August 29, 2023

Subject Management Discussion and Analysis for the six months ended June 30, 2023

Attention President

The Stock Exchange of Thailand

P.S.P. Specialties Public Company Limited and subsidiaries (collectively called the "Company") would like to inform the analysis of financial performance, financial positions and financial ratio for the six months ended June 30, 2023. The details are as follows:

A summary of the key financial information for the six months ended June 30, 2023

THB mm	For the six months ended June 30,		Change	
	2021	2022	THB mm	%
Total Revenue	6,800.9	6,046.6	(754.3)	(11.1)
Gross Profit	873.6	633.9	(239.7)	(27.4)
Net Profit	371.3	185.2	(186.1)	(50.1)
Comprehensive income	371.8	185.5	(186.3)	(50.1)

Total Revenue

The total revenue of the Company for the six-month period ending on June 30, 2022, and 2023 were THB 6,800.9 million and THB 6,046.6 million, respectively, equivalent to a decrease of 11.1%. Revenues from sales account for approximately 95-96% of the total revenues from sales and services for the years 2020-2021. While revenues from services contribute approximately 4-5% of the total revenues from sales and services for the corresponding years. Therefore, changes in the Company's revenues primarily attributable to changes in revenues from sales.

In the six-month period ending on June 30, 2023, the Company's total revenues decreased according to the decrease in revenues from sales. It decreased from THB 6,527.4 million for the six-month period ending on June 30, 2022, to THB 5,738.1 million for the six-month period ending on June 30, 2023, equivalent to a decrease of 12.1%. The decrease was mainly driven by a decline in sales volume (including sales volume in the trading business of raw materials and products) of 17.8% in the six-month period ending on June 30, 2023, compared to the same period of the previous year as a result of (1) a decrease in customers' purchase orders in the integrated business of developing and manufacturing products as a result of a decrease in sales volume of lubricant as the clients' orders decreased because the Company's selling prices are high according to the high raw material costs. In addition, the sale volume in the first half of 2022 was high comparing to sale

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volume of the previous years as well as the decrease in sale volume of greases partly due to supply shortages and cost increase as demands for Lithium, one of grease production materials, which was also used as production material for various industries including battery production and (2) a decrease in sales volume in the trading business of raw materials and product both sales volume domestically and internationally as customers delayed their purchase order. Such decrease was offset by an increase in selling price per unit (average price of all products) of 6.9%, while the price of base oil in the global market decreased by 10.3%, compared to the same period of the previous year. However, as the Company's selling prices adjusting slower than the decrease in base oil prices in the global market. During the June 2022 – March 2023, the base oil prices in the global market have shown a significant decreasing trend, approximately 21%, while the selling prices of the Company during the first quarter of the year 2023 were at a high level, consistent with the high raw material cost of the Company. This was due to the Company's significant purchase of base oil raw materials during the middle of 2022, a period when base oil prices were high. The Company has a pricing strategy that references the cost of raw materials in determining its selling prices. During the months of April to June 2023, the Company's selling prices started to trend downward, aligning with the decrease in basic base oil prices in the global market, which decreased by approximately 5% in the same period (based on the average prices of Group I and Group II base oils from April to June 2023). As a result of the aforementioned factors, the average selling prices of the Company's products per unit (across all types) increased by 6.9%.

Profitability Ratio

Ratio	For the six months ended 30 June	
	2022	2023
Gross Profit Margin (%)[1]	12.8	10.5
Net Profit Margin (%)[2]	5.5	3.1
Total Comprehensive Income Margin (%)[3]	5.5	3.1

Remark:

/[1] Calculated as gross profit divided by total revenue

/[2] Calculated as net profit for the period divided by total revenue

/[3] Calculated as comprehensive income for the period divided by total revenue

Gross profit and gross profit margin

The Company's gross profit decreased from THB 873.6 million for the six months ended June 30, 2022, to THB 633.9 million for the six months ended June 30, 2023, representing a decrease of 27.4%. The Company's gross profit margin also decreased from 12.8% for the six months ended June 30, 2022, to 10.5% for the six months ended June 30, 2023.

