasing QoQ from gross profit of Baht 177 million due to a decrease in HRC spread from USD 115/ton in Q2/2012 to USD 87/ton in Q3/2012, or decreased by 24% QoQ, and the provision for loss from diminution in value of inventories of Baht 303 million.
- Decreasing YoY from gross profit of Baht 456 million due to a decrease in HRC spread from USD 118/ton to USD 87/ton, or decreased by 26% YoY.

Iron and Steel Making Business recorded gross loss of Baht 2,867 million.

- Decreasing in less loss from loss of Baht 3,415 million in Q2/2012 due to the decline in average raw materials cost.
- Increasing in more loss from loss of Baht 1,683 million in Q3/2011 as the slab spread was insufficient to cover the high level of conversion costs during the initial stage of production as mentioned earlier.

### **Selling and General Administrative Expense (SG&A)**

The Company and its subsidiaries recorded SG&A expense of Baht 718 million, increasing by 36% QoQ but decreasing by 33% YoY.

HRC Business recorded SG&A of Baht 223 million

- Increasing 28% QoQ due to an increase in selling expense of Baht 41 million in consistence with the higher sale volumes.
- Increasing 79% YoY due to an increase in selling expense of Baht 53 million in consistence with the higher sale volumes, and an increase in administrative expenses of Baht 45 million caused by a loss in raw materials sale of Baht 38 million.

Iron and Steel Making Business recorded SG&A of Baht 470 million

- Increasing 44% QoQ due to an increase in both slab production and slab sale.
- Decreasing 33% YoY due to a decrease in expense paid for external advisory services, which was an extraordinary item for the same period of previous year.

**Provision for loss under onerous contracts** The Company and its subsidiaries reversed provision for loss under onerous contracts of Baht 147 million in Q3/2012, which are the reversal of provision for HRC Business of Baht 273 million and the set up of provision for Iron and Steel Making Business of Baht 126 million according to its obligations outstanding under onerous contracts at the end of quarter.

### **Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)**

The Company and its subsidiaries recorded negative EBITDA of Baht 3,169 million, or decreased to less negative by 12% QoQ, but increased to more negative from negative EBITDA of Baht 2,100 in Q3/2011.

HRC Business recorded EBITDA of Baht 287 million, or equivalent to HRC EBITDA of USD 15.4/ton or approx. Baht 488/ton, (which including the effect of provision set up of USD 1.8/ton or approx. Baht 52/ton).

- Increasing QoQ from negative EBITDA of Baht 166 million, whereas HRC EBITDA/ton increased to USD 15.4/ton from negative EBITDA of USD 12.1/ton.

- Increasing 34% YoY due to an increase in shipment volume by 42% YoY, despite of that HRC EBITDA/ton declined by 14% YoY from USD 17.8/ton in Q3/2011 to USD 15.4/ton in Q3/2012.

*Iron and Steel Making Business* recorded negative EBITDA of Baht 3,506 million, less negative from negative EBITDA of Baht 3,581 million in Q2/2012, but more in negative from negative EBITDA of Baht 2,478 million in Q3/2011 according to reasons mentioned earlier.

### **Interest Expense**

The Company and its subsidiaries recorded interest expenses of Baht 952 million, increasing 18% QoQ and 69% YoY.

*HRC Business* recorded interest expense of Baht 616 million

- Increasing 39% QoQ resulted from the reclassification of the interests previously included in costs of raw materials to be part of interest expense totaling Baht 126 million.
- Increasing 71% YoY due to an increase in short-term loan used for raw materials procurement, the reclassification of the interests previously included in costs of raw materials to be part of interest expense, 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 329 million, decreasing by 8% QoQ but increasing by 67% 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 losses from jointly-controlled entities using equity method of Baht 27 million, decreasing from share of losses of Baht 10 million in Q2/2012. Such share of losses comprised of loss from Cold Rolled Coil Business of Baht 43 million and profit from Deep Sea Port Business in UK of Baht 16 million.

