

**Management Discussion and Analysis Quarter 1 Ending 31 March 2020**

**1. Highlights**

	Unit : million Baht	Q 1/2020	Q 1/2019
Group	Group Revenues	4,820	3,398
	Group Net Profit (Loss)	(1,287)	(803)
HRC	HRC Sales (k tons)	304	177
	HRC Production Volume (k tons)	321	139
	HRC Average Selling Price (Bht/Ton)	15,865	19,160
	Unit : million Baht	30-Mar-20	31-Dec-19
Group	Total Assets	26,057	26,400
	Total Liabilities	10,163	9,219
	Total Equity	6,157	7,014
	Minority	9,737	10,168

The Consolidated reported net loss for Q1 2020 was Baht 1,287 million, an increase by Baht 484 million YoY and total sale revenue of Baht 4,820 million which increased by Baht 1,422 million YoY.

The Company posted net loss of Baht 854 million, increase by Baht 499 million YoY (due to reasons as described below) and sale revenue Baht 2,124 million comparing with revenue from Tolling service fee of Baht 274 million reported last of year quarter.

Sale revenue increases according to the increase of sale volume. Both Company and subsidiary had plant shut down last year. In Q1/2019, the Company shut down in February and March during waiting for signing new credit agreement in April and subsidiary shut down in February due to the damage of the important spare part and equipment.

Net loss, cause from the epidemic of COVID-19. Steel demand decrease and lead to price reduction. The difference between selling price and raw material cost per ton (Metal spread) was low and could not cover cost and expense.

**2. Business Outlook**

Total domestic Hot Rolled Steel consumption for Quarter 1, 2020 stood 1.51 million MT and decreased by 3.4% compared to same quarter last year. Meanwhile, imports of Hot Rolled Steel decreased by 14% and Domestic Production increased on 11.5% compared to same period last year.

The trade war between USA-China, high imports due to expiry of safeguard on alloy steel, and strengthening of Thai Baht, and the current out break of COVID-19 has led to continuous decline in domestic steel prices from second quarter of 2019 and impacted the operating results adversely.

On March 11, 2020, the World Health Organization declared the Coronavirus (“COVID-19”) outbreak as a pandemic which resulted in travel restriction, lockdown and other precautionary measures imposed in various countries including Thailand.

This outbreak has brought significant economic uncertainties in Thailand and markets in which the Company operates. However, the Company is unable to reasonably estimate the financial negative impact of the COVID-19 in the periods going forward as the situation is still evolving. It is, however, certain that Thailand and worldwide measures against spread of the COVID-19 will have adverse effects on the Company’s future revenues, operations and supply chains. The Company is taking several cost saving measures to minimize the negative impact of the COVID-19 pandemic on the Company’s future operations and is hopeful that appropriate measures will also be taken by the Government to support to support the Thailand Industries.

### **3. Performance of the Company**

#### **Operating Results**

The Company reported a net loss of Baht 854 million during the quarter. The loss increased by Baht 499 million compared to same period of last year which posted net loss of Baht 355 million mainly on account of net foreign exchange loss of Baht 378 million during the current quarter against net foreign exchange gain of Baht 169 million during last year quarter.

The consolidated net loss is Baht 1,287 million, which increased by Baht 484 million compared to last year quarter.

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

The Company reported sale revenue of Baht 2,124 million compared with same period last year which reported revenue from Tolling service Baht 274 million. Post termination of Tolling Agreement on 31<sup>st</sup> January 2019, the Company’s operations were shut for the rest of the quarter in 2019.

The consolidated sale revenue are Baht 4,820 million, increased by Baht 1,422 million YoY due to sale volume increase. As above, in Quarter 1 2019, the Company had plant shut down in February and March while waiting for signing new credit agreement for working capital purpose and subsidiary had a plant shut down due to the breakdown of important equipment.

#### **Selling Expenses**

The Company recorded selling expense of Baht 34 million, increased by Baht 34 million YoY according to sale volume increase.

Consolidated selling expenses amounted to Baht 77 million, increased by Baht 32 million YoY.

#### **Administrative Expenses**

The Company recorded administrative expenses of Baht 88 million, increased by Baht 40 million or YoY due to the allocation from administrative expense to tolling service expense in January of last year and fees payable under the Financial Advisory Service Agreement. Total consolidated administrative expense Baht 205 million, increased by Baht 7 million YoY.

