

Management Discussion and Analysis Quarter 3 Ending 30 September 2018

Highlights

	Unit : million Baht	Q 3/2018	Q 3/2017
Group	Group Revenues	8,678	7,109
	Group EBITDA	874	843
	Group Net Profit (Loss)	(432)	53
HRC	HRC Sales (k tons)	418	393
	HRC Production Volume (k tons)	418	386
	HRC Average Selling Price (Bht/Ton)	20,715	18,108
	HRC Cash Margin (Bht/Ton)	482	1,223
	Unit : million Baht	30-Sep-18	31-Dec-17
Group	Total Assets	30,469	32,172
	Total Liabilities	19,347	19,781
	Total Equity	11,122	12,391

Q3/2018, the Company and subsidiary's total net loss equals Baht 431 million, net loss decreased by Baht 970 million or 69% QoQ. Total revenue from sales and services amounted to Baht 8,678 million, increased by Baht 863 million or 11% QoQ. Revenue increase came from sale volume increase but still had net loss because raw material cost increase higher proportion than selling price increase as well as Graphite Electrode's price which is a part of conversion cost still high in this quarter.

On a YoY basis, the Company and subsidiary had total net loss while same period of last year has net profit by Baht 53 million. Total revenue from sales and services increased by Baht 1,569 million or 22% YoY due to sale increase together with selling price increase however raw material cost and cash conversion cost also high, therefore, result in net loss.

Separate financial statement, the Company has net loss Baht 192 million, decreased in net loss comparing with previous quarter which has net loss Baht 1,056 million due to net gain on exchange rate. Net loss on exchange rate Baht 485 million of previous quarter turn to net gain on exchange rate in this quarter by Baht 194 million. Total revenue from sales and services amounted to Baht 1,099 million, increased by Baht 52 million or 5% QoQ due to increase in tolling quantity. Comparing YoY basis, net loss decreased by Baht 303 million comparing with net loss Baht 495 million. Main reason came from decreased in Administrative expenses by Baht 134 million. Total revenue from sales and services decreased by Baht 2,718 million, resulted from tolling service for GJ Steel. GJ Steel has provided raw material so tolling fee exclude raw material cost.

Performance

Revenue from sale and cost of sale

Q3/2018, The Company and subsidiary recorded a sales volume of 418,953 tons, increased by 41,466 tons or 11% QoQ and increased by 26,357 tons or 7% YoY (Separated Financial Statement: the company produce for GJ Steel's tolling 186,161 tons). Total revenue from sales and services of the Company and subsidiary amounted to Baht 8,678 million, increased by Baht 863 million or 11% QoQ which resulted from increased in sale volume and increased by Baht 1,569 million or 22% YoY from the increase of sale volume and selling price. (Separate: Baht 1,099 million, increased by Baht 52 million or 5% QoQ and decreased by Baht 2,718 million or 71% YoY. The company produce for GJ Steel's tolling in Q3/2018 while produce and sale by its own in Q3/2017 which tolling charge (no raw material cost) lower than selling price for sale finished goods. However, tolling quantity of Q3/2018 increased comparing with previous quarter.

Consolidated cost of goods sold and cost of service amounted to Baht 8,798 million, increased by Baht 916 million or 12% QoQ due to increase in raw material cost and sale volume. On a YoY basis, cost of goods sold and cost of service increased by Baht 1,835 million or 26% due to increase in sale volume together with increase in raw material cost and cash conversion cost. Graphite Electrode price increase is the main factor for cash conversion cost increase. (Separate: cost of goods sold amounted to Baht 22 million plus cost of service Baht 1,223 million so total amount to Baht 1,245 million, decreased by Baht 21 million QoQ. And cost of goods sold and cost of service decreased by Baht 2,493 million YoY due to no raw material cost from tolling.

Consolidated gross loss amounting to Baht 120 million, gross loss increase by Baht 53 million QoQ and comparing with same period of last year which has gross profit Baht 146 million.. (Separate: gross loss Baht 146, gross loss decreased by Baht 73 million QoQ and comparing with same period of last year which has gross profit Baht 79 million. Gross loss of Q3/2018 was resulted from depreciation. The company record depreciation by straight-line method while depreciation charge for tolling service use unit of production method like previous period. However, the company still could generate the Cash Margin.)

Net gain on foreign exchange rate

Consolidated net gain on foreign exchange amounted to Baht 334 million which result from the appreciation of the Thai Baht versus the US dollar. (Separate: Baht 194 million)

Selling expenses

Total selling expenses of the Company and subsidiary amounting to Baht 109 million which close to previous quarter and decreased by Baht 44 million YoY. (Separate: The Company has little selling expense like previous quarter because the company produced for own sale a little but mainly produced for tolling so selling expense of this quarter decreased by Baht 111 million YoY.)

