



Management's Discussion and Analysis (MD&A)

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

For the First Quarter of 2012

1. First Quarter 2012 Highlight

- Lost-Time Injury Frequency Rate (LTIFR) of 2.67, + 23.6% QoQ while - 2.2% YoY.
- Highest quarterly sale and service revenues of Baht 15,742 million, + 21% QoQ and + 31% YoY.
- HRC shipment of 497 k tons, + 64% QoQ but - 5% YoY, resulting from the recovery after Thailand Flood.
- First steel producer in Thailand to reach 26 MT of cumulative HRC production.
- Premium Value Products ratio rose to 42% from 38% in Q4/2011.
- HRC spread of USD 91/ton, - 31% QoQ and - 41% YoY with HRC Rolling Margin* of 12.1%
- HRC EBITDA/ton at USD 37.2/ton, + 58% QoQ while - 34% YoY.
- Coke sales of 275 k tons, - 34% QoQ.
- COKE Spread of USD 12.3/ton, improved from negative of USD 7.5/ton QoQ.
- Negative COKE EBITDA of USD 41.1/ton, reduction in negative of USD 24.8/ton QoQ.
- Negative Group EBITDA of Baht 1,879 million, less in negative of 5% QoQ but decreased from positive EBITDA of Baht 5,938million in Q1/2011.
- Net loss of Baht 2,841 million, loss increased 20% QoQ and decreased from net profit of Baht 5,525 million in Q1/2011.
- NET Debt** of Baht 46,510 million, + 3% QoQ.
- CNC Engraving Roll Machine was recognized as an Outstanding Invention Award on Engineering and Industry Category for the year 2012 from the National Research Council on 2 Feb 2012
- Received Prime Minister's Industry Award 2011 for Energy Management on 29 Feb 2012

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

2. Business Outlook Q2/2012

- HRC domestic demand in Q2 will slightly drop to approx. 1.57 MT or - 4.3% QoQ.
- SSI UK started to relight its Blast Furnace on 15 Apr 2012 and produced the first steel slab on 18 Apr 2012.
- PPC completed the installation and ready to commission on 18 Apr 2012.
- HRC shipments are expected to be the same level as Q1/2012.
- HRC average selling price and slab price are likely to soften while HRC Rolling Margin is expected to be in range of 15% - 18%.
- For Iron and Steel Making business, there will be the revenue from tolling operation, sales of coke totaling approx. 100 k tons and slab sale with the sale volume of approx. 450 k tons most of which will be sold to the Company.
- To be started an operation of bonded warehouse of General type within May 2012.

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 | 15,742 | Sahaviriya Steel Industries Plc. (Hot Rolled Steel Coil) | 1,144 | 569 |
| Group EBITDA* | (1,879) | Sahaviriya Steel Industries UK Limited (Iron and Steel Making) | - | (2,486) |
| Net Profit (Loss) | (2,841) | Prachuap Port Co., Ltd. (Deep Sea Port) | - | 52 |
| EPS (Baht) | (0.16) | West Coast Engineering Co., Ltd. (Engineering and Maintenance Service) | - | 17 |
| D/E Ratio** | 2.19x | Thai Cold Rolled Steel Sheet Plc. (Cold Rolled Steel Coil) | 2,173 | 238 |

* 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

3. Business results

Steel Industry in Q1/2012

World Steel Industry: Slightly improvement of world economic, including the good sign from resolving public debt in Euro zone countries made steel industry rebound in Q1/2012. World Steel Association (WSA) reported that crude steel production in Q1/2012 was 376.76 million tons; increasing by 1.1% compared to the same period of last year, while crude steel production from North and South America region was increased by 6.7% compared to the same period of last year resulting from economic improvement. In Asia and Oceania, major crude steel producers were China, South Korea and New Zealand with the annual growth rate of 2.5%, 4% and 15.5% respectively, whilst Japan, Taiwan and Australia faced the reduction in crude steel production when compared to the same period of last year by 4.1%, 2.8% and 28.8% respectively. In term of steel price, the average price of HRC CFR East Asia for Q1/2012 was 638 – 655 USD/ton (Source: SBB-Steel Business Briefing website, CFR East Asia Import price), slightly increased from that of Q4/2011, in line with Slab price (raw material) which had average price during the same period at 580 – 590 USD/ton (Source: SBB-Steel Business Briefing website, CFR East Asia Import price).

