

Management Discussion and Analysis Yearly Ending 31 December 2018

Highlights

	Unit : million Baht	Q 4/2018	Q 4/2017
Group	Group Revenues	29,966	25,705
	Group EBITDA	609	2,347
	Group Net Profit (Loss)	(2,358)	(388)
HRC	HRC Sales (k tons)	1,450	1,381
	HRC Production Volume (k tons)	1,438	1,429
	HRC Average Selling Price (Bht/Ton)	20,662	18,529
	HRC Cash Margin (Bht/Ton)	883	1,848
	Unit : million Baht	31-Dec-18	31-Dec-17
Group	Total Assets	30,632	32,172
	Total Liabilities	20,532	19,781
	Total Equity	10,101	12,391

In 2018, the Company and subsidiary's total net loss equals Baht 2,358 million comparing with last year which has net profit Baht 366 million. Separate financial statement, the Company has net loss Baht 1,810 million for the year 2018 and Baht 1,006 million for the year 2017.

In 2018, the Company and subsidiary's total revenue increase from the year 2017 which mainly result from the increase in sale volume compare to the year 2017. In term of cost, the Company and subsidiary's cost of sale per ton increase compare to the previous year due to the increase in sale quantity and production cost.

Performance

Revenue from sale and cost of sale

The Company and subsidiary recorded a sales volume of 1,449,290 tons for the year 2018, increased by 66,524 tons from the year 2017 or increased by 5% (Separated Financial Statement: 2,812 tons and 569,224 tons, for the year 2018 and 2017 respectively).

Total revenue from sales and services of the Company and subsidiary for the year 2018 amounted to Baht 29,966 million comparing with the year 2017 which was Baht 25,705 million (Separate: Baht 3,927 million and Baht 11,063 million for the year 2018 and 2017, respectively). Revenue from sales and services increased comparing with last year due to the increase of sale volume and selling price.

Consolidated cost of goods sold and cost of service for the year 2018 amounted to Baht 30,195 million comparing with the year 2017 which was Baht 24,977 million, increased Baht 5,219 million due to the increase in sale volume as well as the increase in raw material price and cash conversion cost. Cash conversion cost mainly increased from the increase of Graphite Electrode's price. (Separate: Baht 4,724 million for the year 2018 and Baht 11,240 million for the year 2017, decrease Baht 6,516 million due to the significant decrease in sale volume and increase in tolling service). Total gross loss of year 2018 amounting to Baht 230 million comparing with gross profit Baht 728 million for the year 2017, (Separate: gross loss Baht 798 million for the year 2018 and Baht 177 million for the year 2017). Although raw material price increase together with cash conversion cost increase lead to the increase in total production cost, the company and subsidiary still could generate the Cash Margin which indicate that the Company was well in operation management.

Net gain on foreign exchange rate

The Company recorded consolidated net gain on foreign exchange for the year 2018 amounting to Baht 197 million (Separate: Baht 83 million). The gain is attributed to the appreciation of the Thai Baht versus the US dollar.

Selling expenses

Total selling expenses of the Company and subsidiary for the year 2018 and 2017 amounting to Baht 365 million and Baht 483 million, respectively, decreased by Baht 118 million. (Separate: Baht 4 million for the year 2018 and Baht 298 million for the year 2017). Major factor come from the significant decrease of sale volume of the Company.

Administrative expense

Total administrative expense of the Company and subsidiary for the year 2018 and 2017 amounting to Baht 843 million and Baht 868 million, respectively, decrease by Baht 25 Million. (Separate: Baht 155 million and Baht 341 million, respectively, decrease by Baht 186 million). The major reason came from the expenses allocation from administrative expense to be tolling service expense.

Other Expenses

Other expenses of the Company and subsidiary for the year 2018 amounted to Baht 144 million, resulted from provision for court case claim Baht 100 million and loss on impairment of assets Baht 42 million. Other expenses of year 2018 decreased by Baht 896 million from last year because last year has loss on impairment of assets Baht 998 million. The company(Separate) is Baht 278 million, resulted from loss on impairment in subsidiaries Baht 126 million, provision for court case claim Baht 100 million and loss on impairment of assets Baht 42 million. Other expenses of year 2018 of the company decreased by Baht 1,105 million from last year because the company has loss on impairment of assets Baht 1,222 million and loss from disposal investment Baht 120 million in year 2017.

