

## **Management Discussion and Analysis Quarter 2 Ending 30 June 2018**

### **Highlights**

	Unit : million Baht	Q 2/2018	Q 2/2017
Group	Group Revenues	7,815	5,445
	Group EBITDA	555	(27)
	Group Net Profit (Loss)	(1,401)	(735)
HRC	HRC Sales (k tons)	377	316
	HRC Production Volume (k tons)	363	302
	HRC Average Selling Price (Bht/Ton)	20,709	17,252
	HRC Cash Margin (Bht/Ton)	897	834
	Unit : million Baht	30-Jun-18	31-Dec-17
Group	Total Assets	31,971	32,172
	Total Liabilities	20,418	19,781
	Total Equity	11,553	12,391

Q2/2018, the Company and subsidiary's total net loss equals Baht 1,401 million comparing with previous quarter which has net profit Baht 495 million. Total revenue from sales and services amounted to Baht 7,815 million, decreased by Baht 334 million or 4% QoQ. This result from the decrease in sale volume and selling price while increase in production cost both raw material and cash conversion cost.

On a YoY basis, the Company and subsidiary's total net loss increased by Baht 666 million or 91% while total revenue from sales and services increased by Baht 2,370 million or 44%. Increase in net loss due to increase in production cost both raw materials and cash conversion cost, Graphite Electrode's price which is a part of conversion cost increase significantly, and net loss from exchange rate.

Separate financial statement, the Company posted net loss Baht 1,056 million comparing with previous quarter which has net profit Baht 119 million. Total revenue from sales and services amounted to Baht 1,047 million, decreased by Baht 249 million or 19% QoQ due to decrease in tolling quantity. Comparing YoY basis, net loss of Q2/2018 increased by Baht 481 million or 84% and total revenue from sales and services decreased by Baht 1,123 million or 52%. In Q2/2018, major revenue of the company came from tolling service. The Company then realized revenue from the production cost that charge to GJ Steel under the tolling service agreement, GJ Steel provided main raw material, scrap, for the company's production.

## **Performance**

### **Revenue from sale and cost of sale**

Q2/2018, The Company and subsidiary recorded a sales volume of 377,487 tons, decreased by 11,662 tons or 3% QoQ but increased by 61,770 tons or 20% YoY. (Separated Financial Statement: In Q2/2018, the company produce for GJ Steel's tolling 157,483 tons)

Total revenue from sales and services of the Company and subsidiary amounted to Baht 7,815 million. Decrease in both sale volume and selling price comparing with previous quarter but increase comparing with same period of last year which total revenue from sales and services decrease by Baht 334 million or 4% QoQ but increased by Baht 2,370 million or 44% YoY. (Separate: Baht 1,047 million, decreased by Baht 249 million or 19% QoQ and decreased by Baht 1,123 million or 52% YoY. The company produce for GJ Steel's tolling in Q2/2018 while produce and sale by its own in Q2/2017 which tolling charge (no raw material cost) lower than selling price for sale finished goods. However, tolling quantity of Q2/2018 decreased by 45,716 tons compare with previous quarter.

Consolidated cost of goods sold and cost of service amounted to Baht 7,882 million, increased by Baht 261 million or 3% QoQ due to increase in raw material cost and cash conversion cost. On a YoY basis, cost of goods sold and cost of service increased by Baht 2,045 million or 35% due to increase in sale volume together with increase in raw material cost and cash conversion cost. Graphite Electrode price sharply increase is the main factor for cash conversion cost increase. (Separate: cost of goods sold and cost of service amount to Baht 1,266 million, decreased by Baht 125 million QoQ due to decrease in tolling quantity. And cost of goods sold and cost of service decreased by Baht 1,262 million YoY due to no raw material cost from tolling. However, cash conversion cost increase due to graphite electrode price increase.

Consolidated gross loss amounting to Baht 68 million comparing with previous quarter which has gross profit Baht 527 million. However, gross loss decrease by Baht 325 million comparing with same period of last year. (Separate: gross loss Baht 220 million, loss increased by Baht 124 million QoQ but gross loss decreased by Baht 139 million YoY. Gross loss of Q2/2018 was resulted from depreciation. The company record depreciation by straight-line method while depreciation charge for tolling service use unit of production method. Decrease in production volume was also effect for net loss of Q2/2018. However, the company still could generate the Cash Margin.