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

The Company recorded net loss on foreign exchange amounting to Baht 378 million, whereas the consolidated financials recorded a net loss of Baht 501 million due to the depreciation of the Thai Baht versus the US dollar.

#### **4. Statement of financial positions**

##### **Total Assets**

As of 31 March 2020, the consolidated total assets amounted to Baht 26,057 million, which decreased by Baht 343 million from year ended 2019. Out of the total assets, Current Assets amounted to Baht 3,666 million, decreased 2% and non-current assets amounted to Baht 22,391 million, decreased 2% from year ended 2019.

##### **Cash and cash equivalent**

As at 31 March 2020, the Consolidated cash and cash equivalent balance was Baht 394 million, which decreased by Baht 70 million from year ended 2019. The Cash and Cash Equivalent for the Company increased by Baht 40 million.

##### **Cash Flow**

- Net cash flows provided by operating activities Baht 65 million
- Net cash flows provided by investing activities Baht 1 million.
- Net cash flows used in financing activities Baht 26 million.

(For further details please refer to the Statement of cash flows as attached)

##### **Inventories**

Inventories of the consolidated Financial Statement amounted to Baht 2,626 million or 10% of total assets, which reduced by Baht 6 million from year ended 2019.

##### **Total liabilities**

Total liabilities of the consolidated Financial Statement amounted to Baht 10,163 million, which increased by Baht 944 million from year ended 2019.

##### **Consolidated Current liabilities increased Baht 828 million due to:**

- Trade accounts payable increased by Baht 398 million mainly due to increase of Baht 336 million from raw material trade payable for the Company.
- Current portion of long-term loan from related party increased by Baht 290 million from the subsidiary.
- Accrued interest expenses increased by Baht 159 million.

##### **Non-current liabilities increased Baht 116 million derived from:**

- Liabilities under rehabilitation plan and compromise agreement increase Baht 131 million due to the Company signed the compromise agreement with one electricity provider.

##### **Shareholders' equity**

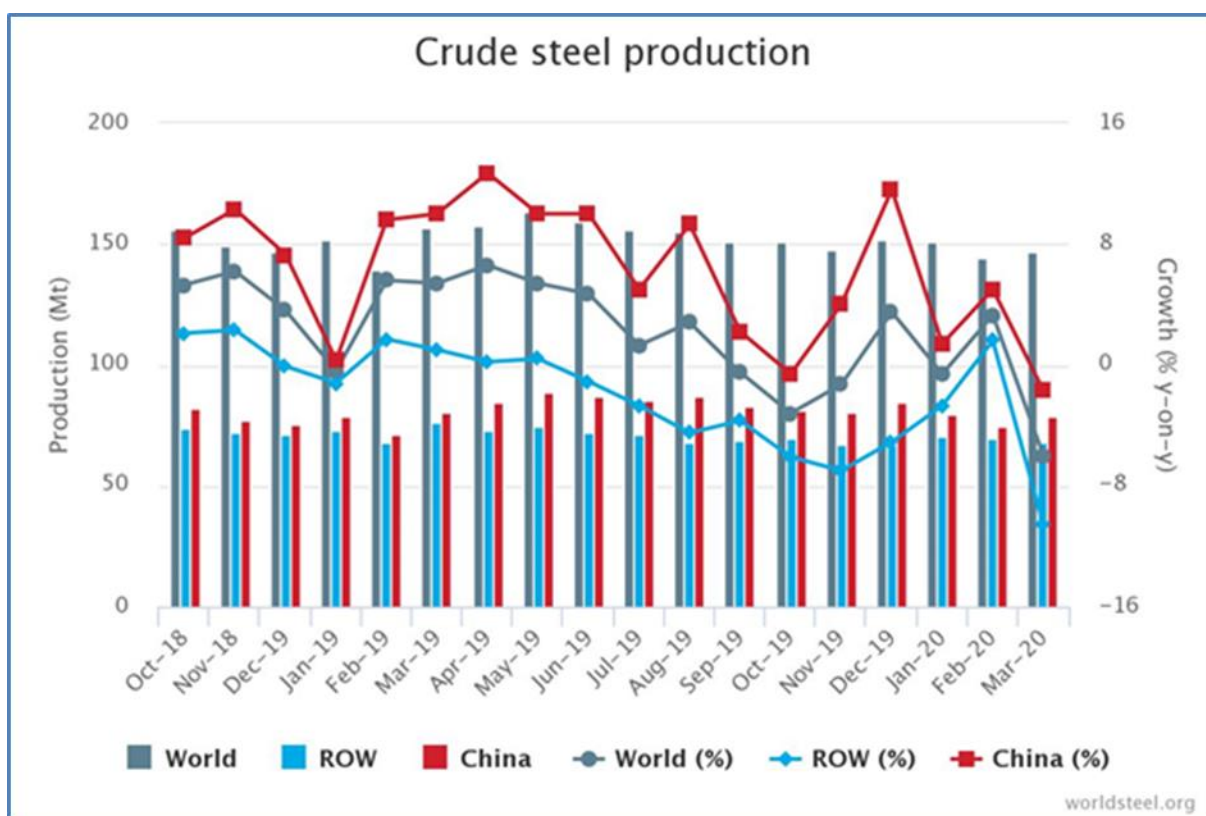
As of 31 March 2020, the Consolidated Financial Statement had the shareholders' equity of Baht 15,895 million which decreased by Baht 1,287 million YoY due to net loss.