Financial cost

The Company and subsidiary has total financial cost for the year 2018 and 2017 amounted to Baht 1,102 million and Baht 995 million respectively, increase by Baht 107 million because of 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 682 million and 790 million, respectively, decrease by Baht 108 million resulting from the new adjustment item in year 2018).

Financial position

Total Assets

As of 31 December 2018, the Company and subsidiary has total asset amounted to Baht 30,632 million, decreased 5% from year 2017 which has total asset Baht 32,172 million. Total assets separate into current assets amounted to Baht 5,461 million, increased 2% from year 2017 and non-current assets amounted to Baht 25,171 million, decreased 6% from year 2017. Current assets mainly increased from the increase of inventory 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 31 December 2018 amounted to Baht 258 million, decreased Baht 333 million or 56% from last year since the Company and subsidiary has

- Net cash flows provided by operating activities Baht 848 million
- Net cash flows used in investing activities Baht 48 million from purchasing of property, plant and equipment Baht 116 million, proceeds from disposal of investment in subsidiary Baht 68 million. Net cash flow of the company (separate) used in investing activities Baht 35 million. Mainly came from investing in asset related to raw material handling which was affected by terminate contract of material handling's service provider.
- Net cash flows used in financing activities Baht 1,133 million. Major items came from the finance costs paid Baht 534 million, repayment of short term loan from related parties and repayment from long term loan from related parties Baht 591 million. Net cash flow of the company (separate) used in financing activities Baht 2 million from the finance costs paid.

(See more details in Statement of cash flows)

Trade accounts receivable

As of 31 December 2018, the Company and subsidiary has trade accounts receivable amounted to Baht 1,041 million, deducted allowance for doubtful account Baht 1,027 million, remaining net trade accounts receivable amounted to Baht 14 million. (At 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 decreased by Baht 34 million.

The allowance for doubtful accounts policy, the Company and subsidiary assess primarily on analysis of payment histories and future expectations of customer payments. At end of the year 2018, the Company and subsidiary set allowance for doubtful accounts amounted to Baht 1,027 million.

Inventories

Inventories as of 31 December 2018 of the Company and subsidiary amounted to Baht 4,611 million or 15% of total assets, increased Baht 501 million from the year 2017 which resulted from the increase of raw materials. The Company (separate) set allowance for raw material left which may be considered misappropriate, fraud or stolen amounted to Baht 92 million.

Total liabilities

Total liabilities of the Company and subsidiary as at 31 December 2018 amounted to Baht 20,532 million, increased Baht 751 million or 4% from the previous year which resulted from;

Current liabilities increased Baht 1,892 million derived from:

- Trade accounts payable increased Baht 1,014 million
- Accrued interest expenses increased Baht 537 million
- Other payables and accrued expenses increased Baht 293 million

Non-current liabilities decreased Baht 1,141 million derived from:

- Long-term loan from related party decreased Baht 538 million
- Other payables and accrued expenses decreased Baht 427 million

Shareholders' equity

As of 31 December 2018 the Company and its subsidiaries had the shareholders' equity of Baht 10,101 million which decreased by Baht 2,290 million or 18% from last year due to net loss of the Company.

Summary of significant financial ratio (consolidated financial statements)

Financial Ratio	2018	2017	2016
Liquidity ratio (time)	0.29	0.31	0.15
Debt-to-equity ratio (time)	2.03	1.60	2.00
Gross Profit margin (%)	(0.77)	2.83	5.19
Net profit margin to sales* (%)	(5.55)	(1.51)	(4.81)
Average return on equity** (%)	(154.97)	(18.81)	(39.07)
Average return on assets*** (%)	(5.29)	(1.20)	(3.16)
Net profit (loss) per share (Baht)	(0.24)	(0.06)	(0.15)
Net book value**** (Baht)	0.03	0.29	0.31

* Calculate from the profit (loss) of the parent company which excluding Non-controlling interests

** Calculate from the profit (loss) of the parent company divided by total shareholders' equity (Exclude Non-controlling interests)

*** Calculate from the profit (loss) of the parent company which excluding Non-controlling interests

**** Calculate from total shareholders' equity (Exclude Non-controlling interests)

Commitments and off-balance sheet liabilities management

The Company has disclosed as per details in the note No. 47 to the financial statement for the year 2018.