Administrative expense

Total administrative expense of the Company and subsidiary amounting to Baht 199 million, decreased by Baht 3 million QoQ and decreased by Baht 95 million YoY. (Separate: Baht 32 million, increased by Baht 10 million or 43% QoQ and decreased by Baht 134 million or 81% YoY due to administrative expense of Q3/2018 has been allocated to be tolling service expense.)

Other Expenses

Q3/2018, Other expenses of the Company and subsidiary amounted to Baht 22 million, decreased by Baht 5 million QoQ but increased by Baht 18 million YoY. (Separate: Baht 69 million, mainly came from loss on impairment in subsidiaries Baht 47 million and provision for court case claim Baht 25 million. Other expense of this quarter decreased by Baht 26 million QoQ and decreased by Baht 404 million YoY due to Q3/2017 record loss on impairment of assets Baht 374 million and loss on disposal of investment Baht 95 million.)

Financial cost

The Company and subsidiary has total financial cost amounted to Baht 280 million, increased by Baht 12 million QoQ and increased by Baht 32 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 171 million, increased by Baht 6 million QoQ and decreased by Baht 29 million YoY).

Financial position

Total Assets

As of 30 September 2018, the Company and subsidiary has total asset amounted to Baht 30,469 million, decreased by Baht 1,703 million from year ended 2017 which has total asset Baht 32,172 million. Total assets separate into current assets amounted to Baht 4,883 million, decreased 9% from year 2017 and non-current assets amounted to Baht 25,586 million, decreased 5% from year 2017. Current assets mainly decreased from the decrease of inventory of the company, cash and cash in banks, 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 September 2018 amounted to Baht 401 million, decreased Baht 190 million or 32% from year ended 2017 since the Company and subsidiary has

- Net cash flows provided by operating activities Baht 749 million
- Net cash flows used in investing activities Baht 4 million which proceeds from disposal of investment in subsidiary Baht 68 million and purchasing of property, plant and equipment Baht 70 million

- Net cash flows used in financing activities Baht 935 million. Major items came from the finance costs paid Baht 405 million, repayment of long term loan from related parties Baht 360 million and repayment of short term loan from related parties Baht 166 million.

(See more details in Statement of cash flows)

Trade accounts receivable

As of 30 September 2018, the Company and subsidiary has trade accounts receivable amounted to Baht 1,211 million, deducted allowance for doubtful account Baht 1,089 million, remaining net trade accounts receivable amounted to Baht 123 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 75 million.

The allowance for doubtful accounts policy, the Company and subsidiary assess primarily on analysis of payment histories and future expectations of customer payments. As at 30 September 2018, the Company and subsidiary set allowance for doubtful accounts amounted to Baht 1,089 million.

Inventories

Inventories as of 30 September 2018 of the Company and subsidiary amounted to Baht 3,739 million or 12% of total assets, decreased Baht 371 million from year ended 2017 which resulted from the decrease of finished goods and others.

Total liabilities

Total liabilities of the Company and subsidiary as at 30 September 2018 amounted to Baht 19,347 million, decreased Baht 434 million or 2% from year ended 2017 which resulted from;

Current liabilities increased Baht 624 million derived from:

- Accrued interest expenses increased Baht 385 million
- Current portion of long-term loan from related party increased Baht 176 million.

Non-current liabilities decreased Baht 1,059 million derived from:

- Long-term loan from related party decreased Baht 541 million
- Other payables and accrued expenses decreased Baht 339 million

Shareholders' equity

As of 30 September 2018 the Company and its subsidiaries had the shareholders' equity of Baht 11,122 million which decreased by Baht 1,269 million or 10% from year ended 2017 due to net loss of the Company and its subsidiaries.