**5. Industry Overview and Outlook**

**Overview of World Steel Industry**

According to the World Steel Association’s report on world crude steel production was 443.0 million tons in the first three months of 2020, significant decrease by 1.4% compared to the same period in 2019. The region with most production was Asia (including China, but not including the Middle East) 315.2 million tons, a decrease by 0.3% over the first three months of 2019. The second most producing region was the European Union (EU), with 38.3 million tons, decreased 10.0% and North America’s crude steel production in the first quarter of 2020 was 29.5 million tons, a decrease of 4.0% compared to the same period of 2019.

**Chart of world crude steel production monthly, ending 31 March 2020**

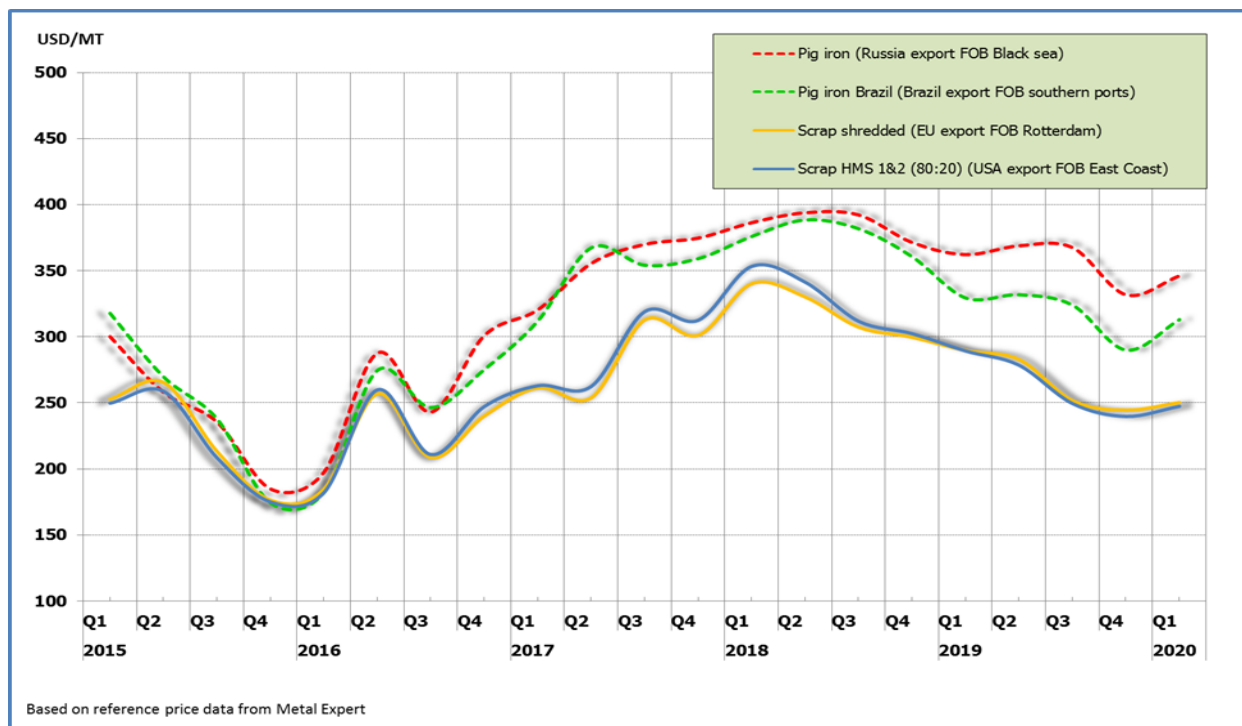


Source: World Steel Association