The decrease in gross profit and gross profit margin was primarily due to an decrease in gross profit margin driven by significantly higher costs per unit primarily from increases in base oil and additive costs.

Profit for the period and net profit margin

In the six-month period ending on June 30, 2022, and 2023, the Company had net profits of THB 371.3 million and THB 185.2 million, respectively, equivalent to net profit margins of 5.5% and 3.1%, respectively. Furthermore, the Company had total comprehensive incomes of THB 371.8 million and THB 185.5 million, respectively, resulting in total comprehensive income margins of 5.5% and 3.1%, respectively.

For the six-month period ending on June 30, 2023, the Company's net profit and total comprehensive income decreased significantly from THB 371.3 million and THB 371.8 million for the six-month period ending on June 30, 2022, respectively, to THB 185.2 million and THB 185.5 million for the six-month period ending on June 30, 2023, respectively. This decrease in profitability was primarily due to: (1) significant decrease in gross profit which was a result of the decrease in sale volume of lubricants and greases and sale volume in the trading business of raw materials and product as aforementioned and the decrease in gross profit margin base on the following factors (a) the Company's cost of base oil was high comparing to the cost of for the same period in the previous year due to the Company's high inventory levels purchased during the second half of 2022, when base oil prices were high due to a supply shortage at that time. Eventhough the selling price for the six-month period ending on June 30, 2023, was higher than the selling price for the same period in the previous year and (b) the cost of additives increased due to an increased demand for Lithium, one of additive production materials, which was also used as production material for various industries including battery production. However, the increase in the cost of raw materials mentioned above (as per (a) and (b)) was partially offset by a decrease in employee compensations according to the resolution of the Company's Board of Directors' Meeting No. 7/2023 held on August 4, 2023, to approve of no annual bonus payment for 2023. As a result, the Company has adjusted its estimated bonus payment for the year 2023 and reversed the previously recorded bonus expense for the first quarter ending March 31, 2023. This has led to a reduction in costs and expenses related to management. (Note that if the Company were to have the same bonus payment rate as that of the year 2022, it would result in an increase in costs and expenses by THB 62.7 million1) Additionally, the decrease in depreciation expense for the six-month period ending June 30, 2023, compared to the same period ending June 30, 2022, is partially attributed to the Company's review and consideration to extend the useful life of the pipeline system for oil transmission, from the original 5 years to 10 years, aligning it with the actual useful life determined

[1] Before tax impact

through inspection and maintenance. As a result, the company recognized a decreased depreciation expense for that asset amounting to THB 7.8 million and (2) increase in financial costs which was increased due to increased borrowing for working capital and dividend payments in 2022 which was partially offset by the decrease in selling and administrative expenses, resulting from the decrease in foreign sales expenses due to lower sales volume and unit transportation rates. This also includes employee compensation. This is in line with the Company's adjustment of its estimated bonus payment for the year 2023 and the reversal of previously recorded bonus expenses for the first quarter ending March 31, 2023. (Note that if the Company were to have the same bonus payment rate as that of the year 2022, it would result in a decrease in net profit and total comprehensive income of the Company by the same amount, THB 50.2 million2, or a reduction rate of 27.1% of net profit and total comprehensive income for that period.). As such, net profit margin and total comprehensive income margin decreased from 5.5% and 5.5% for the six-month period ending on June 30, 2022, respectively, to 3.1% and 3.1% for the six-month period ending on June 30, 2023, respectively.

