

## Management Discussion and Analysis Quarter 3 Ending 30 September 2019

### 1. Highlights

	Unit: million Baht	3 <sup>rd</sup> Quarter 2019	3 <sup>rd</sup> Quarter 2018
<b>Performance</b>	Revenues	3,803	8,666
	Sales Volume (k tons)	172,117	418,365
	EBITDA	50	41
	Net Profit (Loss)	(433)	(311)
<b>HRC</b>	HRC Sales (k tons)	172,117	418,365
	HRC Production Volume (k tons)	178,506	417,825
	HRC Average Selling Price (THB./ton)	17,915	20,109
	HRC Cash Margin (THB./Ton)	831	482
	Unit: million Baht	30 September 2019	31 December 2018
<b>Financial Status</b>	Total Liabilities	2,593	5,607
	Total Asset	16,303	18,824
	Total Equity	13,710	13,218

The Company posted an Operating EBITDA of THB 50 Million during the current Quarter compared to THB 41 Million Last Year Quarter.

The Company has recorded a net loss of THB 433 Million for the Quarter against a net loss of THB 311 Million for Last Year Quarter mainly due to increase in loss on devaluation of Finished Goods and Raw Material by THB 158 Million and lower Foreign Exchange Gain by THB 95 Million compared to Last Year Quarter. These were partly offset by reduction in expenses due to termination of Tolling Arrangement which was carried out Last Year Quarter.

	3 <sup>rd</sup> Quarter 2019			3 <sup>rd</sup> Quarter 2018		
	Own production	Tolling	Total	Own production	Tolling	Total
HRC production volume (Ton)	178,506	-	178,506	230,759	187,066	417,825
HRC sale volume (Ton)	172,117	-	172,117	226,109	192,256	418,365

The Production and Shipment volumes for this Quarter were lower as compared to Last Year Quarter due to termination of Tolling activities which were carried out during the Last Year Quarter.

## 2. Business Outlook

The Domestic HRC prices were severely impacted due to continued weakening of international market for flat products and increase in imports of Alloy Steel and Hot Dipped Galvanized HRC into Thailand due to strengthening of Thai Baht and removal of safeguard against Alloy Steel since February, 2019. The Company had to reduce its selling prices in line with Imports to retain its production and sales volumes. Consequently, the average selling price for the Company reduced by 10% compared to Q2 2019 (from 19891 THB/Ton in Q2 2019 to 17915 THB/ton in Q3 2019). The sharp decline in the Finished Goods has also led to a decline in Raw material prices and the Company suffered devaluation loss on Finished Goods stock, Raw Material in stock and in transit as explained above.

Though the prices have continued to weaken month on month, we are now seeing some bottoming out of the prices and slowdown in the import arrivals into Thailand.

Pursuant to the Government announcement in the Government Gazette regarding to the revised Anti-dumping and Countervailing of Foreign Products Act, B.E. 2562 (A.D. 2019) with the additional provision relating to anti-dumping and countervailing measurement which will be officially effective in 180 days from the announcement date of the Government Gazette or will be taken effect on 18 November 2019. This causes the steel product importer to aware of the aforesaid law and to consider the slowdown of steel products import from overseas. The Company expects that the trend hot rolled steel import decreased and to have confidence in domestic market which will have a direction to improve in the future. In addition, the government stimulus measures may affect the increased demand for hot rolled steel in the same direction of public utility budget.

## 3. Performance of the Company

### Operating results

The Company reported a net loss of THB 433 million and THB 311 million for 3<sup>rd</sup> Quarter 2019 and 2018, respectively. This is primarily due to:

- **Revenue from sales and cost of goods sold**

The total sales volumes and total production volumes were lower than last year quarter mainly due to the termination of tolling agreement with G Steel Public Company Limited in February 2019 resulting to significant decrease in sale volume and production volume.

- **Selling expenses**

Selling expenses for 3<sup>rd</sup> Quarter 2019 and 2018 amounting to THB 43 million and THB 109 million respectively. The decrease is mainly due to reduction in sales volume as explained above.