*Cold Rolled Coil Business* with shipment volume of 118 k tons, recorded sale revenue of Baht 3,364 million

- Decreasing 17% QoQ due to an intense competition for domestic customers causing a decline in sale volume to this group of customers. Besides, the dumping by producers from China, Taiwan and Vietnam together with the volatility in steel prices led to the decline in selling prices. As a result, cold rolled-coil business recorded gross profit of Baht 69 million, decreasing by 62% QoQ; EBITDA of Baht 136 million, decreasing 40% QoQ; and net loss of Baht 38 million decreasing from net profit of Baht 49 million in previous quarter.
- Decreasing 4% YoY mostly resulted from a decrease in selling prices. Accordingly, gross profit decreased by 74% YoY whilst EBITDA decreased by 55% YoY, and net loss of Baht 38 million decreasing from net profit of Baht 139 million.

### **Profit/(Loss)**

The Company and its subsidiaries recorded net loss of Baht 4,782 million, less loss from net loss of Baht 5,022 million in Q2/2012 but more loss from net loss of Baht 2,965 million in Q3/2011.

*HRC Business* recorded net loss of Baht 506 million (including the provision for loss from diminution in value of inventories of Baht 303 million, the reversal of provision for loss under onerous contracts of Baht 273 million, realised gain on FX of Baht 54 million, and unrealised gain on FX of Baht 171 million)

- Decreasing in loss of 31% QoQ from net loss of Baht 733 million in Q2/2012.
- Increasing in loss of 87% YoY from net loss of Baht 270 million in Q3/2011.

*Iron and Steel Making Business* recorded net loss of Baht 4,267 million, decreased in loss by 3% QoQ, but increased in loss from net loss of Baht 2,783 million in Q3/2011.

***Explanations on the Company and its Subsidiaries' Operating Results for Nine Months of 2012 (Jan - Sep 2012)***

**Revenues**

The Company and its subsidiaries recorded a total sale and service revenues of Baht 43,005 million, or increased by 23% YoY, with the core revenue driven by:

*HRC Business* recorded revenues from HRC and scrap sale of Baht 34,524 million, increased by 15% YoY, due to an increase in HRC sales volume by 19%, with HRC sales and tolling volume of 1,537 k tons, part of which was 1,508 k tons of HRC sale, with average selling price of Baht 22,616/ton (approximately USD 726/ton), another part was 29 k tons of HRC tolling. Premium Value Products are accounted for 39% of total sales, slightly decreased from 41% of those in 9M/2011, while PVPs sale volumes increased to 598 k tons from 497 k tons during the same period of previous year.

*Iron and Steel Making Business* recorded total sale and service revenues of Baht 23,934 million whereas it started to earn revenues from slab sale since Q2/2012, whilst previously revenues solely came from coke business. For the period of 9M/2012, revenues were from slab sale of 1,014 k tons and coke sale of 423 k tons. Since 87% of 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 8,204 million, increasing from Baht 4,670 million of those in 9M/2011, which included only operating results of coke business.

*Deep Sea Port Business* recorded service revenue from other customers apart from the Company and its subsidiaries of Baht 108 million, or increasing by 12% YoY due to an increase in total throughput volume (excluding the Company's and its subsidiaries') by 8% YoY, and an increase in commission fee revenues collected from agencies.

*Engineering and Maintenance Service Business* recorded service revenue from other customers apart from the Company and its subsidiaries of Baht 185 million, increasing by 24% YoY due to an increase in revenues from providing high technology engineering services to client in construction and machine manufacturing segments of Baht 58.8 million, and from providing project management services to existing client in paper industry of Baht 22.3 million, to new client in paper industry of Baht 28.1 million, to client in electrical appliance parts industry of Baht 5.5 million, and to client in gas cylinder industry of Baht 3.3 million.

**Cost of sale and service**

The Company and its subsidiaries recorded cost of sale and service of Baht 50,696 million, or increased by 45% YoY. It comprised cost of sale of Baht 50,649 million, the reversal of provision for loss from diminution in value of inventories of Baht 232 million, and cost of service of Baht 280 million.