### **Net loss on foreign exchange rate**

Consolidated net loss on foreign exchange amounted to Baht 736 million which result from the depreciation of the Thai Baht versus the US dollar. (Separate: Baht 485 million)

### **Selling expenses**

Total selling expenses of the Company and subsidiary amounting to Baht 95 million which close to previous quarter but decreased by Baht 13 million YoY. (Separate: The Company has little selling expense like previous quarter because the company produced for sale a little but mainly produce for tolling so selling expense of this quarter decreased by Baht 65 million compare with same quarter of previous year which produce for own sale not for tolling.

### **Administrative expense**

Total administrative expense of the Company and subsidiary amounting to Baht 202 million, increased by Baht 2 million QoQ and increased by Baht 5 million YoY. (Separate: Baht 23 million which close to previous quarter but decreased by Baht 49 million YoY due to administrative expense of Q2/2018 has been allocated to be tolling service expense.)

### **Other Expenses**

Q2/2018, Other expenses of the Company and subsidiary amounted to Baht 27 million, came from provision for court case claim Baht 25 million which close to previous period (Separate: Baht 95 million, resulted from provision for court case claim Baht 25 million and loss on impairment in subsidiaries Baht 68 million, increased by Baht 19 million QoQ and increased by Baht 30 million YoY).

### **Financial cost**

The Company and subsidiary has total financial cost amounted to Baht 269 million, close to previous quarter but increase Baht 9 million YoY. This resulted from the increase of short-term loan for purpose of increasing working capital of GJ Steel in order to increase sale and maintain continuous HRC production for local market (Separate: Baht 165 million decrease by Baht 5 million QoQ and decreased by Baht 42 million YoY).

## **Financial position**

### **Total Assets**

As of 30 June 2018, the Company and subsidiary has total asset amounted to Baht 31,971 million, decreased by Baht 201 million from year ended 2017 which has total asset Baht 32,172 million. Total assets separate into current assets amounted to Baht 6,029 million, increased 13% from year 2017 and non-current assets amounted to Baht 25,942 million, decreased 3% from year 2017. Current assets mainly increased from the increase of trade accounts receivable, inventory and other current assets of the Subsidiary Company. Non-current assets mainly decreased from depreciation.

### **Cash and cash equivalent**

The Company and subsidiary has cash and cash equivalent as at 30 June 2018 amounted to Baht 690 million, increased Baht 99 million or 17% from year ended 2017 since the Company and subsidiary has

- Net cash flows provided by operating activities Baht 878 million

- Net cash flows used in investing activities Baht 35 million which proceeds from disposal of investment in subsidiary Baht 68 million and purchasing of property, plant and equipment Baht 31 million.
- Net cash flows used in financing activities Baht 816 million. Major items came from repayment from long-term loans from related parties Baht 346 million, the finance costs paid Baht 287 million and repayment from short-term loans from related party Baht 179 million

(See more details in Statement of cash flows)

### **Trade accounts receivable**

As of 30 June 2018, the Company and subsidiary has trade accounts receivable amounted to Baht 1,242 million, deducted allowance for doubtful account Baht 1,029 million, remaining net trade accounts receivable amounted to Baht 213 million. (As the end of year 2017, the Company and subsidiary has trade accounts receivable amounted to Baht 1,076 million, deducted allowance for doubtful account Baht 1,028 million, remaining net trade accounts receivable amounted to Baht 48 million). Net account receivable was increased by Baht 164 million.

### **Inventories**

Inventories as of 30 June 2018 of the Company and subsidiary amounted to Baht 4,323 million or 14% of total assets, increased Baht 213 million from year ended 2017 which resulted from the increase of raw materials of subsidiary.