- **Financial costs**

The financial costs for 3<sup>rd</sup> Quarter 2019 and 2018 amounted to THB 59 million and THB 124 million, respectively. The decrease of financial costs of THB 65 million mainly resulted from reduction in working capital due to termination of tolling and repayment of short-term loan USD 20 million from the cash received from Right-offering received in previous quarter.

- **Gain from exchange rate**

The Company had recorded gain from exchange rate for 3<sup>rd</sup> Quarter 2019 and 2018 amounting to THB 19 million and THB 113 million in respectively which was lower than last year quarter mainly due to the liabilities in foreign currency was lower.

**4. Statement of financial positions****• Total assets**

As of 30 September 2019, the Company has total assets amounting to THB 16,303 million which decreased from the year ended 2018 by THB 2,521 million. The current assets amounted to THB 2,473 million, decreased by 44% from the year ended 2018 mainly due to the decrease in inventory by THB 2,133 million partially offset by increased in cash & cash in banks by THB 372 million. Total non-current assets decreased by 4% from the year ended 2018.

**• Total Liabilities**

As of 30 September 2019, the Company has total liability amounting to THB 2,594 million. Total current liabilities amounted to THB 1,431 million and total non-current liabilities amounted to THB 1,163 million. As compared with the year ended 2018, the total liability decreased by THB 3,013 million or 54%, on account of decrease in:

1. Trade accounts payable decreased by THB 1,413 million.
2. Short-term loan from related parties decreased by THB 1,239 million.
3. Other payables and accrued expenses decreased by THB 317 million.
4. Long-term loan from other parties decreased by THB 59 million.
5. Other liabilities & provisions increased by THB 15 million.

**• Total equity**

As of 30 September 2019, the Company has total equity amounted of THB 13,710 million which increased by THB 492 million or 4% from year ended 2018 mainly due to:

1. Registered increased share capital and received cash (net of discounted on ordinary shares) amounting to THB 1,429 million resulting in increase in equity.
2. The Company recorded a net loss for the nine months period of THB 937 million.

## Appendix

Table 4: Summary of Financial Results

Unit : Million Baht	3rd Quarter 2019	3rd Quarter 2018	% Variance
<b>Income</b>			
Revenue from sale of goods	3,083	8,666	(64%)
Net foreign exchange gains	19	113	(83%)
Gain from debt restructuring	0	1	(100%)
(Reversal of) loss on confirmed purchase orders for undelivered raw material	0	9	(100%)
Other income	29	14	103%
<b>Total income</b>	<b>3,131</b>	<b>8,803</b>	<b>(64%)</b>
<b>Expenses</b>			
Cost of sale - Cost of goods sold	3,143	8,665	64%
- (Reverse of) loss on devaluation of inventories	160	40	(300%)
Total cost of sale	3,303	8,705	62%
Selling expenses	43	109	61%
Administrative expenses	130	112	(15%)
Bad and doubtful debts expense	0	64	(100%)
Loss on confirmed purchase orders for undelivered raw material	30	0	(100%)
Finance costs	59	124	52%
<b>Total expenses</b>	<b>3,564</b>	<b>9,115</b>	<b>61%</b>
<b>Profit (loss) for the year</b>	<b>(433)</b>	<b>(311)</b>	<b>39%</b>
Basic profit (loss) per share (in Baht)	(0.031)	(0.022)	39%

Table 5: Condensed Statement of Financial Position

Unit : Million Baht	30 September 2019	31 December 2018	% Variance
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	573	201	185%
Trade accounts receivable	33	14	140%
Inventories	1,728	3,861	(55%)
Short-term loan to related parties	0	94	(100%)
Other current assets	139	268	(48%)
<b>Total current assets</b>	<b>2,473</b>	<b>4,438</b>	<b>(44%)</b>
<b>Non-current assets</b>			
Advance payment for purchase of property, plant and equipment	210	210	0%
Property, plant and equipment	13,271	13,839	(4%)
Intangible assets	7	7	(1%)
Other non-current assets	342	330	4%
<b>Total non-current assets</b>	<b>13,830</b>	<b>14,386</b>	<b>(4%)</b>
<b>Total assets</b>	<b>16,303</b>	<b>18,824</b>	<b>(13%)</b>