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 and the 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 decreased again in second quarter of 2018 to fourth quarter of 2019 after that slightly increased in the first quarter of 2020. 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 first quarter of 2020 was averaged at USD 248/mt. FOB, increased from the previous quarter at USD 240/mt. FOB, and pig iron Russia export price of the first quarter of 2020 averaged at USD 346/mt. FOB, rose from USD 332/mt. compared to the previous quarter.

**Chart of raw material reference prices on world market for Q1/2015 – Q1/2020**

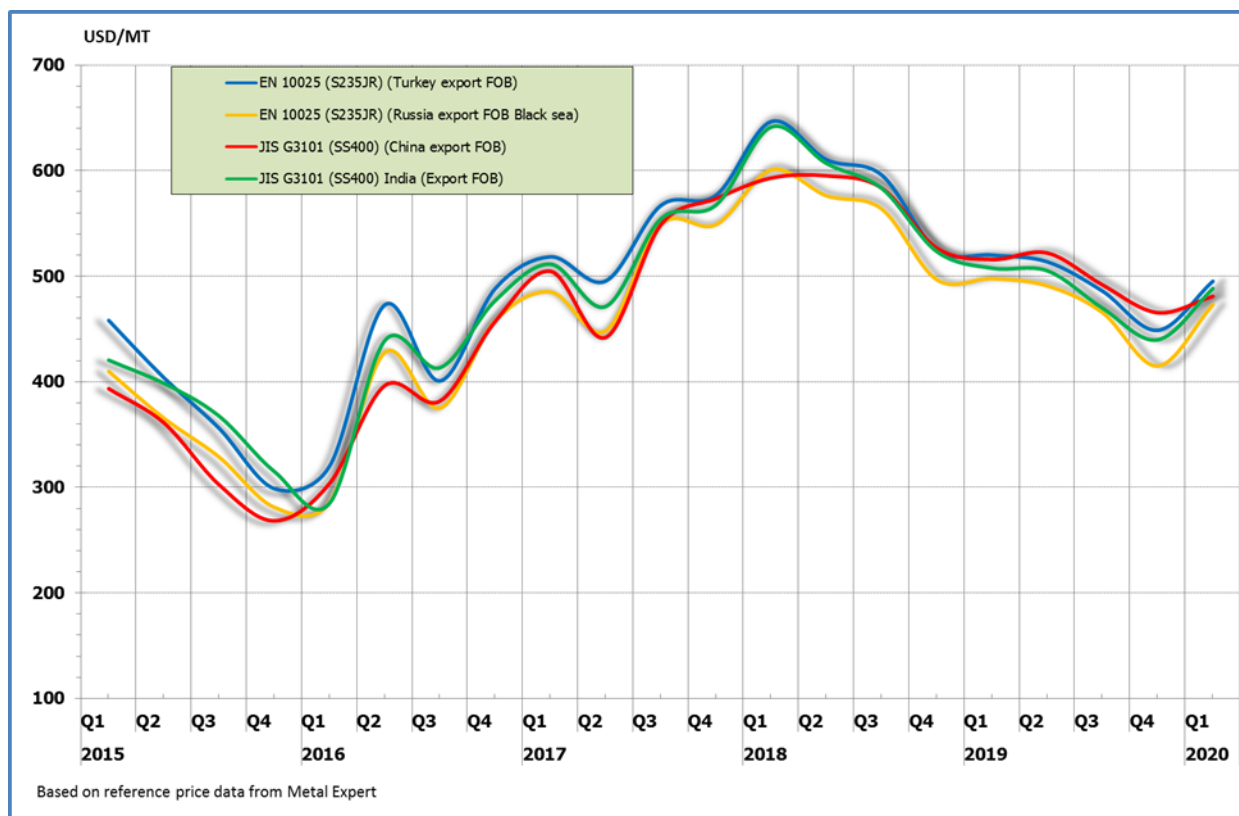


*Processed price data from: Metal Expert*

Hot Rolled the prices for hot-rolled coil on the world market during the first quarter of 2016 to first quarter of 2019 had more fluctuated by moving from the lowest point 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 continuously from second quarter of 2018 to fourth quarter of 2019 and then started to increase in first quarter of 2020 respectively.

