

Management Discussion and Analysis for year 2019

1. Highlights

	Unit: million Baht	Year 2019	Year 2018
Performance	Revenues	12,923	29,910
	Sales Volume (k tons)	710	1,447
	EBITDA	(271)	612
	Net Profit (Loss)	(1,353)	(836)
HRC	HRC Sales (k tons)	710	1,447
	HRC Production Volume (k tons)	683	1,436
	HRC Average Selling Price (THB./ton)	18,192	20,683
	HRC Cash Margin (THB./Ton)	476	886
	Unit: million Baht	31 December 2019	31 December 2018
Financial Status	Total Liabilities	2,194	5,607
	Total Asset	15,488	18,824
	Total Equity	13,294	13,217

The Company posted an Operating EBITDA loss of THB 271 Million for the year 2019 against an Operating EBITDA profit of THB 612 Million in last year.

The Company has recorded a net loss of THB 1,353 Million for 2019 against a loss of THB 836 Million last year mainly due production disruptions during 1st Quarter 2019 combined with the negative HRC cash margin for second half of 2019 resulting from large decrease in HRC selling price compared to last year.

	Year 2019			Year 2018		
	Own production	Tolling	Total	Own production	Tolling	Total
HRC production volume (k tons)	635	48	683	807	629	1,436
HRC sale volume (k tons)	639	71	710	805	642	1,447

The Production and Shipment volumes for this year were lower as compared to last year due to due to termination of Tolling activities since February 2019.

2. Business Outlook

Total Hot Rolled Steel consumption for 2019 at 6.66 MT decreased by 8% compared to 2018 due to slowdown in Thailand economy. Meanwhile, imports of Hot Rolled Steel increased by 2% to 4.04 MT due to strengthening of THB and the effect of termination of enforcement of Safeguard Measure from the import of other-alloy steel hot-rolled flat products in coil and not in coil since February 2019. The imports constituted 60% of the total consumption in 2019 compared to 54% in 2018. The decrease in total consumption coupled with surge in imports led to 22% decrease in Domestic production compared with 2018. As per Iron Steel Institution of Thailand (ISIT) the Domestic capacity utilization was thus reduced to 29% in 2019 as compared to 37% in 2018. To regain the market share and reduce imports, the Company had to resort to very competitive pricing which impacted the EBITDA adversely.

These matters are being taken up by the Steel Associations and with the Government at various levels and the Government are taking steps to address the issues. Significant steps are –

- The announcement of revised anti-dumping and Countervailing of Foreign Products Act, B.E. 2562 (A.D. 2019) with the additional provision relating to anti circumvention of anti-dumping and countervailing measurement from November 2019. The Regulations and Notifications to make the Act operative is expected to be announced in the next few months.
- The Government has also announced to impose anti-dumping duty on Steel Pipes and Tubes from Vietnam for a period of 5 years on 12th February 2020.
- Anti-Dumping Committee has already initiated the Anti-Dumping investigation for Cold Rolled GI (Galvanize Steel) product from China on 21st February 2020.

3. Performance of the Company

Operating results

The Company reported a net loss of THB 1,353 million and THB 836 million in year 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 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 year 2019 and 2018 amounting to THB 174 million and THB 362 million respectively. The decrease is mainly due to reduction in sales volume as explained above.

- **Administrative expenses**

Administrative expenses for year 2019 and 2018 amounting to THB 543 million and THB 500 million respectively. The increase is mainly due to the adjustment of one off provision for severance pay according to new announcement of Labour Protection Act in April 2019 by increasing the rate of benefit of an employee who has past service 20 years or more from 300 days to 400 days amounting to THB 20 million and pay-off for termination of employee of THB 9 million.

- **Financial costs**

The financial costs for year 2019 and 2018 amounted to THB 348 million and THB 475 million, respectively. The decrease of financial costs of THB 127 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.

- **Net gain from exchange rate**

The Company had recorded gain from exchange rate for year 2019 and 2018 amounting to THB 216 million and THB 105 million in respectively due to the strengthening of the Thai Baht against the US Dollar.

- **Net gain from write-off expired legal prescription of debts**

The Company had recorded net gain from write-off expired legal prescription of debts for year 2019 and 2018 in amounted to THB 10 million and THB 119 million in respectively.

4. Statement of financial positions

- **Total assets**

As of 31 December 2019, the Company has total assets amounting to THB 15,488 million which decreased from the year ended 2018 by THB 3,336 million. The current assets amounted to THB 1,882 million, decreased by 58% from the year ended 2018 mainly due to the decrease in inventory by THB 2,495 million partially offset by increased in cash & cash in banks by THB 223 million. Total non-current assets decreased by 5% from the year ended 2018.

- **Total Liabilities**

As of 31 December 2019, the Company has total liability amounting to THB 2,194 million. Total current liabilities amounted to THB 1,038 million and total non-current liabilities amounted to THB 1,156 million. As compared with the year ended 2018, the total liability decreased by THB 3,413 million or 61%, on account of:

1. Trade accounts payable decreased by THB 1,700 million.
2. Short-term loan from related parties decreased by THB 1,239 million.
3. Other payables and accrued expenses decreased by THB 379 million.
4. Long-term loan from other parties decreased by THB 68 million.
5. Other liabilities & provisions decreased by THB 27 million.

- **Total equity**

As of 31 December 2019, the Company has total equity of THB 13,294 million which increased by THB 76 million or 1% 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 year 2019 of THB 1,353 million.

Appendix

Table 4: Summary of Financial Results

Unit : Million Baht	For the year 2019	For the year 2018	% