

ACC-O-2010003

October 1, 2020

To: President
The Stock Exchange of Thailand

Subject: Management Discussion and Analysis for the year 2019

Thai Energy Storage Technology Public Company Limited (the "Company" or "3K-BAT") hereby submits Pro forma consolidated financial information for the year 2019.

Because the Company is the result of the amalgamation between Hitachi Chemical Storage (Thailand) Public Company Limited ("BAT-3K") and Hitachi Chemical Gateway Battery (Thailand) Company Limited at October 1, 2020 in accordance with the Public Limited Act B.E. 2535 (1992), as amended. This Amalgamation is considered as business combination under common control, and to illustrate the impact of the amalgamation, the Company and the auditor have prepared the Pro Forma Consolidated Financial Information by combining the interests of the amalgamated companies (pooling of interest), total assets and liabilities of the amalgamated companies at their book values, eliminated by significant inter-company transactions, and the goodwill from the Amalgamation will not be occurred.

Operating Results

Total Revenues

For 2018 – 2019, the Company's sales revenues were THB 6,214.75 million and THB 5,583.47 million, respectively. The sales revenues decreased by THB 631.27 million from the previous year amounting to a decrease rate of 10.16 percent. The revenue decrease was caused by the high competition in the battery industry resulting in the deceleration in domestic sales. Moreover, lead which is the main raw material in the production and has a direct effect on the determination of sale prices tended to decrease during the past year, resulting in a decrease in the average battery prices during the past 2 years. Also, the Company's main revenues were originally from low-maintenance battery sales. However, during the past year, there were increased demands in maintenance-free batteries in the market. That caused the revenues from low-maintenance batteries to tend to decrease. Although the revenues from maintenance-free batteries increased, they were still not sufficient to compensate the decrease in the revenues from other types of batteries. As a result, the Company's total revenues tended to decrease throughout 2 years.

Moreover, for 2018 – 2019, the Company had other revenues in the amount of Baht 100.18 million and Baht 124.11 million, respectively. Other revenues were mainly consisted of, such as, the revenue from the sales of broken or ruined plate remains, profits from the sales of land, buildings, equipment and immovable assets for investment and profits from foreign exchange rate. In 2018 – 2019, the Company's profits from the sales of broken or ruined plate remains were THB 26.56 million and THB 51.21 million, respectively, and the Company's profits from the sales of land, buildings, equipment and immovable assets for investment were THB 34.55 million and THB 46.35 million, respectively. And for 2018, the Company had gain on exchange rate of THB 18.58 million.

Cost of Sales and Gross Profit

The Company's cost of sales is mainly consisted of raw material cost which is equal to approximately 85 percent of the cost of battery production. Most raw materials are pure lead and lead alloy. For 2018 – 2019, the Company's cost of sales was THB 5,149.57 million and THB 4,472.69 million, respectively, and the Company's gross profit was THB 1,065.18 million and THB 1,110.79 million, respectively. The decrease in the cost of sales was because the lead price in the global market which increased from the 1st quarter of 2017 had continuously decreased from its peak at 2,700 United States Dollar per ton on 31 January 2018 to 1,740 United States Dollar per ton on 30 June 2020. Such decrease resulted in a decrease in the average cost of sales per unit. Also, the volume of batteries sold decreased due to higher competition in the battery industry. The Company's total cost of sales decreased by THB 676.88 million amount to a decrease rate of 13.14 percent in 2019. The Company's gross profit margins in 2018 – 2019 were equal to 17.14 percent and 19.89 percent, respectively. The increase in the gross profit market was due to the decreases in the average cost of sales per unit.

Net Profit

In 2019, the Company's net profit was THB 109.85 million amounting to the net profit margin of 1.93 percent. In 2018, the Company's net loss was THB 143.62 million amounting to the net loss margin of 2.28 percent. The main reason that the Company had additional costs in 2018 was that the Company set aside a reserve for a customer's claim for damages in 2016 in the value of EUR 28.50 million. The Company is currently under the negotiation and investigation process as to seek for the facts on whether the product defect was caused by the Company's production process. However, the Company had set aside the reserve and recognized the cost of such product warranty in the amount of THB 178.69 million in 2018. If the net profit from the normal operation had been considered without such reserve for product warranty being taken into account, the Company's net profit from its normal operation would have been THB 35.07 million. Comparing the net profit of 2019 and the net profit from normal operation of 2018, the Company's operating performance significantly improved in 2019 by THB 74.77 million or by 213.20 percent from 2018, resulted from the increase in the gross profit and the decrease in the selling expenses and administrative expenses from the previous year.

Financial Positions

Assets

As at 31 December 2018 and 2019, the Company's total assets were THB 3,740.17 million and THB 3,492.79 million, respectively. They were decreased by THB 247.38 million amounting to a decrease rate of 6.61 percent. The changes in assets in 2019 were mainly from the decrease in inventories in the amount of THB 273.87 million amounting to a decrease rate of 27.36 percent, and the increase in fixed assets (land, buildings and equipment) in the amount of THB 115.73 million amounting to a decrease rate of 7.94 percent.

Land, Building and Equipment

As at 31 December 2018 and 2019, the Company's fixed assets (land, buildings and equipment) were THB 1,457.66 million and THB 1,573.39 million, respectively. They increased from 2018 by THB 115.73 million amounting to a growth rate of 7.94 percent. In 2019, the Company had made investments to improve its plants and increase the production capacity of forklift batteries (traction batteries) using approximately THB 290 million since 2018 and investments to improve its plants and increase the production capacity of recycled lead of TNC which is a subsidiary company of the Company since 2019 using approximately THB 180 million.

Liabilities

As at 31 December 2018 and 2019, the Company's total liabilities were THB 1,762.27 million and THB 1,524.05 million, respectively. They decreased by THB 238.22 million amounting to the decrease rate of 13.52 percent. That was resulted from the decrease in short-term loans from related enterprises in the amount of THB 170.85 million.

Shareholders' equity

For the end of 2018 and 2019, the shareholders' equity of the Company was equal to THB 1,975.55 million, and THB 1,965.84 million, respectively. It decreased by THB 9.71 million in 2019. The changes in shareholders' equity were mainly caused by the annual net profits and the deficits from business combinations under common control. In compiling the pro forma financial information of HCGB, which forms part of the pro forma consolidated financial information of the Company, the Management decided to use deficits from business combinations under common control as a balancing account. The change in this account in each reporting period was due to the difference between the amount that the Company paid for the partial business transfer and the net assets and liabilities of the battery business received in each reporting period, the operating results of HCGB in each reporting period and the difference between the registered and paid-up share capital of HCGB and the cash paid for the transfer of the battery business based on the application of the assumptions used in preparation of the pro forma financial information of HCGB.

Liquidity and Appropriateness of Capital Structure

As at 31 December 2018 and 2019, the Company had the current ratios of 1.10 and 1.14 and the quick ratios of 0.42 and 0.55, respectively. The increases were because the Company had less inventories corresponding to the decreased sales values.

In its business operation, the Company uses the working capital from operating activities that have low financial costs to invest in fixed assets (land, buildings and equipment) and repay loans. The Company has various types of credits from several financial institutions as to support the Company's business operation. The total credit facility that has not yet been utilized as at 31 December 2018 and 2019 was THB 4,900 million and THB 2,105 million, respectively.

As at 31 December 2018 and 2019, the Company's debt-to-equity ratios were 0.89 and 0.77, respectively. They were at a low level as the Company only had short-term loans which were current liabilities used for its ordinary course of business.

- Translation -

Please be informed accordingly

Yours faithfully,

- Signed -

(Mr. Toshinori Osumi)

Director