Thailand Steel Industry: The recovery of the manufactures from flood crisis since December 2011, especially for the basic industries which not require complicate technology for their production, made these industries consume steel back to the normal level. However, for those who rely on high technology to support their production, such as automobile, home appliance, most of these factories are under maintenance in order to restart their production again, so that there is a few demand for steel from this group. Based on the information from Iron and Steel Institution of Thailand (ISIT) reported that steel production in Thailand during the first quarter of this year was at 765 k tons, decreased by 15.9% from the same period of last year as a result of the recovery of the effected industries still not yet back to the normal production level, and high volume of import products from aboard which had been recorded at 879 k tons, increased

by 8% compared to the same period of last year. However, the export volume was at 3.4 k tons, decreased by 79% YoY.

Based on the information from Bank of Thailand (BOT), car production for Q1/2012 was 499,560 units, increased by 6.52% compared to the same period of last year. In respect of home appliance industries, such as refrigerator and air conditioner, their production trend continued to grow. In Q1/2012, refrigerator production was 1.2 million units. For air conditioner, the production in Q1/2012 was at 2.4 million units.

Q1/2012 Results

The Company and its subsidiaries recorded the highest quarterly sale and service revenues of Baht 15,742 million, increased 21% QoQ and 31% YoY due to the economic recovery from Thailand Flood and the increasing in revenues from its Iron and Steel Making Business in UK. However, the expenses incurred as the Company's Iron and Steel Making Business prepared to restart steel production led to net loss of Baht 2,841 million compared to net loss of Baht 2,376 million in Q4/2011 and net profit of Baht 5,525 million in Q1/2011.

HRC Business The Company can bring HRC sales volume back to normal level in Q1/2012 although the economic situation didn't fully recover from Thailand Flood. HRC sales volume rose to 497 k tons from 303 k tons in Q4/2011 with total sale and service revenues of Baht 11,584 million. The Company continued to focus on expanding sales of Premium Value Products and the proportion of sales of Premium Value Products increased from 38% in Q4/2011 to 42% in Q1/2012.

HRC spread dropped to USD 91/ton with HRC Rolling Margin at about 12.1% as HRC selling price declined compared with high raw material cost carrying since Q3/2011. However, there is the reversal of provision for decline in value of inventory, which the Company recorded since Q4/2011, in an amount of Baht 366 million, HRC EBITDA/ton improved to USD 37.2/ton from USD 23.6/ton in Q4/2011, but still much lower than the long-term average EBITDA/ton of USD 50/ton.

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, no steel slab production and current operations were dominated by the coke business which included coke sales and toll manufacturing of coke product and sale of other by products. Total revenue for Q1/2012 was at Baht 4,085 million mainly from sales of 275 k tons of coke, decreased 34% QoQ, at average selling price of USD 372/ton, decrease 0.3% QoQ. Cost of raw material was at USD 360/ton, decreased 5% QoQ. COKE Spread increased from negative of USD 7.5/ton to positive of USD 12.3/ton due to the decreasing in raw material cost and the reversal of provision for decline in value of inventory of Baht 192 million. The business generated a net loss of Baht 2,849 million, loss increased 40% QoQ, which resulted primarily from 1) losses of approximately Baht 657 million from coke business and expenses from other operating assets; 2) losses from non-operational assets of about Baht 1,907 million, and 3) interest expense of Baht 266 million.

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

Table 2: Summary of Consolidated Financial Results

| Unit: million Baht | 2012 | 2011 | +/- | 2011 | +/- |
|--|----------|----------|-------|----------|-------|
| | Q 1 | Q 4 | QoQ | Q 1 | YoY |
| Sale and service revenues | 15,742 | 13,008 | +21% | 12,016 | +31% |
| Cost of sale and service | (17,312) | (14,665) | +18% | (10,810) | +60% |
| SG&A | (600) | (385) | +56% | (377) | +59% |
| Provision for loss under onerous contracts | (5) | (182) | -97% | (96) | -94% |
| Gain on business acquisition | 0 | 0 | N.A. | 5,271 | N.A. |
| EBITDA | (1,879) | (1,986) | -5% | 5,938 | -132% |
| Interest expense | (684) | (676) | +1% | (219) | +212% |
| Depreciation and amortization | (286) | (262) | +9% | (190) | +50% |
| Income tax | 8 | 548 | -99% | (4) | -310% |
| Realized FX gain (loss) | (249) | 115 | -317% | (110) | +126% |
| Unrealized FX gain (loss) | 230 | (28) | -920% | 35 | +547% |
| Net profit (loss) | (2,841) | (2,376) | +20% | 5,525 | -152% |
| EPS (Baht) | (0.16) | (0.14) | +14% | 0.36 | -144% |

