

Management Discussion and Analysis Quarter 2 Ending 30 June 2020

1. Operating Result Highlights

	Unit : million Baht	Q2/2020	Q2/2019
Group	Group Revenues	4,713	5,192
	Group Gross Profit (Loss)	(178)	(75)
	Group Net Profit (Loss)	(247)	(223)
Group HRC	HRC Sales (k tons)	316	260
	HRC Production Volume (k tons)	290	306
	HRC Average Selling Price (Bht/Ton)	14,922	19,938
	Unit : million Baht	30-Jun-20	31-Dec-19
Group	Total Assets	25,964	26,400
	Total Liabilities	10,049	9,219
	Total Equity	6,204	7,014
	Minority	9,711	10,168

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 17 June 2020 as disclosed through the SET and on 11 August 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 of both consolidated and separated statements starting 1 January 2020. The details of the estimated useful lives of assets in separated financial statements are as below;

Separated Financial Statements Type of Assets	Estimated useful lives of assets (year)	
	From 2011 until 2019	From 2020 onwards
Buildings	30 - 50 (Useful lives will be expired maximum in year 2059)	25 - 40 (Remaining useful lives not over 15-25 years from 2020)

Separated Financial Statements Type of Assets	Estimated useful lives of assets (year)	
	From 2011 until 2019	From 2020 onwards
Machinery and Equipment	15 - 30 (Useful lives will be expired maximum in year 2029)	40 (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 37.25%, 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 6,397.91 million or 51.35% of the Company's total assets valuing at THB 12,460.07 million as of 1 January 2020.

The Company recorded the change of depreciation in 2020 accounting period with effect from 1 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 June 2020 is shown as below:

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

Period of <u>Separated</u> Financial Statements	Unit: Million Baht	
	Depreciation using previous estimated useful lives	Depreciation using current estimated useful lives
For Q1 2020	193	108
For Q2 2020	194	108
For the six-month period ended 30 June 2020	387	216

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 <u>Separated</u> Financial Statement	Depreciation using previous estimated useful lives	Depreciation using current estimated useful lives
Q1 2020		
Balance Sheet: Total Asset	12,243	12,339
Balance Sheet: Total Equity	4,108	4,226
Income Statement	(854)	(736)

Period of Separated Financial Statement	Depreciation using previous estimated useful lives	Depreciation using current estimated useful lives
Q2 2020		
Balance Sheet: Total Asset	12,097	12,274
Balance Sheet: Total Equity	3,956	4,154
Income Statement	(152)	(72)
For the six-month period ended 30 June 2020		
Balance Sheet: Total Asset	12,097	12,274
Balance Sheet: Total Equity	3,956	4,154
Income Statement	(1,007)	(809)

The company estimates the effects to the separated financial statements from changing the expected useful life of asset throughout the year as followed:

Unit: Million Baht

Type of Asset - <u>Separated</u> Financial Statements	2019 Depreciation	New estimated 2020 Depreciation	Change Increase (Decrease)
Building	35	45	10
Equipment & Machinery	748	359	(389)
Total depreciation per year	783	404	(379)

For consolidated financial statements, the changes in estimated useful lives of assets are as below:

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

The effect to depreciation from changing the estimated useful lives of assets to the consolidated financial statements is as below

Unit: Million Baht

Period of <u>Consolidated</u> Financial Statements	Depreciation using previous estimated useful lives	Depreciation using current estimated useful lives
For Q1 2020	411	223
For Q2 2020	412	224
For the six-month period ended 30 June 2020	823	447

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 <u>Consolidated</u> Financial Statements	Depreciation using previous estimated useful lives	Depreciation using current estimated useful lives
Q1 2020		
Balance Sheet: Total Asset	26,057	26,272
Balance Sheet: Total Equity	15,895	16,162
Income Statement	(1,287)	(1,020)

Period of <u>Consolidated</u> Financial Statements	Depreciation using previous estimated useful lives	Depreciation using current estimated useful lives
Q2 2020		
Balance Sheet: Total Asset	25,559	25,964
Balance Sheet: Total Equity	15,370	15,915
Income Statement	(525)	(247)
For the six-month period ended 30 June 2020		
Balance Sheet: Total Asset	25,559	25,964
Balance Sheet: Total Equity	15,370	15,915
Income Statement	(1,812)	(1,267)

The company estimates the effects to the consolidated financial statements from changing the expected useful life of the asset throughout the year as followed:

Unit: Million Baht

Type of Asset - <u>Consolidated</u> Financial Statements	2019 Depreciation	New estimated 2020 Depreciation	Change Increase (Decrease)
Building	127	155	28
Equipment & Machinery	1,540	707	(833)
Total depreciation per year	1,667	862	(805)

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 for Q2 2020

1. Revenue

Total revenue from sales of the Company and subsidiary amounted to Baht 4,713 million, which decreased by Baht 478 million or 9% YoY mainly due to 25% decrease in average selling price from Q2 2019. The sales volumes increased in Q2 2020 by 56 thousand tons or 21% YoY mainly due to production stoppage in the Company till 1st week May last year.