### **Total liabilities**

Total liabilities of the Company and subsidiary as at 30 June 2018 amounted to Baht 20,418 million, increased Baht 637 million or 3% from year ended 2017 which resulted from;

#### **Current liabilities increased Baht 1,586 million derived from:**

- Trade accounts payable increased Baht 805 million
- Accrued interest expenses increased Baht 331 million
- Other payables and accrued expenses increased Baht 195 million

#### **Non-current liabilities decreased Baht 949 million derived from:**

- Long-term loan from related party decreased Baht 517 million
- Other payables and accrued expenses decreased Baht 250 million

### **Shareholders' equity**

As of 30 June 2018 the Company and its subsidiaries had the shareholders' equity of Baht 11,553 million which decreased by Baht 838 million or 7% from year ended 2017 due to net loss of the Company and its subsidiaries.

## Summary of Consolidated Financial Results

Assets	30 June	31 December	+ (-) %
	2018	2017	
	<i>(in million Baht)</i>		
<b>Current assets</b>			
Cash and cash equivalents	690	591	14%
Temporary investment - trading security	10	12	(20%)
Trade accounts receivable	213	48	77%
Amounts receivable from related parties	-	-	
Inventories	4,323	4,110	5%
Other current assets	793	575	27%
<b>Total current assets</b>	<b>6,029</b>	<b>5,337</b>	<b>11%</b>
<b>Non-current assets</b>			
Investments in subsidiaries	-	-	
Advance payment for purchases of property, plant and equipment	210	210	
Property, plant and equipment	25,153	26,005	(3%)
Intangible assets	12	12	2%
Other non-current assets	567	609	(7%)
<b>Total non-current assets</b>	<b>25,942</b>	<b>26,835</b>	<b>(3%)</b>
<b>Total assets</b>	<b>31,971</b>	<b>32,172</b>	<b>(1%)</b>

## Summary of Consolidated Financial Results

	30 June 2018	31 December 2017	+ (-) %
<i>(in million Baht)</i>			
<b>Liabilities and equity</b>			
<i>Current liabilities</i>			
Short-term loans from financial institution	213	213	
Trade accounts payable	2,131	1,326	38%
Current portion of liabilities under rehabilitation plan	681	535	21%
Current portion of long-term loan from related party	314	138	56%
Current portion of bonds	517	510	1%
Short-term loan from related parties	1,363	1,506	(10%)
Short-term loan from other parties	107	107	(0%)
Loan from shareholder	4	4	
Advances received from customers	146	203	(39%)
Other payables and accrued expenses	7,342	7,147	3%
Accrued interest expenses	5,268	4,937	6%
Provisions	367	270	27%
Other current liabilities	392	364	7%
<b>Total current liabilities</b>	<b>18,846</b>	<b>17,260</b>	<b>8%</b>
<i>Non-current liabilities</i>			
Liabilities under rehabilitation plan - net of current portion	-	148	(100%)
Long-term loan from related parties	1,139	1,655	(45%)
Other payables and accrued expenses	295	545	(85%)
Accrued interest expenses	-	16	(100%)
Provision	-	242	(100%)
Employee benefit obligations	137	130	5%
Other non-current liabilities	2	2	(13%)
<b>Total non-current liabilities</b>	<b>1,572</b>	<b>2,739</b>	<b>(74%)</b>
<b>Total liabilities</b>	<b>20,418</b>	<b>19,999</b>	<b>2%</b>

## Summary of Consolidated Financial Results

Liabilities and equity	2018	2017	+ (-) %
	<i>(in million Baht)</i>		
<b>Equity</b>			
Share capital			
Authorised share capital	48,776	48,776	
Issued and paid-up share capital	34,251	34,251	
Warrants	14	14	
Additional (Discount) paid in capital:	-	-	
Share discount	(10,163)	(10,163)	
Premium on capital reduction	206	206	
Retained earnings (deficit)	-	-	
Appropriated:	-	-	
Legal reserve	764	764	
Unappropriated	(24,068)	(23,099)	4%
<b>Equity attributable to owners of the Company</b>	<b>1,004</b>	<b>1,973</b>	<b>(97%)</b>
Non-controlling interests	10,550	10,418	1%
<b>Total equity</b>	<b>11,553</b>	<b>12,391</b>	<b>(7%)</b>
			(100%)
<b>Total liabilities and equity</b>	<b>31,971</b>	<b>32,390</b>	<b>(1%)</b>