Note: *EBITDA for Q1/2011 calculated from net profit which included gain from business acquisition

Table 3: Financial Results by Business

| Unit: million Baht | 2012 | 2011 | +/- | 2011 | +/- |
|--|----------------|----------------|-------------|---------------|--------------|
| | Q 1 | Q 4 | QoQ | Q 1 | YoY |
| <u>Sale & Service Revenue</u> | | | | | |
| Consolidated | 15,742 | 13,008 | +21% | 12,016 | +31% |
| HRC Business | 11,584 | 7,647 | +51% | 11,946 | -3% |
| Iron and Steel Making Business | 4,085 | 5,266 | -22% | - | N.A. |
| Deep Sea Port Business | 28 | 39 | -27% | 35 | -20% |
| Engineering & Maintenance Service Business | 45 | 57 | -20% | 35 | +29% |
| <u>EBITDA</u> | | | | | |
| Consolidated | (1,879) | (1,986) | -5% | 5,938 | -132% |
| HRC Business | 569 | 211 | +169% | 907 | -37% |
| Iron and Steel Making Business | (2,486) | (2,215) | +12% | 4,989 | -150% |
| Deep Sea Port Business | 52 | 76 | -31% | 51 | +2% |
| Engineering & Maintenance Service Business | 17 | 19 | -11% | 23 | -27% |
| Elimination of Related Parties Transaction | (32) | (77) | | -33 | |
| <u>Profit/(Loss)</u> | | | | | |
| Consolidated | (2,841) | (2,376) | +22% | 5,525 | -152% |
| HRC Business | 7 | (325) | -102% | 542 | -99% |
| Iron and Steel Making Business | (2,849) | (2,031) | +40% | 4,980 | -157% |
| Deep Sea Port Business | 27 | 51 | -47% | 25 | +6% |
| Engineering & Maintenance Service Business | 5 | 5 | +15% | 10 | -46% |
| Elimination of Related Parties Transaction | (18) | (59) | | (15) | |
| Non-Controlling Interest | (13) | (17) | | (17) | |

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 Q1/2011 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 4: Performance Highlight of Sahaviriya Steel Industries Plc.

| Unit: USD/Ton | 2012 | 2011 | +/- | 2011 | +/- |
|----------------------------|------|------|------|------|------|
| | Q 1 | Q 4 | QoQ | Q 1 | YoY |
| Average Selling Price | 752 | 783 | -4% | 736 | +2% |
| Average Cost of Goods Sold | 751 | 743 | +1% | 662 | +13% |
| HRC Spread* | 91 | 132 | -31% | 153 | -41% |
| HRC EBITDA | 37.2 | 23.6 | +58% | 57 | -34% |
| Sales Volume (k tons) | 497 | 303 | +64% | 524 | -5% |
| Production Volume (k tons) | 499 | 376 | +33% | 539 | -7% |

Note: *HRC Spread excluded the provision for decline in value of inventory or the reversal thereof.

Table 5: Performance Highlight of Sahaviriya Steel Industries UK

| Unit: USD/Ton | 2012 | 2011 | | | +/- |
|------------------------------|--------|--------|--------|--------|-------|
| | Q 1 | Q 4 | Q 3 | Q 2 | QoQ |
| COKE Business | | | | | |
| Average Selling Price | 372 | 373 | 388 | 465 | -0.3% |
| Average Raw Material Cost | 360 | 380 | 386 | 451 | -5% |
| COKE Spread* | 12.3 | (7.5) | 1.8 | 13.7 | +264% |
| COKE EBITDA | (41.1) | (65.9) | (45.8) | (21.6) | +0.2% |
| Sales Volume (k tons) | 275 | 418 | 224 | 44 | -34% |
| Production Volume** (k tons) | 425 | 407 | 425 | 421 | +4% |

Note: *COKE Spread included the provision for decline in value of inventory or the reversal thereof.