2. Cost of sale

Consolidated cost of goods sold amounted to Baht 4,891 million and decreased by 7% YoY due to lower sale volume and the Reversal of loss on devaluation of inventories. Another key factor in reduction in Cost of Goods Sold is the change in estimated useful lives of fixed assets as disclosed in the Note to Financial Statements no. 3.3 resulting in reduction in depreciation cost from 1,345 Baht/ ton in Q2 2019 to 606 Baht/ton in Q2 2020.

3. Selling expenses

Total selling expenses of the Company and subsidiary amounting to Baht 75 million and increased by Baht 11 million YoY or 17% due to the increase in sale volume partly offset by reduction in freight cost due to reduction in fuel prices.

4. Administrative expense

Total administrative expense of the Company and subsidiary at Baht 209 million, decreased by Baht 54 million or 20% YoY mainly due to higher expenses in last year on account of one off provision for employee benefit according to new labor law, consultant fee for new Credit Agreement of the Company and others fee and reorganization during December 2019 resulting in reduced Salary for the current year.

5. Finance cost

The Company and subsidiary had total finance cost of Baht 244 million which decreased by Baht 52 million or 18% YoY. Total finance cost decreased post DE Conversion program in Dec19 partly offset by increase due to interest on account default in repayment of Loan and Standby Letter of Credit (SBLC).

6. Other expense

The Company and subsidiary did not record any other expenses during the reported quarter but the Company had other expenses amounting to Baht 785 million for same quarter last year due to loss on impairment of investment in subsidiary amounting to Baht 762 million.

7. Profit (Loss)

Net loss amounted to Baht (247) million which increased by Baht 24 million or 11% mainly due to lower selling price which could not be compensated by reduction in cost of goods sold. However, several Cost saving measures have been initiated by the Company and subsidiary to reduce costs.

4. Financial Position

1. Total Assets

As of 30 June 2020, the Company and subsidiary had total asset amounting to Baht 25,964 million, which reduced by Baht 436 million or 2% from year ended 2019.

Total current assets amounted to Baht 3,612 million, increased 1% from year 2019 mainly due to increase in cash and cash equivalents by Baht 403 million (mainly from the Company) offset by decrease in inventories by Baht 297 million.

Total non-current assets amounted to Baht 22,352 million and reduced by 2% from year 2019 mainly due to depreciation of Property, plant and equipment.

2. Total Liabilities

Total liabilities of the Company and subsidiary as at 30 June 2020 at Baht 10,049 million, increased by Baht 831 million or 9% from year ended 2019.

Total current liabilities at Baht 6,647 million, increased by Baht 902 million or 16% from year 2019 mainly due to Short-term borrowing from related parties which increase by Baht 662 million resulting from default in payment of SBLC by the Company, increase in accrued interest expenses by Baht 301 million mainly increased for the Company due to non payment of interest on Loan and increase in current portion of long-term borrowings from related parties of subsidiary which increase by Baht 275 million.

Total non-current liabilities amounted to Baht 3,403 million, decreased by Baht 72 million or 2% from year 2019.

3. Shareholders' Equity

As of 30 June 2020, the Company and its subsidiaries had the shareholders' equity of Baht 15,915 million which decreased by Baht 1,267 million or 7% from year ended 2019 due to net loss.

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 as per BOT estimation. Timely Government interventions to boost the economy are helping in gradual recovery of the economy and we expect improvement in the overall HR 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 3rd 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 by 10.26% consisting of Hot Roll Coil and Sheet (thin gauge) at 1.24 million metric tons, decreasing by 9.77% and Thick gauge (Plate) at 56.3 thousand metric tons, decreasing by 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 by 25.11% while the import of Hot Rolled Steel in Jan – Jun 2020 had decreased of by 34.99% at 1.33 million metric tons.