The reference prices for hot-rolled coil on the world market are that China export price average for first quarter of 2020 was USD 482/mt, FOB, increased from the previous quarter at USD 466/mt. Meanwhile, Russia export price average was increased from USD 415/mt. FOB, to 473/mt. Turkey export price average was increased from USD 449/mt, FOB, to 495/mt. and India export price average was also increased from USD 440/mt. FOB, to 488/mt. in first quarter of 2020.

**Chart of hot-rolled coil reference prices on world market for Q1/2015 – Q1/2020**



*Processed price data from: Metal Expert*

### **Overview of Thai Steel Industry**

ISIT had reported the domestic steel-production Q1/2020 was at 2.02 million metric tons, increasing 0.95% compared to the same period of previous year consisting of the long finished steel production of 1.28 million metric tons, decreasing 4.26% and the flat finished steel production of 0.735 million metric tons, increasing 11.52% compared to the same period of previous year.

The consumption of finished steel products in Thailand in Q1/2020 was at 4.40 million metric tons, decreasing 1.27% compared to the same period of previous year consisting of the long finished steel consumption at 1.74 million metric tons, decreasing 3.88% and the flat finished steel consumption at 2.66 million metric tons, increasing 0.52% resulting from the demand of Coated Galvanized steel which increasing compared to the same period of previous year.

**Table: The production and the domestic demand of Total Finished Steel in Q1 2019 and 2020**

Total Apparent Finished Steel (Unit : Tons)	Quarter 1/2019	Quarter 1/2020	% Change
Production	1,998,519	2,017,445	0.95%
Import	2,856,359	2,680,405	-6.16%
Export	401,798	301,219	-25.03%
Consumption	4,453,080	4,396,631	-1.27%

The imported of finished steel in Thailand in Q1/2020 was at 2.68 million metric tons, decreasing 6.16% compared to the same period of previous year. The highest import quantity was Hot



Rolled Steel at 0.85 million metric tons, decreasing 13.66% compared to the same period of previous year. The second highest import quantity was Coated Galvanized steel at 0.501 million metric tons and Cold Rolled steel at 0.351 million metric tons respectively.

The export of finished steel in Thailand in Q1/2020 was at 0.301 million metric tons, decreasing 25.03% compared to the same period of previous year. The highest export quantity was structural steel at 56.5 thousand metric tons. The export of deformed bars for construction in Q1/2020 was at 46.1 thousand metric tons.

#### **Overview of Hot Rolled Steel in Thailand**

The Hot Rolled Steel production in Q1/2020 was at 0.735 million metric tons, increasing 11.52% consisting of Hot Roll Coil and Sheet (thin gauge) at 0.707 million metric tons, increasing 14.57% and Thick gauge (Plate) at 28.2 thousand metric tons, decreasing 33.16% compared to the same period of previous year.

The Hot Rolled Steel consumption in Q1/2020 was at 1.51 million metric tons, decreasing 3.44% consisting of Hot Roll Coil and Sheet (thin gauge) at 1.41 million metric tons, increasing 0.20% and thick gauge (Plate) at 95.8 thousand metric tons, decreasing 37.12% compared to the same period of previous year.

**Table: The production and the domestic demand of the Hot Roll Flat Steel for Q1 2019 and 2020**

Total Hot Roll (Unit : Tons) (Excluding Stainless Steel)	Quarter 1/2019	Quarter 1/2020	% Change
Production	659,249	735,194	11.52%
Import	904,693	778,501	-13.95%
Export	2,595	6,021	132.02%
Consumption	1,561,347	1,507,674	-3.44%

The import of Hot Rolled Steel in Q1/2020 had decreased of 13.95% at 0.78 million metric tons consisting of Hot Roll Coil and Sheet (thin gauge) at 0.710 million metric tons, decreasing of 10.51% and at 68.35 thousand metric tons, decreasing 38.52% for Plate (thick gauge) compared to the same period of previous year.

The export of Hot Rolled Steel in Thailand in Q1/2020 was at 6.02 thousand metric tons, increasing 132.02% consisting of Hot Roll Coil and Sheet (thin gauge) at 5.29 thousand metric tons, increasing of 230.69% and at 730 metric tons, decreasing 26.63% for Plate (thick gauge) compared to the same period of previous year.