**Production volume included production for sale and production for tolling operation.

Explanation of the Company and its subsidiaries' operating results for Q1/2012

Revenue

The Company and its subsidiaries recorded a total sale and service revenues of Baht 15,742 million, increased 21% QoQ and 31% YoY, with the core revenue driven by:

HRC Business recorded 497 k tons sale, increased 64% QoQ but decreased 5% YoY with average selling price of Baht 23,117/ton (approximately USD 752/ton), decreased 4% QoQ while increased 2% YoY. HRC and scrap sale revenue totaled Baht 11,584 million:

- Increasing 51% QoQ as a result of 64% increase in sales volume due to the starting of economic recovery after Thailand Flood in Q4/2011.
- Decreasing 3% YoY as a result of 5% decrease in sales volume.

Ratio of Premium Value Products to total sales equals to 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. However, in Q1/2012, no steel slab production and the core revenues were from coke operation. Revenue from coke sales, tolling of coke production, by-products and other revenues totaled Baht 4,085 million, an decrease by 23% QoQ, with coke sales of 275 k tons, decreased 34% QoQ at the average selling price of USD 372/ton, decreased 0.3% QoQ.

Deep Sea Port Business recorded service revenue from other customers apart from the Company and its subsidiaries of Baht 28 million:

- Decreasing 27% QoQ due to decrease in total throughput volume by 18% QoQ.
- Decreasing 20% YoY due to lower total throughput volume by 24% YoY.

Engineering and Maintenance Service Business recorded service revenue from other customers apart from the Company and its subsidiaries of Baht 45 million,

- Decreasing 20% QoQ due to revenue from engineering and project management dropped comparing to such revenue in Q4/2011. The reason of the reduction in revenue was most of projects for foreign customers were completed since Q4/2011.

- Increasing 29% YoY due to the increase in revenue from providing high technology engineering service to new customer.

Cost of sale and service

The Company and its subsidiaries recorded cost of sale and service of Baht 17,312 million, 18% increase QoQ and 60% YoY consisting of cost of sale and service of Baht 17,952 million and the reversal of provision for decline in value of inventory of Baht 640 million.

HRC Business recorded total cost of goods sold of Baht 11,196 million comprising of cost of sale of Baht 11,562 million and the reversal of provision for decline in value of inventory totaling Baht 366 million.

- Increasing 49% QoQ due to 64% increase in sales volume and a increase in average cost of sale of USD 8/ton reflecting high raw material cost carrying since Q3/2011.
- Increasing 4% YoY due to an increase in cost of sale per ton of USD 89/ton or 13% increase YoY resulting from an increase in raw material cost of USD 82/ton and a decrease in sales volume by 5% YoY.

Iron and Steel Making Business recorded cost of sale and service of Baht 6,106 million consisting of cost of goods sold of Baht 6,379 million and reversal of provision for decline in value of inventory of Baht 274 million (approx. Baht 192 million on coking coal and coke and Baht 82 million on iron ore), total decrease in cost of sale and service of 14% QoQ due to a decreasing in sales volume by 34% QoQ. The aforementioned amount comprised of (1) coke and other operational expenses of Baht 4,162 million which included the reversal of provision for decline in value of inventory of Baht 192 million and (2) expenses relating to non-operating assets of Baht 1,944 million. Main expenses related to the non-operating assets which increased over the previous quarter are the maintenance expenses to maintain the machinery to be ready for start up, the employment related cost, and the raw material handling and internal transportation cost.

Gross Profit

The Company and its subsidiaries recorded gross loss of Baht 1,570 million, decreased in loss of Baht 87 million from gross loss of Baht 1,657 million in Q4/2011 and decreased from gross profit of Baht 1,207 million in Q1/2011.

HRC Business recorded gross profit of Baht 338 million

- Increasing 180% QoQ despite of decreasing in HRC spread from USD 132/ton to USD 91/ton or 31% decrease QoQ due to the reversal of provision for decline in value of inventory of Baht 366 million.
- Decreasing 66% YoY resulting from the decreasing in HRC spread from USD 153/ton to USD 91/ton or 41% decrease YoY and the decreasing in sales volume by 5% YoY.

Iron and Steel Making Business recorded gross loss of Baht 2,022 million, increased in loss of Baht 158 million from gross loss of Baht 1,864 million in Q4/2011. Gross loss relating to coke business and expenses on other operational assets approx. Baht 675 million in Q1/2012, decrease from loss of approx. Baht 1,100 million in Q4/2011. Such loss resulted from the increasing in COKE Spread from negative of USD 7.5/ton in Q4/2011 to positive Spread of USD 12.3/ton but such increase could not adequately cover coke operation expenses incurred in coke sales and tolling. Losses from non-operating were approx. Baht

1,363 million increasing from approx. Baht 750 million in Q4/2011 due to increasing costs in non-operating assets as stated above.