*HRC Business* recorded total cost of sale and service of Baht 34,132 million whereas cost of sale totaled Baht 34,068 million or increased by 20% YoY following an increase in shipments volume. Cost of goods sold consisted of cost of HRC sale of Baht 33,619 million, cost of scrap sale of Baht 343 million, the provision for loss from diminution in value of inventories totaling Baht 106 million, and cost of services of Baht 65 million. Thus, such cost of HRC sale could be translated into cost of sale per ton approx. of USD 716/ton, decreasing from USD 727/ton in 9M/2011 due to the declining cost of raw materials.

*Iron and Steel Making Business* recorded cost of sale and service of Baht 32,237 million consisting of cost of sales totaling Baht 32,576 million and the reversal of provision for loss from diminution in value of inventories totaling Baht 339 million. An increase in cost of sale for the period was resulted

from the change in revenue structure from coke production, which required only coking coal as raw material, to slab production, leading to the higher costs of raw materials such as iron ore, scrap, and other ingredients. Besides, higher cost of sale was also caused by the high level of conversion cost s and other expenditures during the initial stage of slab production.

### **Gross Profit**

The Company and its subsidiaries recorded gross loss of Baht 7,691 million, increased in loss from gross loss of Baht 6 million during the same period of previous year.

*HRC Business* recorded gross profit of Baht 392 million decreasing by 72% YoY due to the declining HRC Spread to level of USD 96/ton, or decreasing by 25% of those in 9M/2011.

*Iron and Steel Making Business* recorded gross loss of Baht 8,304 million, increased in loss from Baht 1,843 million in 9M/2011.

### **Selling and General Administrative Expense (SG&A)**

The Company and its subsidiaries recorded Baht 1,846 million, increased from Baht 1,968 million in 9M/2011 or decreased by 6% YoY.

*HRC Business* recorded SG&A of Baht 540 million increasing by 17% YoY due to an increase in selling expense of Baht 39 million in consistence with the higher sale volumes by 19% YoY, and an increase in administrative expenses of Baht 38 million due to a loss from raw materials sale.

*Iron and Steel Making Business* recorded SG&A of Baht 1,231 million, increasing by 18% YoY as a result of additional costs incurred in slab making production and also the longer period of operations comparing to six-month-operation of only coke business in 9M/2011.

**Provision for loss under onerous contracts** The Company and its subsidiaries recorded provision for loss under onerous contracts of Baht 404 million in 9M/2012, which are the provision for HRC Business of Baht 15 million and for Iron and Steel Making Business of Baht 389 million to reflect the falling prices of steel.

### **Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)**

The Company and its subsidiaries recorded negative EBITDA of Baht 8,660 million, decreased from positive EBITDA of Baht 3,391 million in 9M/2011.

*HRC Business* recorded EBITDA of Baht 689 million or equivalent to HRC EBITDA of Baht 457/ton (approximately USD 14.9/ton), decreasing by 52% YoY.

*Iron and Steel Making Business* recorded negative EBITDA of Baht 9,562 million, decreased from positive EBITDA of Baht 2,164 million in 9M/2011, which included gains from business acquisition of Baht 5,271 million.

### **Interest Expense**

The Company and its subsidiaries recorded interest expenses of Baht 2,444 million, increasing by 89% YoY.

*HRC Business* recorded its interest expense of Baht 1,473 million, or increased by 62% YoY, due to an increase in short-term loan used for raw materials procurement, the reclassification of the interests previously included in costs of raw materials to be part of interest expense, 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 952 million, increased by 157% 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 losses using equity method from jointly controlled entities of Baht 2 million, decreased from share of losses of Baht 38 million in 9M/2011. The losses shared consisted of share of loss from Cold Rolled Coil business of Baht 47 million and profit from deep sea port business in UK of Baht 45 million.

Cold Rolled Coil Business recorded shipment volume of 365,278 tons and its sale revenue of Baht 10,788 million, which decreasing by 2% YoY due to a decrease in selling prices caused by the intense competition and the dumping by producers from China, Taiwan and Vietnam. Consequently, gross profit totaled Baht 448 million, whereas EBITDA has declined to Baht 601 million, or decreased by 25% YoY. Lastly, net profit decreased by 73% YoY to Baht 79 million in 9M/2012.

### **Profit/(Loss)**

The Company and its subsidiaries recorded net loss of Baht 12,644 million and from net loss of Baht 3,877 million in 9M/2011 (excluding the gain from business acquisition of Baht 5,271 million).

HRC Business recorded a net loss of Baht 1,233 million, increasing in loss from loss of Baht 119 million in 9M/2011, due to the decline in HRC Spread and an increase in interest expense. Such loss included net provisions set up of Baht 121 million, realised gain on FX of Baht 23 million, and unrealised gain on FX of Baht 302 million)

Iron and Steel Making Business recorded net loss of Baht 9,562 million, or increase in loss from net loss of Baht 3,107 million in 9M/2011 (excluding the gain from business acquisition of Baht 5,271 million).

## 6. Consolidated Financial Status

**Table 10: Condensed Consolidated Statements of Financial Position**

Unit: million Baht	Q3/2012	Q2/2012	+/- QoQ	Q3/2011	+/- YoY
<b>Assets</b>					
Account Receivable	8,141	4,665	+75%	3,781	+115%
Inventories	25,302	24,423	+4%	24,380	+4%
Other Current Assets	4,380	4,078	+7%	1,849	+137%
<b>Total Current Assets</b>	<b>37,823</b>	<b>33,167</b>	<b>+14%</b>	<b>30,010</b>	<b>+26%</b>
Property, Plant and Equipment	51,768	53,383	-3%	47,024	+10%
Investment in jointly-controlled entities	3,495	4,708	-26%	4,775	-27%
Other Non-Current Assets	101	107	-6%	71	+42%
<b>Total Assets</b>	<b>93,187</b>	<b>91,365</b>	<b>+2%</b>	<b>81,880</b>	<b>+14%</b>
<b>Liabilities</b>					
S/T Debt and Current Portion of L/T Interest Bearing Debt	30,414	28,214	+8%	22,288	+36%
Account Payable	20,172	14,479	+39%	8,686	+132%
Other Current Liabilities	2,421	1,763	+37%	617	+292%
<b>Total Current Liabilities</b>	<b>53,007</b>	<b>44,456</b>	<b>+19%</b>	<b>31,591</b>	<b>+68%</b>
L/T Interest Bearing Debt	23,584	25,565	-8%	18,144	+30%
Other Non Current Liabilities	4,177	4,171	+0.1%	4,941	-15%
<b>Total Liabilities</b>	<b>80,768</b>	<b>74,192</b>	<b>+9%</b>	<b>54,677</b>	<b>+48%</b>
<b>Equity</b>					
Equity Attribute to Equity Owners of the Company	11,546	16,319	-29%	26,365	-56%
Non-Controlling Interests	873	853	+2%	839	+4%
<b>Total Equity</b>	<b>12,419</b>	<b>17,173</b>	<b>-28%</b>	<b>27,204</b>	<b>-54%</b>
<b>Total Liabilities and Equity</b>	<b>93,187</b>	<b>91,365</b>	<b>+2%</b>	<b>81,880</b>	<b>+14%</b>

**Table 11: Financial Ratios**

Financial Ratios	Q3/2012	Q2/2012
Current Ratio	0.71	0.75
Interest Bearing Debt to Equity Ratio	4.35	3.13



## **Consolidated Financial Position as at the end of quarter**

Trade and Notes Receivable totaled Baht 8,141 million, increased Baht 3,476 million, or increased by 75% QoQ from Baht 4,665 million at the end of previous quarter, without any bad-debt write-off or additional provisions set up during the period.