Financial Positions

THB mm	As of June 30,		Change	
	2022	2023	THB mm	%
Total Assets	7,326.2	6,812.1	(514.1)	(7.0)
Total Liabilities	6,883.5	5,883.9	(999.6)	(14.5)
Equity	442.7	928.2	485.5	109.7

Total Assets

On December 31, 2022, and June 30, 2023, the Company's total assets were THB 7,326.2 million and THB 6,812.1 million, respectively. The total assets of the Company primarily consist of trade receivables, inventory, property, plant and equipment.

The total assets of the Company decreased in the six-month period ending on June 30, 2023, due to a decrease in inventory which was in line with the decrease in the quantity of base oil raw material, as well as the lower average price of raw materials purchased during the six-month period ending on June 30, 2023, compared to that in the end of 2022.

[2] After tax impact

Total Liabilities

As of December 31, 2022, and June 30, 2023, the total liabilities of the Company were THB 6,883.5 million, and THB 5,883.9 million, respectively. The total liabilities consist primarily of short-term loans from financial institutions and trade payables.

The total liabilities decreased during the six-month period ending on June 30, 2023. The main factor contributing to this decrease was the decrease in financial institutions as a result of the Company's loan payment by using cash flows from operations.

Equity

As of December 31, 2022, and June 30, 2023, the Company total equity were THB 442.7 million, and THB 928.2 million, respectively.

On June 30, 2023, the total equity increased from THB 442.7 million as of December 31, 2022, to THB 928.2 million as of June 30, 2023. This increase was primarily due to the Company's issuance of new common shares to existing shareholders through a rights offering, totaling THB 300.0 million in February 2023. Additionally, there was an increase in retained earnings from the net profit for the six-month period ending on June 30, 2023, which amounted to THB 185.5 million.

Total Liabilities to Equity Ratio and Interest bearing debt-to-equity Ratio

Financial Ratio	As of December 31, 2022	As of June 30, 2023
Total Liabilities to Equity Ratio (times) [1]	15.5	6.3
Interest bearing debt-to-equity Ratio (times) [2]	11.5	4.6

Remark:

/1 Calculated as total liabilities divided by total equity

/2 Calculated as interest bearing debt divided by total equity

The debt-to-equity ratios of the Company were 15.5 times and and 6.3 times as of December 31, 2022, and June 30, 2023, respectively. The interest-bearing debt-to-equity ratio followed the same trend, which were 11.5 times and 4.6 times as of December 31, 2022, and June 30, 2023, respectively.

As of June 30, 2023, the debt-to-equity ratio of the Company stands at 6.3 times and the interest-bearing debt-to-equity ratio is 4.6 times, significantly decreased from the previous years mainly attributable to an increase in its capital by THB 300.0 million through a rights offering to existing shareholders in February 2023 as well as a decrease in total liabilities as well as interest-bearing debt as a result of the Company's loan payment according to repayment schedule by using cash flows from operations. However, the debt-to-equity ratio of 6.3 times exceeds the financial institution's financial covenant of not exceeding 3.0 times as of June 30, 2023. In this regard, financial institutions do not require the Company to test the interest-bearing debt-to-equity ratio. Furthermore, the Company's debt service coverage ratio (DSCR) (calculated according to the financial institution's formula)3 is 1.3 times, which is higher than the financial institution's financial covenant of not less than 1.2 times.

Nonetheless, on June 30, 2023, the Three Financial Institutions which have financial covenants issued consent letters to waive the test of financial covenants as of June 30, 2023, as mentioned in the above details. Furthermore, in accordance with the facilities agreements with the other three financial institutions, in case of default in debt repayment or any obligations under the loan agreements and/or any other agreements with the financial institutions and/or other creditors (Cross-Default), the Company has received written confirmations from such three mentioned financial institutions.

Please be informed accordingly.

Sincerely yours,

(Mr. Piya Techapichetvanich)

Chief Financial Officer

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[3] Debt-service coverage ratio (DSCR) (according to the formula used to test the financial ratios of financial institution is calculated as earnings before interest, tax, depreciation, and amortization divided by the cash repayment for long-term borrowings from financial institutions and financial costs.

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