Table 5: Condensed Statement of Financial Position

Unit : Million Baht	30 September 2019	31 December 2018	% Increase (Decrease)
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade accounts payable	620	2,033	70%
Other payables and accrued expenses	402	661	39%
Advance from customers	54	33	(64%)
Short-term loan from related parties	0	1,239	100%
Accrued interest expenses	138	132	(4%)
Current portion of liabilities under rehabilitation plan	172	180	5%
Provision	30	41	27%
Other current liabilities	16	31	49%
<b>Total current liabilities</b>	<b>1,431</b>	<b>4,350</b>	<b>67%</b>
<b>Non-current liabilities</b>			
Trade accounts payable			
Other payables and accrued expenses	0	58	100%
Long-term loan from related parties	1,059	1,118	5%
Liabilities under financial lease	1	1	24%
Employee benefit obligations	103	80	(29%)
<b>Total non-current liabilities</b>	<b>1,163</b>	<b>1,257</b>	<b>7%</b>
<b>Total liabilities</b>	<b>2,594</b>	<b>5,607</b>	<b>(54%)</b>
<b>Total equity</b>	<b>13,710</b>	<b>13,218</b>	<b>4%</b>
<b>Total liabilities and equity</b>	<b>16,303</b>	<b>18,824</b>	<b>(13%)</b>

Table 6: Condensed Statement of Cash Flow

Unit : Million Baht	Jan - Sep 2019
<i>Cash flows from operating activities</i>	
Net profit (Loss) for the period	(937)
Adjustments for	
Depreciation and amortization	663
Work roll amortisation	55
Interest income	(19)
Finance costs	287
Unrealised gain on foreign exchange	(76)
(Reversal of) loss on devaluation of inventories	25
(Reversal of) loss on confirmed purchase orders of undelivered of raw material	(11)
Employee benefit expenses	27
	15
<i>Changes in operating assets and liabilities</i>	
Trade accounts receivable	(19)
Inventories	2,108
Advances to suppliers	(28)
Other current assets	152
Other non-current assets	(67)
Trade accounts payable	(1,409)
Advances received from customers	21
Other payables and accrued expenses	(316)
Other current liabilities	(15)
Paid employee benefit obligations	(4)
Interest received	1
<b>Net cash from (used in) operating activities</b>	<b>439</b>
<i>Cash flows from investing activities</i>	
Interest received	23
Short-term loan to related parties decrease (increase)	94
Purchase of property, plant and equipment	(94)
Purchase of intangible assets	(2)
<b>Net cash from (used in) investing activities</b>	<b>21</b>

Table 6: Condensed Statement of Cash Flow

Unit : Million Baht	Jan - Sep 2019
<b>Cash flows from financing activities</b>	
Receive short-term loan from related party	624
Repayment of liabilities under rehabilitation plan	(2)
Repayment of short-term loan from related party	(1,864)
Repayment of long-term loan from related party	0
Cash received from issuance of new ordinary shares	1,503
Pay the cost of issuing new shares	(74)
Finance costs paid	(275)
<b>Net cash from (used in) financing activities</b>	<b>(88)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>373</b>
Cash and cash equivalents at 1 January 2019	201
<b>Cash and cash equivalents at 30 September 2019</b>	<b>573</b>



## 5. Industry Overview and Outlook

### Overview of World Steel Industry

According to the World Steel Association’s report on world crude steel production was 466.1 million tons in the third-quarter of 2019 and accumulated world crude steel production in the first nine months of 2019 was 1,391.2 million tons, up by 3.9% compared to the same period in 2018. The region with most production was Asia (including China, but not including the Middle East) 1,000.1 million tons, an increase by 6.3%, The second most producing region was the European Union (EU), with 122.5 million tons, decreased by 2.8% and North America’s crude steel production was 90.6 million tons, an increase of 0.3% compared to the first nine months of 2018.