### Inventories

Table 12: Inventories Classification as at the end of quarter

<b>Unit: million Baht</b>	<b>Q3/2012</b>	<b>Q2/2012</b>	<b>+/- QoQ</b>
Raw Materials (slab, iron ore, coking coal, & coke)	12,978	11,215	+16%
Raw Materials in Transit (slab)	6,378	7,188	-11%
Finished Goods and Work-in-process (HRC & P/O)	4,871	4,613	+6%
Tools and Spare Parts	2,251	2,423	-7%
Less: Provision for loss from diminution in value of inventories	(1,176)	(1,016)	+16%
<b>Net Inventories</b>	<b>25,302</b>	<b>24,423</b>	<b>+4%</b>

Net inventories at the end of Q3/2012 amounted to Baht 25,302 million; increasing 4% QoQ due to an increase in raw materials, especially slabs. However, there was a total of Baht 1,176 million of provision for loss from diminution in value of inventories at the end of Q3/2012; whereas Baht 701 million of provision for loss under onerous contract was not excluded.

Current Ratio was at 0.71x, decreasing from 0.75x at the end of Q2/2012 since the current liabilities increased in higher proportion relatively to the current assets. Whereas the current liabilities increased by 19% QoQ from Baht 44,456 million at the end of last quarter to Baht 53,007 million, mostly resulted from the change in trade payables, the current assets increased from Baht 33,167 million at the end of previous quarter to Baht 37,823 million, or increasing by 14% QoQ resulted from the significant growth in trade receivables following an increase in shipments volume in this quarter.

Liabilities and Liquidity Management Total liabilities equalled to Baht 80,768 million, or increased by 9% QoQ from Baht 74,192 million at the end of Q2/2012, resulted from the change in trade payables. Most of its liabilities were the borrowings from financial institution, subordinated loans from Sahaviya Inter Steel Holding Limited (SISH) and Vanomet Finance AG of Iron and Steel Making business, outstanding balance of convertible debentures, and trade payables. The Company and its subsidiaries had a total outstanding loan as at 30 September 2012 of Baht 50,121 million consisting of short-term borrowings totaling Baht 25,432 million, its current portion of long-term borrowings of Baht 3,136 million, and long-term borrowings of Baht 21,554 million.

Interest Bearing Debt to Equity Ratio Total equity of the Company and its subsidiaries was at Baht 12,419 million, decreased by 28% QoQ due to net loss incurred in the period, whereas its outstanding interest bearing debt was at Baht 53,999 million; as a result, interest bearing debt to equity ratio for the period of Q3/2012 was at 4.35x, increased from 3.13x 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. Lastly, the Company has been undertaking actions to implement its capital increase and recapitalisation plan in order to obtain the more suitable level of interest bearing debt to equity ratio.

## **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"><li>▪ Restart on 15 Apr 2012 and first steel slab was produced on 18 Apr 2012</li><li>▪ PCI to start by Q1/2013</li><li>▪ Projected completion by March 2013</li></ul>

### **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 (excluded VAT), is progressing well with USD 285.75 million (excluded VAT) committed as at the end of September 2012, of which USD 235.19 million (excluded VAT) has been paid.

SSI UK restarted the operation and its first steel slab was produced on 18 April 2012. In Q3/2012, the first full quarter of slab production, SSI UK could produce slabs in total of 620 k tons and achieved the accumulative slab production of 1 million tons on 13 September 2012. However, target slab output for 2012 is forecasted at 1.8 million tons and the production volume will ramp-up to 8,400 tons per day, or an annualised rate of 3.0 million ton per annum by Q4/2012.

### **Progress on Pulverized Coal Injection (PCI) Project**

For the current status of PCI Project, the Civil and Foundation work has been progressing to 95% of completion, whereas erection work of the building's steel structure and machine installation has already been started since Q3/2012. Presently, the progress of construction and installation, including civil and foundation, steel structure, mechanical erection, machine installation and E&I installation, is about 52% of completion (excluding the commissioning). However, the commissioning is expected to started by the end of Q4/2012 to the beginning of Q1/2013. 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).

Lastly, within the investment budget of USD 57 million (excluded VAT), at the end of September 2012, the committed expenditure on the procurement (excluded VAT) is approx. USD 56 million, and total cash payment has been made approx. USD 27.5 million (excluded VAT).