Selling and Administrative Expense (SG&A)

The Company and its subsidiaries recorded Baht 600 million, increasing 56% QoQ and 59% YoY.

HRC Business recorded SG&A of Baht 143 million

- Decreasing 4% QoQ due to a decrease in administrative expense of Baht 36 million or 31% QoQ reflecting the dropped in employment cost and transportation cost while the selling expense increased from the rose in sales volume by 64% QoQ.
- Decreasing 12% YoY due to a decrease in selling expense from Baht 89 million in Q1/2011 to Baht 61 million and a decrease in sales volume by 5% YoY.

Iron and Steel Making Business recorded SG&A of Baht 433 million, rising 104% QoQ mainly resulting from the normal business rate comparing to reduced rate received in last quarter and expenses related to legal advisory for arranging additional financing.

Provision for loss under onerous contracts The Company and its subsidiaries recorded provision for loss under onerous contracts of Baht 5 million in Q1/2012 which is the provision for HRC business since the Company has remaining obligation under onerous contract at the end of quarter.

EBITDA

The Company and its subsidiaries recorded negative EBITDA of Baht 1,879 million, decreased in loss by 5% QoQ and decreased from positive EBITDA of Baht 5,938 million in Q1/2011.

HRC Business recorded EBITDA of Baht 569 million or equivalent to HRC EBITDA of USD 37.2/ton (approximately Baht 1,144/ton).

- Increasing 169% QoQ due to HRC EBITDA/ton increased by 58% QoQ and the sales volume increased by 64% QoQ
- Decreasing 37% YoY due to lower sales volume by 5% and decrease in HRC EBITDA/ton by 34% YoY.

Iron and Steel Making Business recorded negative EBITDA of Baht 2,486 million, decreased in loss from Q4/2011 which recorded negative EBITDA of Baht 2,215 million due to the increasing in expenses relating to non-operating assets and selling and administration expenses as mention aboved.

Interest Expense

The Company and its subsidiaries recorded interest expenses of Baht 684 million, increasing 1% QoQ and 212% YoY

HRC Business recorded interest expense of Baht 414 million

- Increasing 0.4% QoQ
- Increasing 102% YoY due to increasing short term loan used for raw materials procurement, increase in long term loan for the investment in Iron and Steel Making

business, increasing in the interest rate and loss from entering into the interest rate swap contract.

Iron and Steel Making Business recorded interest expenses of Baht 266 million, increasing 2% QoQ.

Others

The Company and its subsidiaries recorded its share of profit from jointly controlled entities of Baht 35 million, increasing from share of loss of Baht 91 million in Q4/2011 and from loss of Baht 95 million in Q1/2011. Such share of profit comprise of profit from Cold Rolled Coil business of Baht 19 million and deep sea port business in UK of Baht 16 million.

Cold Rolled Coil Business with shipment volume of 109 k tons, recorded sale revenue of Baht 3,367 million

- Increasing 38% QoQ due to the starting in operation of customers, who received an impact from Thailand Flood, and gradually received the shipment after delay such shipment in Q4/2011. Total sales volume of domestic customer increased 30% led to the gross profit of Baht 197 million rising 100% QoQ, EBITDA of Baht 238 million increasing 32% QoQ and the net profit of Baht 68 million increasing 75% QoQ.
- Decreasing 16% YoY due to lower sales volume comparing to Q1/2011 the steel domestic demand has not fully recovered especially for demand from supply chain factories in industrial estates which were impacted by Thailand Flood in Q4/2011 i.e. automobile and electrical appliance. Such lowering sales volume led to a decrease in gross profit by 39% YoY, EBITDA by 35% YoY, and net profit by 65% YoY.

Profit/(Loss)

The Company and its subsidiaries recorded net loss of Baht 2,841 million, increase in loss from net loss of Baht 2,376 million in Q4/2011 and decrease from net profit of Baht 5,525 million in Q1/2011. Loss was mainly attributed to the following:

HRC Business recorded a profit of Baht 7 million (included realized loss on FX of Baht 33 million and unrealized gain on FX of Baht 193 million)

- Increasing 102% QoQ from net loss of Baht 325 million in Q4/2011
- Decreasing profit of 99% YoY from net profit of Baht 542 million in Q1/2011

Iron and Steel Making Business recorded net loss of Baht 2,849 million which included losses from foreign exchange of Baht 143 million, resulting in an increase in loss by 40% QoQ and an increase in loss from net loss of Baht 291 million (exclude gain on business acquisition of Baht 5,271 million) in Q1/2011.