**Condensed Consolidated Statement of Financial Position**

	For the three-month period ended		
	30 June		+ (-) %
	2018	2017	
	<i>(in million Baht)</i>		
<b>Income</b>			
Revenue from sale of goods	7,815	5,445	30%
Revenue from service - Tolling	-	-	
Reversal of bad and doubtful debts	-	115	(100%)
Gain from the Creditor waived the debt	-	2	(100%)



**Condensed Consolidated Statement of Financial Position**

	For the three-month period ended		
	30 June		+ (-) %
	2018	2017	
	<i>(in million Baht)</i>		
Net foreign exchange gain	-	193	(100%)
Gain from debt restructuring	-	0	
Other income	17	28	(70%)
<b>Total income</b>	<b>7,831</b>	<b>5,784</b>	<b>26%</b>
<b>Expenses</b>			
Cost of sale			(100%)
- Cost of goods sold	7,713	5,627	27%
- Idle cost	125	134	(7%)
- Loss on devaluation of inventories (Reversal)	45	77	(73%)
Total cost of sale	7,882	5,838	26%
Cost of services - Tolling	-	-	
Selling expenses	95	107	(13%)
Administrative expenses	202	197	2%
Loss on confirmed purchase orders	-	-	
for undelivered raw materials	15	110	(620%)
Bad and doubtful debts	6	-	100%
Net foreign exchange loss	736	-	100%
Other expenses	27	3	88%
Finance costs	269	260	3%
<b>Total expenses</b>	<b>9,232</b>	<b>6,515</b>	<b>29%</b>
Loss before income tax expense	(1,401)	(732)	48%
Income tax expense	-	3	(100%)
<b>Loss for the period</b>	<b>(1,401)</b>	<b>(735)</b>	<b>48%</b>
Other comprehensive income for the period	-	-	
<b>Total comprehensive income for the period</b>	<b>(1,401)</b>	<b>(735)</b>	<b>48%</b>

**Condensed Consolidated Statement of Financial Position**

	For the three-month period ended		
	30 June		
	2018	2017	+ (-) %
	<i>(in million Baht)</i>		
<b>Profit (loss) attributable to :</b>			
Owners of the Company	(1,028)	(561)	45%
Non-controlling interests	(373)	(174)	53%
<b>Loss for the period</b>	<b>(1,401)</b>	<b>(735)</b>	<b>48%</b>
<b>Comprehensive income (loss) attributable to :</b>			
Owners of the Company	(1,028)	(561)	45%
Non-controlling interests	(373)	(174)	53%
<b>Total comprehensive loss for the period</b>	<b>(1,401)</b>	<b>(735)</b>	<b>48%</b>
<b>Earnings (loss) per share</b>			
Basic earnings (loss) per share	(0.15)	(0.15)	

**Consolidated Statement of Cash Flow**

	For the six-month period ended		+ (-) %
	2018	2017	
	30 June		
	(in million Baht)		
<i>Cash flows from operating activities</i>			
Profit (loss) for the period	(906)	1,228	236%
<i>Adjustments for</i>	-	-	(100%)
Depreciation and amortisation	926	943	(2%)
Interest income	(2)	(2)	(33%)
Finance costs	535	497	7%
Dividend income	(0)	-	100%
Unrealized loss (gain) on exchange rate	238	(594)	349%
(Gain) loss on adjustment in value of securities	2	(4)	301%
Bad and doubtful debts expense (Reversal of)	2	(137)	8548%

## Consolidated Statement of Cash Flow

	For the six-month period ended		
	30 June		+ (-) %
	2018	2017	
	<i>(in million Baht)</i>		
<b><i>Cash flows from operating activities</i></b>			
Profit (loss) for the period	(906)	1,228	236%
<i>Adjustments for</i>	-	-	(100%)
Depreciation and amortisation	926	943	(2%)
Interest income	(2)	(2)	(33%)
Finance costs	535	497	7%
Dividend income	(0)	-	100%
Unrealized loss (gain) on exchange rate	238	(594)	349%
(Gain) loss on adjustment in value of securities	2	(4)	301%
Bad and doubtful debts expense (Reversal of)	2	(137)	8548%
Loss on impairment of assets	42	-	100%
Provision for court case claim	50	-	100%
Provision for a guarantee of subsidiary	-	-	
Withholding tax write-off	26	-	100%
Loss on devaluation of inventories (Reversal of)	41	123	(201%)
Gain from debt restructuring	(0)	(16)	(16998%)
Reversal of provision for deferred difference from debt restructuring	-	(765)	(100%)
Gain from the Creditor waived the debt	-	(624)	(100%)
Loss on confirmed purchase orders of undelivered raw material (Reversal of)	24	178	(641%)
Reversal of loss on impairment of investment in subsidiaries	-	-	
Loss from disposal of assets	0	8	(18830%)
Loss on sale of investment	-	-	
Employee benefit obligations	7	6	6%
Tax expense	-	7	(100%)
	984	847	14%