In September 2019, China produced crude steel at 82.8 million tons up by 2.2%, India produced crude steel at 9.0 Mt increased by 1.6%, Japan at 8.0 Mt slightly decreased 4.5% and South Korea at 5.7 Mt down by 2.7% compared to September 2018.

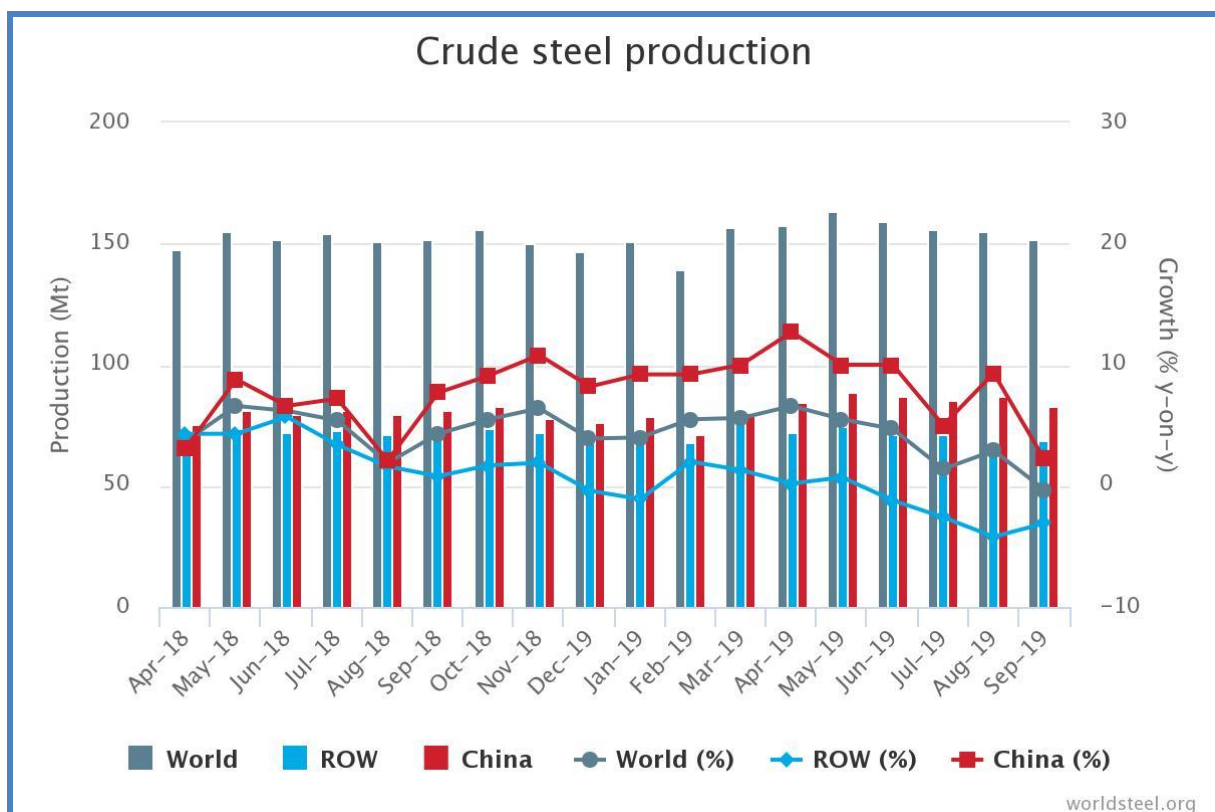
Meanwhile, in the EU, Germany produced crude steel at 3.4 million tons down by 4.0%, Italy’s crude steel production was 2.2 million tons, up by 1.1%, France produced 1.2 million tons of crude steel, a decrease of 10.2% and Spain produced crude steel at 1.2 million tons, down by 1.0% compared to September 2018.

The US produced 7.1 million tons of crude steel for September 2019, a decrease of 2.5% on September 2018.

Brazil’s crude steel production for September 2019 was 2.4 million tons, down by 22.0% on September 2018.