5. Consolidated Financial Status

Table 6: Condensed Consolidated Statements of Financial Position

| Unit: million Baht | Q1 2012 | Q4 2011 | +/- QoQ | Q1 2011 | +/- YoY |
|---|---------------|---------------|-------------|---------------|-------------|
| Assets | | | | | |
| Account Receivable | 5,441 | 5,240 | +4% | 2,568 | +112% |
| Inventories | 16,983 | 25,178 | -33% | 18,621 | -9% |
| Other Current Assets | 1,801 | 1,025 | +76% | 2,007 | -10% |
| Total Current Assets | 24,225 | 31,443 | -23% | 23,197 | +4% |
| Property, Plant and Equipment | 51,373 | 50,147 | +2% | 44,831 | +15% |
| Investment in jointly-controlled entities | 4,718 | 4,683 | +1% | 4,716 | +0% |
| Other Non-Current Assets | 74 | 87 | -18% | 69 | +7% |
| Total Assets | 80,390 | 86,364 | -7% | 72,813 | +10% |
| Liabilities | | | | | |
| S/T Debt and Current Portion of L/T Interest Bearing Debt | 25,554 | 25,683 | -1% | 15,741 | +62% |
| Account Payable | 6,526 | 10,685 | -39% | 2,166 | +201% |
| Other Current Liabilities | 1,347 | 1,126 | +20% | 1,212 | +11% |
| Total Current Liabilities | 33,427 | 37,494 | -11% | 19,118 | +75% |
| L/T Interest Bearing Debt | 21,361 | 19,641 | +9% | 17,874 | +20% |
| Other Non Current Liabilities | 4,160 | 4,281 | -3% | 4,804 | -13% |
| Total Liabilities | 58,947 | 61,416 | -4% | 41,797 | +41% |
| Equity | | | | | |
| Equity Attribute to Equity Owners of the Company | 20,582 | 24,096 | -15% | 30,188 | -32% |
| Non-Controlling Interests | 861 | 852 | +1% | 828 | +4% |
| Total Equity | 21,443 | 24,948 | -14% | 31,016 | -31% |
| Total Liabilities and Equity | 80,390 | 86,364 | -7% | 72,813 | +10% |

Consolidated Financial Position as at the end of Q1/2012

Trade and Notes Receivable totaled Baht 5,441 million, increased by 4% QoQ and 112% YoY. There is no bad-debt write-off or additional provision as at the end of Q1/2012.

Inventory amounted to Baht 16,983 million, a decrease of 33% QoQ and 9% YoY due to the decrease in the Company's inventory, comprising of Baht 9,486 million of raw materials (slabs, coking coal and coke), decreased by 28% QoQ while increased 36% YoY, Baht 84 million of raw materials in transit (slabs), decreased by 98% QoQ and 98% YoY, Baht 5,922 million of finished goods and work-in-process (HRC and PO), decreased by 1% QoQ and 0.5% YoY, and Baht 2,399 million of tools and spare parts. A total of Baht 907 million of allowance for decline in value has been taken against the inventories as at the end of the quarter.

Current Ratio was at 0.72x, decreasing from 0.84x as at the end of year 2011, and 1.21x as at the end of Q1/2011 as a result of the decrease of 23% QoQ in current assets whereas current liabilities decreased by just 11% QoQ. The decrease in current assets was mainly as a result of decrease in inventory as sales volume recovered from the impact of the Thailand Flood and from the implementation of slab consignment scheme. The decrease in current liabilities was less than the decrease in current assets because the Company's cash flow was partially used to support SSI UK, which required additional liquidity as a result of past delays. The Company's liquidity also deteriorated more than expected due to the slow-down in domestic steel market in Q4/2011 during Thailand Flood. These events prompted the Company to request for partial deferral of payment of certain scheduled repayments (for which the Company has received consent from the relevant long-term lenders). The Company also sought to extend the repayment dates for short-term loans, which are used to fund its working capital, from its short-term loan lenders. The Company and its majority short-term loan lenders agreed and entered into a Standstill Agreement wherein the banks agree to forbear from demanding payments of short term loan repayments due between date of the agreement and 30 September 2012.

