

## Management Discussion and Analysis Q2/2020

### 1. Operating Result Highlights

	Unit: million Baht	2 <sup>nd</sup> Quarter 2020	2 <sup>nd</sup> Quarter 2019
<b>Performance</b>	Revenues	2,752	3,928
	Gross Profit (Loss)	(83)	123
	Net Profit (Loss)	(179)	(72)
<b>HRC</b>	HRC Sales (k tons)	184	197
	HRC Production Volume (k tons)	170	204
	HRC Average Selling Price (THB./ton)	14,986	19,891
	Unit: million Baht	30 June 2020	31 December 2019
<b>Financial Status</b>	Total Liabilities	2,406	2,194
	Total Asset	15,195	15,488
	Total Equity	12,789	13,294

### 2. Changes in Accounting Estimates

In the interim financial information, the Company has reviewed and changed the estimated useful lives of buildings, machinery and equipment in accordance with their conditions and the proper estimation of useful lives with reference to the Health Study Report from an independent engineering expert and the repair and maintenance of buildings, machinery and equipment. This is considered the Change in Accounting Estimate which has to follow the IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors. Such change in estimated useful lives was approved in principal by the Audit Committee's meeting and the Board of Directors' meeting held on June 17, 2020 as disclosed through the SET and on August 11, 2020, the Audit Committee's meeting and the Board of Directors' meeting approved to continue using the straight-line method for depreciation and apply the revised estimated useful lives for the financial statements starting 1<sup>st</sup> January 2020. The details of the estimated useful lives of assets in separated financial statements are as below;

Type of Assets	Estimated useful lives of assets (Years)	
	From 2011 until 2019	From 2020 onwards
Buildings	20 – 50 years (Useful lives will be expired maximum in year 2059)	40 - 50 years (remaining useful lives not over 15 – 25 years from 2020)
Machinery and Equipment	15 – 30 years (Useful lives will be expired maximum in year 2040)	21 - 41 years (remaining useful lives not over 20 years from 2020)

The revised expected useful life of Buildings, Plant Machinery and equipment is according to the Company's consideration and review of depreciation in the past by collecting and analyzing information related to the usage of machineries in the past 5 years during 2015-2019 where it was found that during such period the Company had not fully utilized the production capacity. The Company has produced only the off-peak period (during the low electricity tariffs) and the average capacity utilization was only 61%, thus, the current estimated useful lives under straight-line depreciation method caused the Company to record high depreciation cost in full which did not correspond to such low utilization of production and machinery. The Company engaged independent engineering expert to inspect and appraise the assets and conduct a Health Study Report in February 2020 where the conclusion of the report showed that the useful lives of buildings should be less than the current estimates according to the condition of buildings and the past maintenance while the overall of machinery and equipment are still in good condition and with the proper and appropriate repair and maintenance, the estimated useful lives of machinery and equipment can be extended by not more than 20 years starting from year 2020 onwards.

The value of assets for which the estimated useful life has been revised accounts for THB 8,463 million or 54.65% of the Company's total assets valuing at THB 15,487 million as of 1<sup>st</sup> January 2020.

The Company recorded the change of depreciation in 2020 accounting period with effect from 1<sup>st</sup> January 2020 onwards. The Company has not revised the past financial statements which incurred high depreciation expense causing the new depreciation value to be lower. The effect from changing the estimated useful lives towards the financial statements for the three-month and six-month period ending 30<sup>th</sup> June 2020 is shown as below:

**The effect to depreciation from changing the estimated useful lives of assets**

Unit: Million Baht

<b>Period of Separated Financial Statements</b>	<b>Depreciation according to the actual useful life</b>	<b>Depreciation according to the new expected useful life</b>
For Q1 2020	218	115
For Q2 2020	218	116
For the six-month period ended 30 <sup>th</sup> June 2020	436	231

The overall effects from changing the estimated useful lives of assets to the 2020 financial statements are shown as followed:

Unit: Million Baht

Period of Separated Financial Statement	Current estimated useful lives	Revised estimated useful lives
<b>Q1 2020</b>		
Balance Sheet: Total Asset	15,320	15,439
Balance Sheet: Total Equity	12,818	12,968
Income Statement	(476)	(327)
<b>Q2 2020</b>		
Balance Sheet: Total Asset	14,967	15,195
Balance Sheet: Total Equity	12,442	12,789
Income Statement	(377)	(179)
<b>For the six-month period ended June 30, 2020</b>		
Balance Sheet: Total Asset	14,967	15,195
Balance Sheet: Total Equity	12,442	12,789
Income Statement	(852)	(505)

The company estimates the effects from changing the expected useful life of the fixed asset throughout the year as followed:

Unit: Million Baht

Type of Fixed Asset	2019 Depreciation	New estimated 2020 Depreciation	Change Increase (Decrease)
Building	92	120	28
Equipment & Machinery	791	340	(451)
<b>Total depreciation per year</b>	<b>883</b>	<b>460</b>	<b>(423)</b>

In this regard, the auditor of the Company has reviewed the change in estimated useful lives of such assets that has been recorded in the interim financial statements for the three-month and six-month periods ended 30 June 2020 and issued an unqualified conclusion on such interim financial statements.

### **3. Performance of the Company for Q2 2020**

The Company reported a net loss of THB 179 million and THB 72 million for the 2<sup>nd</sup> Quarter 2020 and 2019, respectively. This is primarily due to:

- **Revenue from sales**

Revenue from sales reduced from last year quarter by 30% mainly due to sales volumes reduced by 7% and average HRC selling price reduced by 25%. The reduction in average selling price was mainly due to the continuous decline in global HRC prices and concerns about the growing spread of global epidemic of COVID 2019 towards the end of 1st quarter of 2020. This also resulted in slowing orders from customers due to uncertainties.