Turkey’s crude steel production for September 2019 was 2.7 million tons, a decrease of 6.9% compared to September 2018.

**Chart of world crude steel production monthly, ending 30 September 2019**



Source: World Steel Association

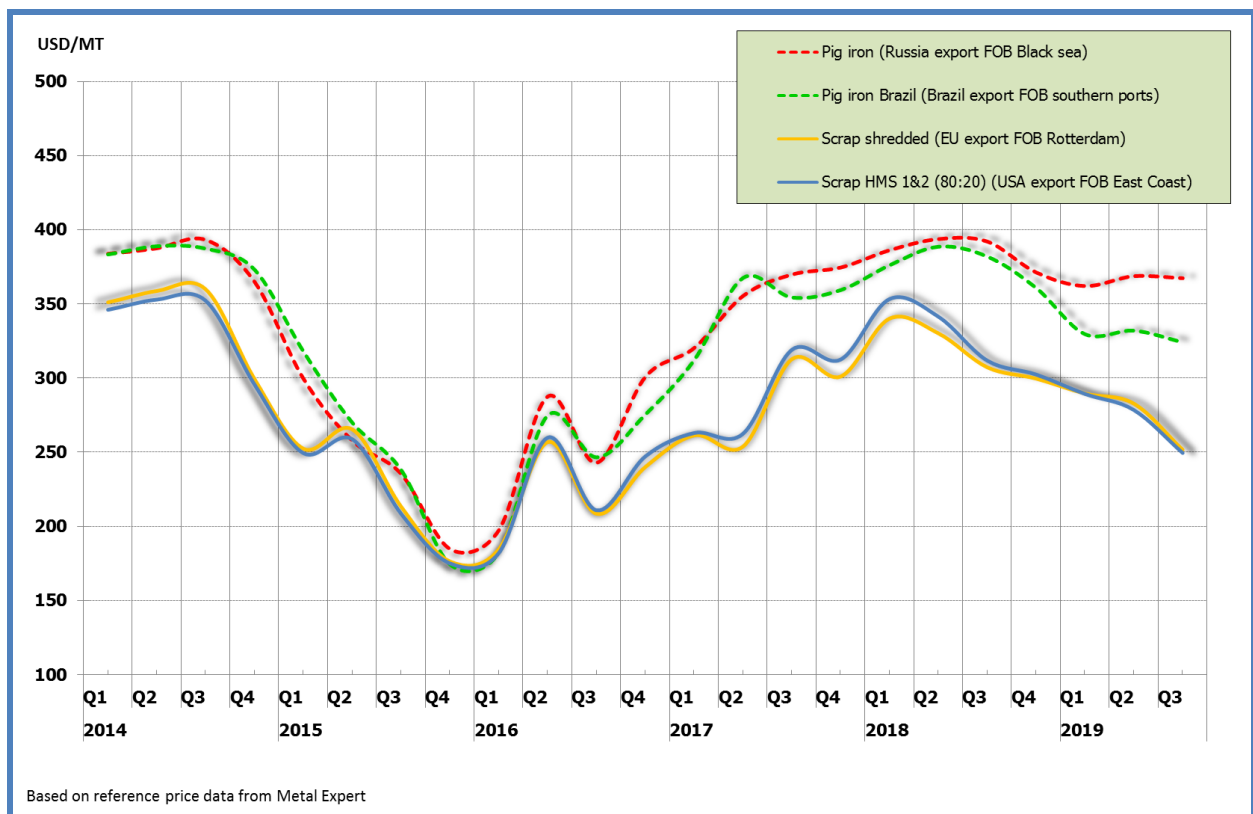
**Remarks:**

1. For antitrust reasons, world steel no longer produces a monthly global capacity utilisation ratio. Information on capacity can be found on the OECD website.
2. ROW : Rest of the world (Exclude China).