Liabilities and Liquidity Management Total liabilities amounted to Baht 58,947 million, a decrease by 4% QoQ but increase by 41% YoY from borrowings for the investment and operation of Iron and Steel Making business, the majority of which is from borrowings from financial institution and trade payable. The Company and its subsidiaries had a total outstanding as at 31 March 2012 of Baht 45,254 million comprising of, Baht 22,185 million of short-term borrowing, Baht 1,723 million of current portion, and Baht 21,346 million of long-term borrowing.

At present the Company and its subsidiaries have available working capital credit facilities totalling approx. Baht 18,200 million and the consignment scheme to fund its working capital requirement.

Interest Bearing Debt to Equity Ratio Total equity was at Baht 21,443 million, decreased by 14% QoQ and 31% YoY, due to net loss in Q1/2012 effect to reduction in retained earning. Interest bearing debt stood at Baht 46,914 million, increased by 4% QoQ and 40% YoY. As a result, interest bearing debt to equity ratio for the period-ended was 2.19x compared to 1.82x as at the end of Q4/2011 and 1.08x as at the end of Q1/2011. The ratio as of end of Q1/2012 exceeded the level set under the existing loan agreement. Such breach of ratio covenant has been waived by the banks.

6. 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 |
| PPC Shore Crane | Able to support up to 70,000 dwt Panamax-class or larger vessels | USD 10 million | <ul style="list-style-type: none"> ▪ Signed contract on 14 Dec 2011 ▪ Equipment arrived at PPC on 16 Mar 2012 ▪ Completed installation and commissioned on 18 Apr 2012 |

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 252 million (excluded VAT) committed as at the end of March 2012, of which USD 176 million (excluded VAT) has been paid. The refurbishment activities in all facilities of SSI UK Restart project have been completed, 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 forecast at 2.2 million tons and the production volume will ramp-up to 10,000 tons per day or an annualised rate of 3.6mtpa by Q4/2012. The Pulverised Coal Injection ("PCI") facility, which will deliver significant cost savings associated with coke rate and furnace fuel by USD 30/ton (calculate based on the fuel cost in Q2/2011), will be operational by Q1/2013.

PPC Shore Crane Project All equipment has already been delivered and arrived at PPC's port on 16 March 2012. All equipments have already been assembled, installed, commissioning test and hand over to PPC on 18 April 2012.

The shore cranes will enable highly efficient loading or discharge of steel slabs and other products with Panamax-class or larger vessels, which are usually without vessel cranes. The Company expects to save freight cost by USD 7.5/ton (based on freight rate as of October 2011).

7. Recent Development

Anti-Dumping against Imported HRC

The emergency measure for boron-added HRC imported from China that required importers to place bonds as security for the provisional anti-dumping duties of 19.47% for a period of 180 days was ended on 16 February 2012 and the preliminary measure is under consideration by the Ministry of Commerce.

The Company filed a request to the Ministry of Commerce to review the anti-dumping duties imposed on HRC imported from Korea and the petition is under the consideration of the Ministry of Commerce before starting investigation.

Corporate Governance and Corporate Social Responsibility

The Company and business partner organized the walk-run charity event, Thailand Iron Man Mini Marathon, on 11 February 2012. Total Baht 2.3 million had been raised and contributed to more than 20 organizations and foundations for vulnerable people.

Continuous effort in reducing cost

- The Company received the Prime Minister's Industry Award 2011 for Energy Management from Prime Minister on 29 February 2012.
- On 8 March 2012, Customs Department approved in principle for the company to set up a bonded warehouse of general type to store steel slabs. The bonded warehouse will start operation by end May 2012, potentially saving cost related to VAT payment by about Baht 11 million per annum (calculated from 2.4 million tons per annum production, interest cost 5.43% p.a., and exchange rate Baht 30.89 per USD1.)