Factor effect to the future operation

As due to the Company and its subsidiaries has major imported raw materials for both scrap and pig iron from oversea, therefore there are major expenses in US dollar currency in which the exchange rate is uncontrollable factor. As a result, the exchange rate is the major factor effect to the future operation of both the Company and its subsidiaries. In case of Thai Baht is devalued as compared to US dollar, then the production cost will be increased. However, the Company and its subsidiaries manages the risk of exchange rate by benchmark the selling price with the world market selling price, which primary refers to US dollar. It likewise purchase and sell in the same currency which could reduce risk from exchange rate fluctuation in a certain level. Besides, the Company has the adaptation plan in respect of various projects aiming to reduce production cost in order to be able to competitive with the competitors and the importers. These projects are in the form of energy cost saving, increase efficiency as well as minimize loss in the production process, etc.

Summary of Consolidated Financial Results

Assets	As at 31 December		+ (-) %
	2018	2017	
	<i>(in million Baht)</i>		
Current assets			
Cash and cash equivalents	258	591	(129%)
Temporary investment-trading security	11	12	(6%)
Trade accounts receivable	14	48	(249%)
Amounts receivable from related parties	-	-	
Inventories	4,611	4,110	11%
Other current assets	566	575	(2%)
Total current assets	5,461	5,337	2%
Non-current assets			
Investments in subsidiaries	-	-	
Advance payment for purchases of property, plant and equipment	210	210	
Property, plant and equipment	24,384	26,005	(7%)
Intangible assets	12	12	(3%)
Other non-current assets	565	609	(8%)
Total non-current assets	25,171	26,835	(7%)
Total assets	30,632	32,172	(5%)
Current liabilities			
Short-term loans from financial institution	213	213	
Trade accounts payable	2,340	1,326	43%
Amount due to related parties	-	-	
Current portion of liabilities under rehabilitation plan	659	535	19%
Current portion of long-term loan from related party	314	138	56%
Current portion of bonds	506	510	(1%)

Summary of Consolidated Financial Results

	As at 31 December		+ (-) %
	2018	2017	
	<i>(in million Baht)</i>		
Short-term loan from related parties	1,269	1,506	(19%)
Short-term loan from other parties	107	107	(0%)
Loan from shareholder	4	4	
Advances received from customers	43	203	(377%)
Other payables and accrued expenses	7,440	7,147	4%
Accrued interest expenses	5,474	4,937	10%
Provisions	434	270	38%
Other current liabilities	349	364	(4%)
Total current liabilities	19,152	17,260	10%
<i>Non-current liabilities</i>			
Liabilities under rehabilitation plan - net of			
current portion	-	148	(100%)
Long-term loan from related party	1,118	1,655	(48%)
Other payables and accrued expenses	118	545	(362%)
Accrued interest expenses	-	16	(100%)
Provision	-	24	(100%)
Employee benefit obligations	143	130	9%
Other non-current liabilities	1	2	(30%)
Total non-current liabilities	1,380	2,521	(83%)
Total liabilities	20,532	19,781	4%
Liabilities and equity			
<i>Equity</i>			
Share capital			
Authorised share capital	48,776	48,776	
Issued and paid-up share capital	34,251	34,251	
Warrants	14	14	

Summary of Consolidated Financial Results

	As at 31 December		+ (-) %
	2018	2017	
	<i>(in million Baht)</i>		
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	(24,900)	(23,099)	7%
Equity attributable to owners of the Company	172	1,973	(1044%)
Non-controlling interests	9,928	10,418	(5%)
Total equity (Capital deficiency)	10,101	12,391	(23%)
Total liabilities and equity	30,632	32,172	(5%)