The main raw materials (Pig iron, shredded scrap) the price movement of the main raw materials, i.e. scraps and pig iron, had more fluctuated since the first quarter of 2016, by increasing in the first quarter to second quarters of 2016 and then decreased in the third quarter of 2016 but then turn back increasing continuously until the first quarter of 2018 and then decreased again in second quarter of 2018 to first quarter of 2019. For second quarter to third quarter of 2019, the price of pig iron remained stable at the same level while the price of scrap started to fall continuously. Thus it will become more challenging for the global steel industry participants in all the regions. Careful estimation for raw material purchasing and production cost management is seriously needed in order to cope with the more dynamic business environment.

The raw material reference prices on the world market are that the HMS 1&2 (80:20 ratio) scrap USA export price of the third quarter of 2019 was averaged at USD 250/mt. FOB, decreased from the previous quarter at USD 279/mt. FOB, and pig iron Russia export price of the third quarter of 2019 averaged at USD 368/mt. FOB, slightly decreased from USD 369/mt. from the previous quarter.

**Chart of raw material reference prices on world market for Q1/2014 – Q3/2019**

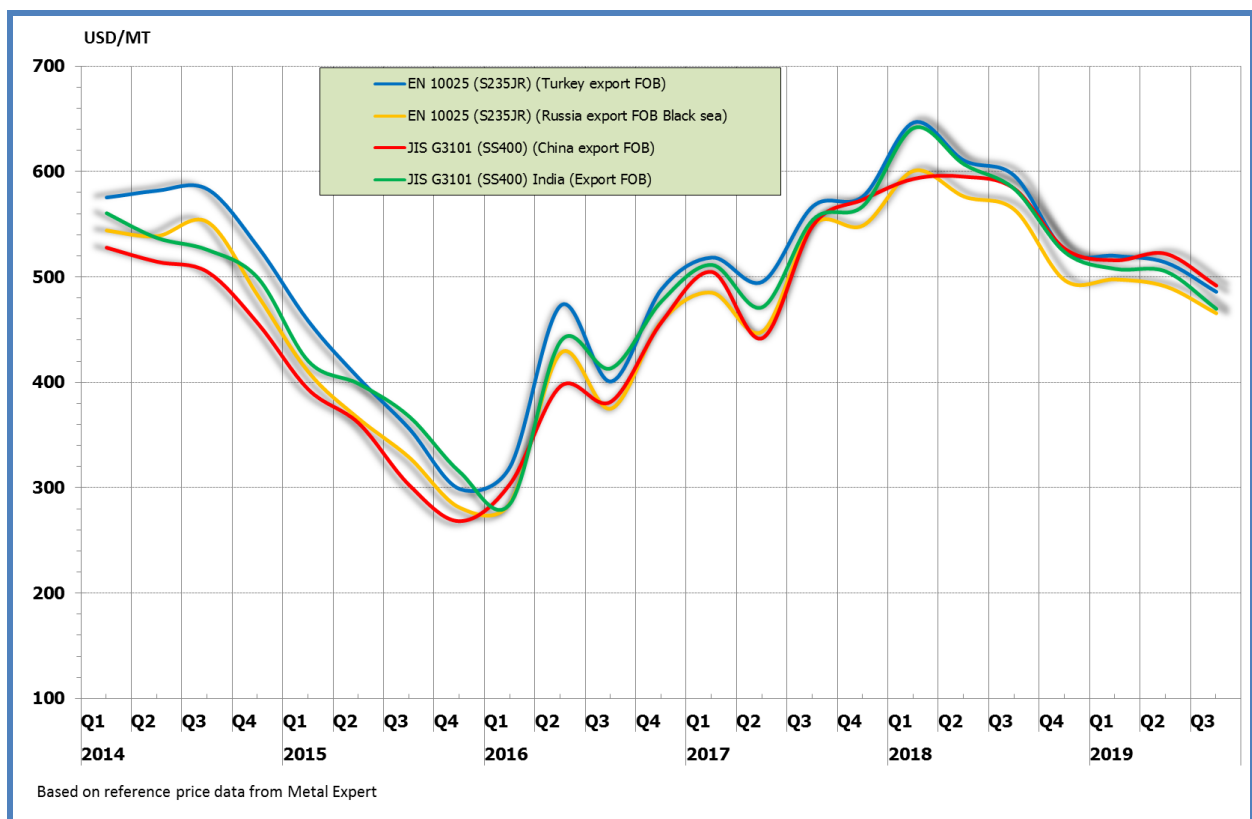


Processed price data from: Metal Expert

Hot Rolled the prices for hot-rolled coil on the world market during the first quarter of 2016 to fourth quarter of 2018 had more fluctuated by moving from the lowest point at price level below USD 300/mt in the first quarter of 2016 then rebounded in the second quarter, and fell again in the third quarter and then turn back increasing continuously from fourth quarter of 2016 to first quarter of 2017 and decreased again in the second quarter then rebounded quickly until first quarter of 2018 and dropped again in second quarter to fourth quarter of 2018. Then maintain the price level at USD 500/mt until second quarter of 2019 and fell again in third quarter of 2019.