Summary of Consolidated Financial Results

Assets	30 September	31 December	+ (-) %
	2018	2017	
	<i>(in million Baht)</i>		
Current assets			
Cash and cash equivalents	401	591	(47%)
Temporary investment-trading security	13	12	8%
Trade accounts receivable	123	48	61%
Amounts receivable from related parties	-	-	
Inventories	3,739	4,110	(10%)
Other current assets	607	575	5%
Total current assets	4,883	5,337	(9%)
Non-current assets			
Investments in subsidiaries	-	-	
Advance payment for purchases of property, plant and equipment	210	210	
Property, plant and equipment	24,766	26,005	(5%)
Intangible assets	11	12	(4%)
Other non-current assets	598	609	(2%)
Total non-current assets	25,586	26,835	(5%)
Total assets	30,469	32,172	(6%)

Liabilities and equity

Current liabilities

Short-term loans from financial institution	213	213	
Trade accounts payable	1,335	1,326	1%
Amount due to related parties	-	-	
Current portion of liabilities under rehabilitation plan	677	535	21%
Current portion of long-term loan from related party	314	138	56%

Summary of Consolidated Financial Results

	30 September 2018	31 December 2017	+ (-) %
	<i>(in million Baht)</i>		
Current portion of bonds	505	510	(1%)
Short-term loan from related parties	1,333	1,506	(13%)
Short-term loan from other parties	107	107	(0%)
Loan from shareholder	4	4	
Advances received from customers	62	203	(229%)
Other payables and accrued expenses	7,244	7,147	1%
Accrued interest expenses	5,322	4,937	7%
Provisions	384	270	30%
Other current liabilities	385	364	5%
Total current liabilities	17,884	17,260	3%
<i>Non-current liabilities</i>			
Liabilities under rehabilitation plan - net of current portion	-	148	
Long-term loan from related parties	1,114	1,655	(49%)
Other payables and accrued expenses	207	545	(164%)
Accrued interest expenses	-	16	
Provision	-	24	
Employee benefit obligations	140	130	7%
Other non-current liabilities	1	2	(21%)
Total non-current liabilities	1,463	2,521	(72%)
Total liabilities	19,347	19,781	(2%)

Summary of Consolidated Financial Results

	30 September 2018	31 December 2017	+ (-) %
Liabilities and equity			
	<i>(in million Baht)</i>		
Equity			
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	(24,242)	(23,099)	5%
Equity attributable to owners of the Company	830	1,973	(138%)
Non-controlling interests	10,292	10,418	(1%)
Total equity	11,122	12,391	(11%)
Total liabilities and equity	30,469	32,172	(6%)

Condensed Consolidated Statement of Financial Position

	For the three-month period ended 30		
	September		+ (-) %
	2018	2017	
	<i>(in million Baht)</i>		
Income			
Revenue from sale of goods	8,678	7,109	18%
Revenue from service - Tolling	-	-	
Reversal of bad and doubtful debts	-	8	
Reversal of provision for loss on purchase orders for undelivered raw material	9	178	(1914%)
Net foreign exchange gain	334	268	20%

Condensed Consolidated Statement of Financial Position

	For the three-month period ended 30		
	September		+ (-) %
	2018	2017	
	<i>(in million Baht)</i>		
Gain from debt restructuring	-	110	
Other income	18	45	(146%)
Total income	9,040	7,718	15%
Expenses			
Cost of sale			
- Cost of goods sold	8,758	7,085	19%
- Idle cost	-	-	
- Loss on devaluation of inventories (Reversal)	40	(122)	406%
Total cost of sale	8,798	6,963	21%
Cost of services - Tolling	-	-	
Selling expenses	109	153	(40%)
Administrative expenses	199	294	(48%)
Bad and doubtful debts	62	-	100%
Other expenses	22	4	81%
Finance costs	280	249	11%
Total expenses	9,470	7,663	19%
Income (loss) before income tax expense	(431)	55	113%
Income tax expense	-	2	
Income (loss) for the period	(431)	53	112%
Other comprehensive income (loss) for the period	-	-	
Total comprehensive income (loss) for the period	(431)	53	112%

Condensed Consolidated Statement of Financial Position

	For the three-month period ended 30		
	September		
	2018	2017	+ (-) %
	<i>(in million Baht)</i>		
	<u> </u>	<u> </u>	<u> </u>
Income (loss) attributable to :			
Owners of the Company	(173)	(0)	100%
Non-controlling interests	(258)	53	120%
Income (loss) for the period	<u>(431)</u>	<u>53</u>	<u>112%</u>
Comprehensive income (loss) attributable to :			
Owners of the Company	(173)	(0)	100%
Non-controlling interests	(258)	53	120%
Total comprehensive income (loss) for the period	<u>(431)</u>	<u>53</u>	<u>112%</u>
Earnings (loss) per share			
Basic earnings (loss) per share	<u>(0.03)</u>	<u>(0.00)</u>	<u>100%</u>