- **Cost of goods sold**

Cost of goods sold reduced from last year quarter by Baht 970 million or 26% mainly due reduction in production volumes by 17%. On a per ton basis, the average cost of goods sold per ton reduced by 19%. The reduction in average cost of goods sold is mainly due to reduction of 19% in metallic cost caused by decline in market prices partly offsetting the decline in HRC prices.

Another key factor in reduction in Cost of Goods Sold is the change in estimated useful life of fixed assets as disclosed in the Note to Financial Statements no. 3.3 resulting in reduction in depreciation cost from 1,093 Baht/ ton in Q2 2019 to 530 Baht/ton in Q2 2020. In this current quarter, the management has reviewed and changed the estimated useful life of buildings, machinery and equipment as mentioned above.

- **Selling expenses**

Selling expenses reduced from last year quarter by 12% mainly due to sale volume reduced by 7% and average delivery expenses cost per ton reduced by 5% due to reduction in fuel prices.

- **Administrative expenses**

Administrative expenses for the 2<sup>nd</sup> Quarter 2020 and 2019 amounting to THB 121 million and THB 141 million respectively which is lower from last year quarter by THB 20 million mainly due to one off provision for employee retirement benefit as per new announcement of Labour Protection Act in last year quarter.

- **Financial costs**

The financial costs for the 2<sup>nd</sup> Quarter 2020 and 2019 amounted to THB 67 million and THB 100 million, respectively. The decrease of financial by THB 33 million mainly resulted from repayment of short-term loan USD 20 million in last year quarter.

- **Net loss (gain) from exchange rate**

The Company had recorded loss from exchange rate for the 2<sup>nd</sup> Quarter 2020 amounting to THB 102 million due to weakening of the Thai Baht against the US Dollar. Whilst in last year

quarter there was gain from exchange rate amounting to THB 71 million due to strengthening of Thai Baht against US Dollar.

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

- **Total assets**

As of 30 June 2020, the Company has total assets amounting to THB 15,195 million which decreased from the year ended 2019 by THB 293 million. The current assets amounted to THB 1,772 million, decreased by 6% (THB 110 million) from the year ended 2019 mainly due to inventory reduced by 9% (THB 121 million). Total non-current assets amounted to THB 13,423 which decreased by 1% from the year ended 2019.

- **Total Liabilities**

As of 30 June 2020, the Company has total liability amounting to THB 2,406 million. Total current liabilities amounted to THB 1,489 million and total non-current liabilities amounted to THB 917 million. As compared with the year ended 2019, the total liability increased by THB 212 million or 10%, on account of:

1. Trade accounts payable increased by THB 129 million.
2. Advance received from customer increased by THB 75 million.
3. Short term and long-term loan from other parties net increased by THB 29 million due to weakening of Thai Baht.
4. Other liabilities decreased by THB 21 million.

- **Total equity**

As of 30 June 2020, the Company has total equity of THB 12,789 million which decreased by THB 505 million or 4% from year ended 2019 due to net loss for this quarter of THB 505 million.

#### **5. Business Outlook**

The impact of outbreak of Covid 19 Pandemic was more severely felt in Q2 2020 and the Thai GDP is expected to contract by about 10% for the Full year 2020. Timely Government interventions to boost the economy are helping in gradual recovery of the economy and we expect improvement in the overall HRC consumption and pricing going forward.

Due to continuing engagement by the Steel Associations with the Government Authorities the Anti-Dumping Board Committee has resolved to use temporary countermeasure (emergency measure) to collect AD collateral at 35.67% for cold-rolled galvanized steel products (GI Products) from China effective from 3<sup>rd</sup> August, 2020 with certain exceptions.

## 6. Overview of Hot Rolled Steel in Thailand

The Hot Rolled Steel production in Jan – Jun 2020 was at 1.29 million metric tons, decreasing 10.26% consisting of Hot Roll Coil and Sheet (thin gauge) at 1.24 million metric tons, decreasing 9.77% and Thick gauge (Plate) at 56.3 thousand metric tons, decreasing 19.86% compared to the same period of previous year.

**Table: The production and the domestic demand of the Hot Roll Flat Steel for Jan. – Jun. 2019 and 2020**

Total Hot Roll (Unit : Tons) (Excluding Stainless Steel)	Jan - Jun 2019	Jan - Jun 2020	% Change
Production	1,443,004	1,294,983	-10.26%
Import	2,047,784	1,331,239	-34.99%
Export	4,012	15,098	276.32%
Consumption	3,486,776	2,611,124	-25.11%

Total Hot Roll Plate, Thickness > 3 mm. (Unit : Tons) (Excluding Stainless Steel)	Jan - Jun 2019	Jan - Jun 2020	% Change
Production	70,297	56,337	-19.86%
Import	229,666	118,133	-48.56%
Export	1,215	1,607	32.26%
Consumption	298,748	172,863	-42.14%

Total Hot Roll Coil & Sheet Thickness < 3 mm. (Unit : Tons) (Excluding Stainless Steel)	Jan - Jun 2019	Jan - Jun 2020	% Change
Production	1,372,707	1,238,646	-9.77%
Import	1,818,118	1,213,106	-33.28%
Export	2,797	13,491	382.34%
Consumption	3,188,028	2,438,261	-23.52%

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

The Hot Rolled Steel consumption in Jan – Jun 2020 was at 2.61 million metric tons, decreasing 25.11% while the import of Hot Rolled Steel in Jan – Jun 2020 had decreased of 34.99% at 1.33 million metric