The reference prices for hot-rolled coil on the world market are that China export price average for third quarter of 2019 was USD 492/mt, FOB, decreased from the previous quarter at USD 523/mt. FOB. Russia export price average was decreased from USD 491/mt. FOB, to 466/mt. FOB, Turkey export price average was dropped from USD 514/mt, FOB, to 486/mt. FOB and India export price average was also decreased from USD 505/mt. FOB, to 470/mt. FOB in third quarter of 2019.

**Chart of hot-rolled coil reference prices on world market for Q1/2014 – Q3/2019**



Processed price data from: Metal Expert

### Overview of Thai Steel Industry

ISIT had reported the domestic steel-production in Jan. – Sep. 2019 was at 5.74 million metric tons, decreasing 18.75% compared to the same period of previous year consisting of the long finished steel production of 3.76 million metric tons, decreasing 14.49% and the flat finished steel production of 1.97 million metric tons, decreasing 25.80% compared to the same period of previous year.

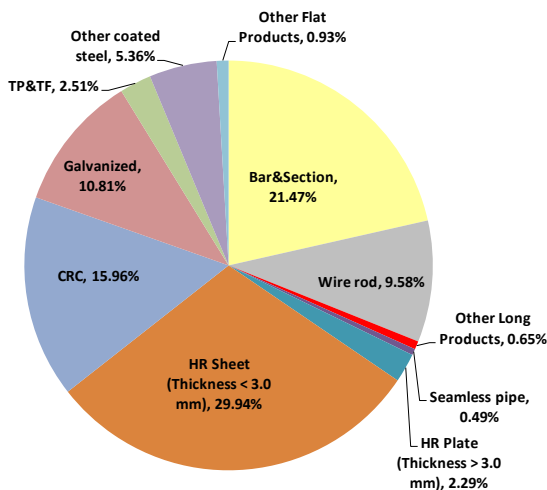
The consumption of finished steel products in Thailand in Jan. – Sep. 2019 was at 14.01 million metric tons, decreasing 5.11% compared to the same period of previous year consisting of the long finished steel consumption at 5.22 million metric tons, decreasing 9.51% resulting from the less consumption of bar and structural steel and the flat finished steel consumption at 8.79 million metric tons, decreasing 2.28% resulting from the demand of Hot Rolled Steel and Cold Rolled Steel which decreasing compared to the same period of previous year.

**Table: The production and the domestic demand of Finished Steel in Jan - Sep 2018 and 2019**

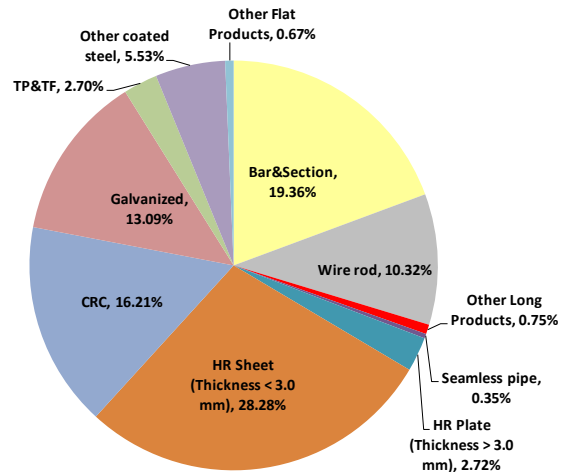
Total Apparent Finished Steel (Unit : Tons)	Jan - Sep 2018	Jan - Sep 2019	% Change
Production	7,059,669	5,735,752	-18.75%
Import	9,015,593	9,380,190	4.04%
Export	1,312,170	1,106,611	-15.67%
Consumption	14,763,092	14,009,331	-5.11%