## Consolidated Statement of Cash Flow

	For the six-month period ended		+ (-) %
	2018	2017	
	30 June		
	(in million Baht)		
<i>Changes in operating assets and liabilities</i>			(100%)
Trade accounts receivable	(168)	(60)	64%
Amount due from related parties	10	-	100%
Inventories	(254)	(404)	(59%)
Other current assets	(150)	(49)	67%
Other non-current assets	(41)	(118)	(186%)
Trade accounts payable	848	335	60%
Advance received from customers	(55)	19	134%
Other payables and accrued expenses	(230)	(358)	(55%)
Other current liabilities	33	6	81%
Employee benefit paid	(0)	-	
Cash received (paid) for Income tax	(100)	(5)	95%
<b>Net cash from (used in) operating activities</b>	<b>876</b>	<b>213</b>	<b>76%</b>
<i>Cash flows from investing activities</i>			
Interest received	2	2	(33%)
Purchase of property, plant and equipment	(31)	(6)	79%
Purchase of intangible assets	(2)	(0)	89%
Payment for long-term loans to related parties	-	-	
Proceeds from disposal of temporary investment	0	-	
Proceeds from disposal of investment in subsidiary	68	10	85%
<b>Net cash from (used in) investing activities</b>	<b>37</b>	<b>6</b>	<b>83%</b>

## Consolidated Statement of Cash Flow

	For the six-month period ended		
	30 June		+ (-) %
	2018	2017	
	<i>(in million Baht)</i>		
			(100%)
<b><i>Cash flows from financing activities</i></b>			(100%)
Finance costs paid	(287)	(611)	(113%)
Repayment of liabilities under rehabilitation plan	(3)	(13)	(304%)
Repayment of liabilities under the process of debt restructuring	-	(922)	(100%)
Proceeds (Repayment) from loans from financial institution	-	(27)	(100%)
Proceeds (Repayment) from short-term loans from other parties	(0)	1,387	2522649%
Proceeds (Repayment) from short-term loans from related parties	(179)	-	100%
Proceeds (Repayment) from long-term loans from related parties	(346)	(36)	90%
Payment for financial lease liabilities	(0)	-	100%
<b>Net cash from (used in) financing activities</b>	<b>(816)</b>	<b>(221)</b>	<b>73%</b>
			(100%)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>97</b>	<b>(2)</b>	102%
Cash and cash equivalents at 1 January	591	623	(5%)
Effect of exchange rate changes on balances	-	-	
held in foreign currencies	2	(0)	110%
<b>Cash and cash equivalents at 30 June</b>	<b>690</b>	<b>621</b>	<b>10%</b>
<b><i>Non-cash transactions</i></b>			
Transfer provisions to other payables and accrued expenses	-	72	(100%)
Transfer provisions to accrued interest	-	2,231	(100%)
Transfer trade accounts payable to accrued expenses	-	4,442	(100%)
Transfer trade accounts payable to			
liabilities under the process of debt restructuring	-	1,454	(100%)
Transfer accrued expenses to			
liabilities under the process of debt restructuring	-	613	(100%)
Transfer accrued interest expenses to			
liabilities under the process of debt restructuring	-	1,173	(100%)
Transfer accrued interest expenses to accrued expenses	-	207	(100%)
Transfer accrued interest expenses to short-term loans from related parties	-	-	
Transfer trade accounts payable to other payables and accrued expenses	68	-	100%
Transfer advances received from customers to trade accounts payable	2	-	100%