Consolidated Statement of Cash Flow

	For the nine-month period ended 30		+ (-) %
	2018	September 2017	
	<i>(in million Baht)</i>		
<i>Cash flows from operating activities</i>			
Profit (loss) for the period	(1,337)	1,281	196%
<i>Adjustments for</i>			
Depreciation and amortisation	1,395	1,426	(2%)
Interest income	(2)	(2)	(31%)
Finance costs	816	746	9%
Dividend income	(0)	-	100%

Consolidated Statement of Cash Flow

	For the nine-month period ended 30		
	September		+ (-) %
	2018	2017	
	<i>(in million Baht)</i>		
Unrealized loss (gain) on exchange rate	(131)	(725)	(453%)
(Gain) loss on exchange rate on debt to equity Conversion	-	(79)	(100%)
(Gain) loss on adjustment in value of securities	(1)	(1)	(38%)
Bad and doubtful debts expense (Reversal of)	63	(145)	329%
Loss on impairment of assets	42	-	100%
Provision for a guarantee of subsidiary	-	-	
Withholding tax write-off	38	-	100%
Loss on devaluation of inventories (Reversal of)	81	0	100%
Gain from debt restructuring	(1)	(749)	(110586%)
Loss on confirmed purchase orders of undelivered raw material (Reversal of)	-	-	
	15	-	100%
Reversal of loss on impairment of investment in subsidiaries	-	-	
Loss from disposal of assets	0	8	(5629%)
(Gain) loss on sale of investment	-	(4)	(100%)
Provision for court case claim	75	1	99%
Reversal of provisions from deferred debt restructuring difference	-	(765)	(100%)
Employee benefit obligations	10	9	6%
Tax expense	-	9	(100%)
	1,063	1,010	5%
<i>Changes in operating assets and liabilities</i>			(100%)
Trade accounts receivable	(128)	(183)	(43%)
Amount due from related parties	10	-	100%
Inventories	290	(606)	309%
Other current assets	68	(90)	232%
Other non-current assets	(115)	(147)	(28%)
Trade accounts payable	90	434	(379%)

Consolidated Statement of Cash Flow

For the nine-month period ended 30

	September 2018	2017	+ (-) %
	<i>(in million Baht)</i>		
Advance received from customers	(140)	(119)	15%
Other payables and accrued expenses	(275)	(357)	(30%)
Other current liabilities	28	36	(30%)
Provision for court case claim	-	(1)	(100%)
Employee benefit paid	(0)	(1)	(1026%)
Cash received (paid) for Income tax	(144)	(12)	92%
Net cash from (used in) operating activities	748	(36)	105%
<i>Cash flows from investing activities</i>			(100%)
Interest received	2	2	(31%)
Purchase of property, plant and equipment	(70)	(11)	84%
Purchase of intangible assets	(2)	(0)	86%
Payment for long-term loans to related parties	-	-	
Proceeds from disposal of temporary investment	0	76	(329235%)
Proceeds from disposal of investment in subsidiary	68	55	19%
Net cash from (used in) investing activities	(3)	122	4748%
<i>Cash flows from financing activities</i>			(100%)
Finance costs paid	(405)	(755)	(87%)
Repayment of liabilities under rehabilitation plan	(5)	(17)	(249%)
Repayment of liabilities under the process of debt restructuring	-	(922)	(100%)
Proceeds (Repayment) from loans from financial institution	-	(90)	(100%)
Proceeds (Repayment) from short-term loans from other parties	(0)	31	56247%
Proceeds (Repayment) from short-term loans from related parties	(166)	-	100%
Proceeds (Repayment) from long-term loans from related parties	(360)	1,309	464%
Payment for financial lease liabilities	(0)	-	100%
Net cash from (used in) financing activities	(935)	(444)	53%
			(100%)
Net increase (decrease) in cash and cash equivalents	(190)	(359)	(89%)
Cash and cash equivalents at 1 January	591	623	(5%)
Effect of exchange rate changes on balances held in foreign currencies	(0)	(0)	(459%)
Cash and cash equivalents at 30 September	401	264	34%

Consolidated Statement of Cash Flow

	For the nine-month period ended 30		
	September		+ (-) %
	2018	2017	
	<i>(in million Baht)</i>		
Non-cash transactions			
Transfer provisions to other payables and accrued expenses	-	72	(100%)
Transfer provisions to accrued interest	-	2,035	(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 to liabilities under the process of debt restructuring	-	1,173	(100%)
Transfer accrued interest to accrued expenses	-	207	(100%)
Transfer accrued interest to short-term loans from related party	-	-	
Transfer debt under the debt restructuring to equity	-	1,096	(100%)
Transfer trade accounts payable to other payables and accrued expenses	68	-	100%
Transfer advances received from customers to trade accounts payable	2	-	100%