Condensed Consolidated Statement of Financial Position

	For the year ended 31 December		+ (-) %
	2018	2017	
	<i>(in million Baht)</i>		
Income			
Revenue from sale	29,966	25,705	14%
Revenue from service - Tolling	-	-	
Reversal of bad and doubtful debts expense	-	147	(100%)
Reversal of provision differences from debt restructuring	-	765	(100%)
Net foreign exchange gains	197	1,245	(532%)
Gain from debt restructuring	-	749	(100%)
Other incomes	179	128	29%
Total income	30,341	28,739	5%

Condensed Consolidated Statement of Financial Position

	For the year ended 31 December		+ (-) %
	2018	2017	
	<i>(in million Baht)</i>		
Expenses			
Cost of sale			
- Cost of goods sold	29,636	24,776	16%
- Idle cost	400	196	51%
- Loss on devaluation of inventories (Reversal of)	159	5	97%
Total Cost of sale	30,195	24,977	17%
Cost of services - Tolling	-	-	
Selling expenses	365	483	(32%)
Administrative expenses	843	868	(3%)
Provision for loss on purchase orders	-	-	
for undelivered raw material	41	-	100%
Bad and doubtful debts expense	10	-	100%
Other expenses	144	1,040	(622%)
Finance costs	1,102	995	10%
Total expenses	32,700	28,362	13%
Profit (loss) before income tax expense	(2,358)	376	116%
Income tax expense	-	11	(100%)
Profit (loss) for the years	(2,358)	366	116%
Other comprehensive income (loss) for the years			
Item that will not be reclassified subsequently to profit or loss :			
- Actuarial gains (losses) on defined employee benefit pla	-	(40)	(100%)
Total comprehensive income (loss) for the years	(2,358)	326	114%

Condensed Consolidated Statement of Financial Position

	For the year ended 31 December		+ (-) %
	2018	2017	
	<i>(in million Baht)</i>		
Profit (loss) attributable to :			
Owners of the Company	(1,662)	(388)	77%
Non-controlling interests	(696)	753	208%
Profit (loss) for the years	(2,358)	366	116%
Total comprehensive income (loss) attributable to:			
Owners of the Company	(1,662)	(415)	75%
Non-controlling interests	(696)	741	206%
Total comprehensive income (loss) for the years	(2,358)	326	114%
Loss per share			
Basic loss per share	(0.24)	(0.06)	75%

Consolidated Statement of Cash Flow

	For the year ended 31 December		
	2018	2017	+ (-) %
	<i>(in million Baht)</i>		
<i>Cash flows from operating activities</i>			
Profit (loss) for the years	(2,358)	366	116%
<i>Adjustments for</i>	-	-	
Depreciation and amortisation	1,865	1,910	(2%)
Unrealised (gain) loss on exchange rate	(96)	(1,529)	(1487%)
Gain on exchange rate form debt to equity conversion	-	(79)	(100%)
Loss (gain) on adjustment in value of securities	1	(1)	197%
Loss (gain) from disposal investment	-	(4)	(100%)
Gain from debt restructuring	(1)	(749)	(110565%)
Loss (gain) from write-off the expired legal prescription of liabilities - ne	(119)	-	100%
Loss on devaluation of inventories (Reversal of)	159	5	97%