Innovated Premium Product Project (Value +1 and Value +2)

In 2011, SSI launched an Innovated Value Product called "Value +1", whose steel sheet has lower width tolerance of 8 millimeters (from the usual 10 millimeters tolerance). In Q1/2012, SSI further innovated the product to the next stage, launching a new product called "Value +2", with narrower width tolerance of 6 millimeters. This product successfully creates value for the customers by reducing yield loss at their process by 0.3%-0.5%

CNC Engraving Roll Machine was achieved an Outstanding Invention Award for the year 2012

From submission of work called "CNC Engraving Roll Machine", an invention work of engineering and industry category, WCE was awarded an Outstanding Invention Award for the year 2012 from the National Research Council and received an honorable certificate, medal and awarding money of Baht 250,000 from Prime Minister on 2 February 2012

8. Outlook and Guidance

World Steel Industry – Due to the slowdown in China's economic growth in Q1/2012 and the Chinese government's driver towards restructuring of its economy, coupled with European sovereign debt crisis and the rising oil price, WSA in April revised downward its forecast of growth in global apparent steel use in 2012 to 3.6% (equivalent to approximately 1,422 million tons) from its previous forecast of 5.4% growth rate. Major region which are expected to register demand growth from 2011 are India, the United States, NAFTA, CIS countries and China which are expected to grow by 6.9%, 5.7%, 5.2%, 4.1% and 4% respectively. Regions which are expected to experience a decline in steel demand compared to 2011 are the European Union and Japan whose demand are projected to decline by 1.2% and 0.6% respectively. Global steel industry is expected to follow a recovery trend in the first half of 2012 and to stabilize in the second half of 2012. WSA forecast of global apparent steel use growth to be 4.5% equivalent to total consumption of 1,486 million tons in 2013 with forecast of key materials, slabs and HRC as per the table below:

| | Q1/2012 (USD/Ton) | Q2/2012 (USD/Ton) |
|-----------------------------|----------------------|----------------------|
| Coking coal (FOB Australia) | 214 – 220 | 210 – 220 |
| Iron ore (63% Fe CFR China) | 146 – 148 | 149 – 152 |
| Slab (CFR East Asia import) | 580 – 590 | 600 - 612 |
| Slab (FOB Latin export) | 565 – 595 | 560 – 585 |
| HRC (CFR East Asia import) | 638 – 655 | 653 - 667 |

Source: SBB-Steel Business Briefing website as at 14 May 2012

Thailand Steel Industry – Demand for steel in Q2/2012 is expected to be stagnant in spite of the chain of industries consuming steel recovering fully from the impact of the flood. Main cause of limited growth is due to the Songkran holiday in April. For automation industry, production has recovered and continues to expand with production output in March 2012 of 0.19 million units which is 11.07% higher than in March 2011 and in the highest monthly production output in the 50 years history since the first automobile production in 1961. However for QoQ comparison, auto production in Q2/2012 is expected to be 477,777 units which is lower than Q1/2012 by 4.4% as a result of Songkarn holiday in April.

HRC apparent steel supply is expected to decline slightly from the previous quarter mainly as due to the Songkran holiday in April in spite of the overall recovery from the impact of flood. The Bank of Thailand now expects a full economic recovery by the end of Q2/2012, earlier than in originally anticipated Q3/2012, which should result in improvement for steel demand in Q3/2012 and the remainder of 2012. The Company anticipated HRC apparent steel supply to be around 1.57 million tons, a decrease of 4.3% from 1.64 million in Q1/2012 as a result of Songkarn holiday as mentioned above. Outlook on Domestic production volume will be subject to impact from potential import of boron-added HRC from China which is currently being reviewed by the government authorities for the measures against such import.

| HRC Domestic Demand (Estimated) | | | |
|--|-----------------------|-----------------------|------------------------|
| | Q1/2012 (Tons) | Q2/2012 (Tons) | Growth rate (%) |
| Domestic | 765,000 | 690,000 | -9.8% |
| Import | 878,824 | 880,000 | +0.1% |
| Export | 3,428 | - | -100% |
| Total | 1,640,396 | 1,570,000 | -4.3% |

Source: ISIT for Q1/2012 and The estimation of HRC demand by the Company for Q2/2012

For Q2/2012, the Company expects HRC sales volume to be at the same level as in Q1/2012. HRC average selling price and slab price are likely to soften while HRC Rolling Margin is expected to be in range of 15% - 18% with the target of Premium Value Products ratio at 45% of sales volume.

For Iron and Steel Making business, the revenue from coke sales and tolling operation, which is the main revenue in year 2011, is expected to decrease to tolling operation revenue and revenue from 100 k tons of coke sales which there will be revenue from slab sales. Slab sale volume is expected to be approx. 450 k tons most of which will be sold to the Company.

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

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