## **8. Recent Development**

### **Innovated Value Products: "Speed+"**

In Q3/2012, the Company has developed one new Innovated Value Products involving services of fast delivery called "Speed+," or Speed Plus, to serve customers who require extra speed delivery to their factories. The Company first launched "Speed+" services to customers whose application is steel pipe production. As a result, it turned that "Speed+" can help shorten lead time (started from date of order placement to date of products delivery- for domestic customers only), from normally 30 days to be around 10 – 15 days. In short, "Speed+" provides more of choices in Innovated Value Products for customers who require fast products delivery and seek for more effective inventory management.

### Enlarging Customer Base: New Customers

The Company has its policy to retain existing customers as well as to acquire new customers for its purpose to increase the product sales. To achieve such goal, in Q3/2012, the Company focused on extending into customers in cold-rolled sheets and steel pipes segments. As a result, the Company successfully acquire two new customers: one is in cold-rolled steels segment, whose application is for the use in industrial steel cylinders, and another one is a domestic steel pipes manufacturer. The Company's projected demand from these two new customers will be around 5,000 – 8,000 tons per month with the plan to co-develop Innovated Value Products with this customer group as well. Lastly, in Q4/2012, the Company will try to further extend its reach to new customers in other segments.

### Absolute Displacement Transducer: ADT

In Q3/2012, the Company successfully completed the project "Absolute Displacement Transducer" at the finishing stand no.7, resulting in the more effective thickness control. Not only it helps improve the quality of products, it can also help reduce costs of yield loss from production as much as Baht 6.5 million per year. Moreover, the Company plans to undertake the ADT project to all other finish stands by 2014 with the budget of Baht 6 million. After the project being completed, the thickness of products will be more reliable resulting in the better customers' satisfaction. Besides, it will help reduce yield loss from production as well as expenditures in the maintenance of the Company's transducers and machines for approximately over Baht 15 million per year.

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

Currently the company has been filing complaints for two Trade Remedy Measures, which are Anti-dumping Measure and Safeguard Measure, 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 each measure is as follows.

#### 1) Anti-dumping Measure

The company has filed complaints for 4 cases, of which current status 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 already approved initiation of investigation on 17 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 measure 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 checking the completion of complaint data.
- For the case of cold-rolled coil imported from China, Vietnam and Taiwan, Department of Foreign Trade already approved initiation of investigation on 17 August 2012. It is now on the process of answering the Department's questionnaires.

#### 2) Safeguard Measure

The company has filed complaint for one case, of which current status is as follows.

- The company submitted complaint to Department of Foreign Trade for Safeguard Measure against hot-rolled alloy steel (added with alloy such as Boron, Chromium, and others) in coils and

not in coils imported from any country on 21 August 2012. The Department is now checking the completion of complaint data.

#### Corporate Actions on Capital Structure

In Q3/2012, the Company has made the progress on financial structure for both the Company and subsidiaries which can be summarised as follow;

- 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 and SSI UK (“MOU for Vanomet Strategic Investment”).
- On 14 August 2012, the Company entered into the Memorandum of Understanding with three Short-Term Lenders and Senior Lenders to preliminarily agree on terms and conditions that they would provide financial back up for the Company (“MOU for Financial Backing”).
- On 14 August 2012, the Board of Directors considered the capital increase and the Comprehensive Financial Plan for the Company and its subsidiaries to secure long-term financial sustainability, and agreed to propose for further consideration and approval from shareholders meeting for the following actions;
  - (1) Vanomet agreed to invest USD 170 million by providing USD 100 million of short-term loan for SSI UK and USD 70 million of revolving working capital facility for SSI UK. Later, the Company and Vanomet will cooperate to convert such loans into newly issued ordinary shares of the Company in an amount of USD 100 – 170 million.
  - (2) The Company agreed to convert the slab prepayment amount, paid to SSI UK, amounting USD 125 million into newly issued ordinary shares in SSI UK in order to strengthen the financial structure of SSI UK.
  - (3) The Company and the Short-Term Lenders agreed to terminate the Standstill Agreement. In this regard, the Short-Term Lenders agreed to convert the status of the working capital loan to three-year amortising-long-term loan.
  - (4) The Company would reduce the debt-to-equity ratio by buying back the remaining convertible debentures with the total value of approximately Baht 2,097.41 million, and repaying the subordinated loan owed by SSI UK to SISH prior to the fund raising by the Company, including the payment of interests thereon, amounting approximately USD 33 million.
  - (5) The Company would increase its capital by issuing and offering newly issued ordinary shares for fund raising, totaling no more than Baht equivalent to USD 413 million. The objectives for the use of the capital increase proceeds are in order to 1) 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) buy back the outstanding subordinated convertible debentures from the holders who intend to sell back to the Company for the amount not exceeding Baht 1,800 million; 3) repay the subordinated loan owed by SSI UK to SISH prior to the fund raising by the Company, including the payment of interests thereon, amounting approximately USD 33 million; and 4) use the remaining amount as a capital for business operation, repayment of debts, and/or an additional working capital for the Company and SSI UK.