Consolidated Statement of Cash Flow

	For the year ended 31 December		
	2018	2017	+ (-) %
	<i>(in million Baht)</i>		
Reversal of loss on confirmed purchase orders			
for raw material	41	-	100%
Bad and doubtful debts expense (Reversal of)	10	(147)	1632%
Loss on impairment of assets	42	998	(2299%)
Loss on impairment of investment in subsidiaries	-	-	
Reversal of provisions from deferred debt restructuring difference	-	(765)	(100%)
Loss on written off of assets	0	8	(4672%)
Provision for court case claim	100	19	81%
Provision for a gurantee of subsidiary	-	-	
Withholding tax write-off	39	12	69%
Finance costs	1,102	995	10%
Interest income	(6)	(4)	32%
Dividend income	(0)	-	100%
Employee benefit obligations - Current service cost and interest	13	9	30%
Employee benefit obligations - Past service cost	-	(23)	(100%)
Income tax expense	-	11	(100%)
	791	1,032	(31%)
<i>Changes in operating assets and liabilities</i>			
Trade accounts receivable	34	52	(52%)
Amount due from related parties	-	-	(100%)
Inventories	(661)	(2,124)	(221%)
Other current assets	114	(346)	405%
Other non-current assets	(142)	(207)	(46%)
Trade accounts payable	1,200	593	51%
Advances received from customers	(159)	(0)	100%
Other payable and accrued expenses	(176)	(313)	(78%)
Other current liabilities	9	1,504	(16709%)
Employee benefit paid	(1)	(1)	(118%)
Income tax paid	(164)	(30)	82%
Net cash flows provided by (used in) operating activities	845	160	81%

Consolidated Statement of Cash Flow

	For the year ended 31 December		
	2018	2017	+ (-) %
	<i>(in million Baht)</i>		
<i>Cash flows from investing activities</i>			
Interest received	6	4	32%
Purchase of property, plant and equipment	(116)	(14)	88%
Purchase of intangible assets	(3)	(0)	88%
Cash received (payment) to long-term loans	-	-	
Proceeds from disposal of temporary investment	0	82	(358440%)
Proceeds from disposal of investment in subsidiary	68	60	12%
Net cash flows provided by (used in) investing activities	(45)	132	393%
<i>Cash flows from financing activities</i>			
Finance costs paid	(534)	(776)	(45%)
Payment of liabilities under rehabilitation plan	(7)	(18)	(167%)
Payment of liabilities during debt restructuring	-	(922)	(100%)
Proceeds(Repayment)of short-term loans from financial institution	-	(103)	(100%)
Proceeds(Repayment) of short-term loans from related parties	(230)	-	100%
Proceeds(Repayment) of short-term loans from other parties	(0)	52	95737%
Proceeds(Repayment)from long-term loans from related parties	(361)	1,443	499%
Payment for financial lease liabilities	(1)	-	100%
Net cash flows provided by (used in) financing activities	(1,133)	(324)	71%
Net increase (decrease) in cash and cash equivalents	(333)	(32)	90%
Cash and cash equivalents at 1 January	591	623	(5%)
Cash and cash equivalents decrease on liquidation of a subsidiary	-	-	
Effect from exchange rate changes on balances held in foreign currencies	(0)	(1)	(1498%)
Cash and cash equivalents at 31 December	258	591	(129%)

Consolidated Statement of Cash Flow

For the year ended 31 December

2018 2017

(in million Baht)

Non-cash transactions

From write-off the expired legal prescription of liabilities

Decrease in other current assets	(4)	-	100%
Decrease in other non - current assets	(17)	-	100%
Decrease in trade accounts payable	13	-	100%
Decrease in other payables and accrued expenses	93	-	100%
Decrease in accrued interest expenses	2	-	100%
Decrease in liabilities under rehabilitation plan	16	-	100%
Decrease in other current liabilities	17	-	100%
			(100%)
Transfer provisions to other payables and accrued expenses	-	72	(100%)
Transfer provisions to accrued interest	-	2,065	(100%)
Transfer trade account payables to accrued expenses	-	4,442	(100%)
Transfer trade account payables to liabilities during debt restructuring	-	1,454	(100%)
Transfer accrued expense to liabilities during debt restructuring	-	613	(100%)
Transfer accrued interest to liabilities during debt restructuring	-	1,173	(100%)
Transfer accrued interest to accrued expenses	-	207	(100%)
Transfer accrued interest to provisions	-	24	(100%)
Transfer accrued interest to short-term loans from related party	-	-	
Transfer liabilities from rehabilitation plan to share capital	-	1,096	(100%)
Settlement between trade accounts receivable with trade account pay	-	172	(100%)
Transfer trade accounts payable to other payables and accrued expenses	163	-	100%
Transfer advances received from customers to trade accounts payable	2	-	100%