Source : Iron and Steel Institute of Thailand, by Steel Business Intelligence

**Steel Consumption Jan - Sep 2018**



**Steel Consumption Jan - Sep 2019**



The imported of finished steel in Thailand in Jan. – Sep. 2019 was at 9.38 million metric tons, increasing 4.04% compared to the same period of previous year. The highest import quantity was Hot Rolled Steel at 3.29 million metric tons, increasing 3.37% compared to the same period of previous year. The second highest import quantity was Galvanize steel at 1.41 million metric tons and Cold Rolled steel at 1.25 million metric tons respectively.

The export of finished steel in Thailand in Jan. – Sep. 2019 was at 1.11 million metric tons, decreasing 15.67% compared to the same period of previous year. The highest export quantity was structural steel at 0.242 million metric tons. The export of deformed bars for construction was at 0.195 million metric tons.

### Overview of Hot Rolled Steel in Thailand

The Hot Rolled Steel production in Jan. – Sep. 2019 was at 1.97 million metric tons, decreasing 25.80% consisting of thin gauge at 1.88 million metric tons, decreasing 25.50% and Thick gauge at 98.5 thousand metric tons, decreasing 31.18% compared to the same period of previous year.

**Table: The production and the domestic demand of the Hot Roll Flat Steel for Jan - Sep 2018 and 2019**

Total Hot Roll (Unit : Tons) (Excluding Stainless Steel)	Jan - Sep 2018	Jan - Sep 2019	% Change
Production	2,661,134	1,974,478	-25.80%
Import	2,952,988	3,071,247	4.00%
Export	63,492	6,540	-89.70%
Consumption	5,550,630	5,039,185	-9.21%

Total Hot Roll Plate (Unit : Tons) (Excluding Stainless Steel, Thickness > 3 mm.)	Jan - Sep 2018	Jan - Sep 2019	% Change
Production	143,068	98,461	-31.18%
Import	272,680	353,113	29.50%
Export	17,106	2,107	-87.68%
Consumption	398,642	449,467	12.75%

Total Hot Roll Sheet (Unit : Tons) (Excluding Stainless Steel, Thickness < 3 mm.)	Jan - Sep 2018	Jan - Sep 2019	% Change
Production	2,518,066	1,876,017	-25.50%
Import	2,680,308	2,718,134	1.41%
Export	46,386	4,433	-90.44%
Consumption	5,151,988	4,589,718	-10.91%

Source : Iron and Steel Institute of Thailand, by Steel Business Intelligence

The Hot Rolled Steel consumption in Jan. – Sep. 2019 was at 5.04 million metric tons, decreasing 9.21% consisting of thin gauge at 4.59 million metric tons, decreasing 10.91% and thick gauge at 0.449 million metric tons, increasing 12.75% compared to the same period of previous year.

The import of Hot Rolled Steel in Jan. – Sep. 2019 had increased of 4.00% at 3.07 million metric tons consisting of thin gauge at 2.72 million metric tons, increasing of 1.41% and at 0.353 million metric tons, increasing 29.50% for the thick gauge compared to the same period of previous year.

The export of Hot Rolled Steel in Thailand in Jan. – Sep. 2019 was at 6.54 thousand metric tons, decreasing 89.70% consisting of thin gauge at 4.43 thousand metric tons, decreasing of 90.44% and at 2.11 thousand metric tons, decreasing 87.68% for the thick gauge compared to the same period of previous year.