#### **Events after the End of Q3/2012 up to 14 November 2012**

#### Corporate Actions on Capital Structure

- On 11 October 2012, the Extraordinary General Meeting of Shareholders No. 2/2012 of the Company approved the capital increase and recapitalisation plan by issuing and offering 19,433,670,324 newly issued ordinary shares at a par value of Baht 1 per share, at the offering price of Baht 0.68 per share to 1) Vanomet; 2) the existing shareholders in proportion to their shareholding (Rights Offering); 3) persons under private placement scheme; 4) SISH, in order to use the proceeds therefrom for buying back the subordinated convertible debentures of the Company; and 5) SISH in order to use the proceeds therefrom to increase the capital in SSI UK for repayment of the subordinated loans lent by SISH to SSI UK prior to the fund-raising by the Company, including the payment of interests thereon.

- On 31 October 2012, the Company entered into the Partnership Agreement with JFE Steel Corporation (“JFE”) and Marubeni-Itochu Steel Inc. (“MISI”). JFE and MISI agreed to invest USD 25 million each in the newly issued ordinary shares of the Company at the offering price of Baht 0.68 per share with the total investment of USD 50 million. Moreover, JFE and MISI would increase its investment in Thai Cold Rolled Steel Sheet Public Company (“TCRSS”), the existing joint-controlled entity of the Company, by acquiring shares from the Company in an amount of approximately USD 50 million.
- On 6 November 2012, JFE and MISI subscribed and paid for 2,267,816,176 newly issued ordinary shares, at the offering price of Baht 0.68 per share, totaling the subscription proceeds of approximately Baht 1,542 million, which was in complying with the Partnership Agreement mentioned earlier.
- On 8 November 2012, the Board of Directors Meeting of the Company No. 15/2012 approved the additional investment in SSI UK by subscribing for the newly issued ordinary shares in SSI UK in an amount of not exceeding USD 141 million. Accordingly, SSI UK would use such proceeds as a capital for business operation, repayment of debts, and/or an additional working capital.
- During 6 – 19 November 2012, the Company is providing an opportunity for its shares holders to subscribe for newly issued ordinary shares to be allocated to its existing shareholders in proportion to their shareholding (Rights Offering).

## **9. Business Outlook in Q4/2012**

**World Steel Industry:** In Q4/2012, global steel market situation is expected to slightly improve. According to analysts’ perspective, the global steel market has already reached the bottom and the steel production cuts by some Chinese producers in August and September will likely to push the price situation in global steel market in Q4/2012. Besides, the measures to stimulate economies imposed by EU, the United States, Japan, and China will have real effects on manufacturing sector by the end of Q4/2012 to Q1/2013. Recently, there has been a sign of recovery such as the United States’ unemployment rate below 8% in September for the first time in over three years, and China’s Purchasing Manager Index slightly below 50% in September; thus, it helps support an expectation of that steel demand will pick up in Q4/2012. However, the course of situation might be changing contingent to how the turn of events in EU crisis will be, to how the actual Chinese GDP Growth deviating from consensus’s estimate figure, and to how the policy direction of the United States president re-elected will have an effect on the risk factor in fiscal policy or the so-called “Fiscal Cliff.”

Lastly, steel prices in Q4/2012 are expected to be slightly decreasing and stabilising at the beginning of Q4/2012, and then it will start to increase by the end of 2012 due to steel production cut by Chinese producers and improving steel demand. In Table 13, the average and estimate prices of slab, HRC and its essential raw materials for the third and the fourth quarter of 2012 are presented below.

**Table 13: Average Prices of Slab, HRC, and Other Raw Materials in Q3/2012 – Q4/2012**

	Q3/2012 (USD/ton) Estimate	Q3/2012 (USD/ton) Actual*	Q4/2012 (USD/ton) Estimate**
Premium HCC (FOB Australia)	190 – 221	164 – 180	143 – 148
Iron Ore (63% Fe CFR China)	128 – 130	116 – 119	116 – 118
Iron Ore (IODEX 62% Fe CFR North China)†	124 – 126	112 – 114	116 – 118
Slab (CFR East Asia import)	500 – 513	487 – 503	460 – 470
Slab (FOB Latin export)	550 – 560	545 – 557	460 – 475
HRC (CFR East Asia import)	576 – 604	552 – 582	547 – 564
HRC (Ex-mill US Midwest)	675 – 692	628 – 644	600 – 619

Sources: \* SBB-Steel Business Briefing website; average prices in Q3/2012

\*\*SBB-Steel Business Briefing website; average prices in Q4/2012 estimated as at 13 November 2012

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

**Thailand Steel Industry:** Despite the fact that domestic production for exports has been facing the difficulty caused by the economic crisis in EU and China, domestic consumption remains at high level. According to the Bank of Thailand, it is forecasted that GDP growth in 2012 will be 5.7%, whilst the Fiscal Policy Office predicted at level of 5.5%. Meanwhile, the Monetary Policy Committee cut the policy rate of interest down from 3.0% to 2.75% as a signal to stimulate economy, both domestic consumption and exports, of which expected to help alleviate an impact from global economic recession. However, it is expected that in Q4/2012 steel consumption in construction sector will improve since the rainy season was over. Whilst steel consumption in sectors of electrical appliances and home appliances will stabilise, steel demand in automotive sector will continue to grow with an estimate of 2.3 million units of cars to be produced by the end of 2012.

Whereas many sectors show positive sign of growth, an outlook of domestic HRC Apparent Steel Supply is likely to stabilise comparing to those in Q3/2012, due to the reduction in production plan of producers and the long public holidays in December. Therefore, the Company expects the demand of HRC to be stable whilst the domestic HRC Apparent Steel Supply will slightly decrease from 1.65 million tons in Q3/2012 to be 1.64 million tons in Q4/2012, or decreasing by 0.64% QoQ.

**Table 14: HRC Apparent Steel Supply**

<b>HRC Apparent Steel Supply</b>				
	<b>Q3/2012 (tons) Estimate</b>	<b>Q3/2012 (tons) Actual</b>	<b>Q4/2012 (tons) Estimate</b>	<b>Growth Rate (%)</b>
Domestic Production	750,000	654,483	654,000	-0.07%
Import	800,000	1,002,551	989,000	-1.35%
Export	-	6,546	3,000	-54.17%
<b>Total</b>	<b>1,550,000</b>	<b>1,650,488</b>	<b>1,640,000</b>	<b>-0.64%</b>

*Source: Iron and Steel Institution of Thailand for Q3/2012, and the Company's estimate for Q4/2012*

For Q4/2012, the Company is expecting HRC sales volume to remain at the same level as in Q3/2012. HRC average selling price and slab price are likely to stabilise while HRC Rolling Margin is expected to be in range of 11% - 13% with the target of Premium Value Products ratio at 40% of sales volume.

For Iron and Steel Making Business, slab shipments are expected to be approx. 630 k tons, which 25% of total sale will be sold to external parties.

#### **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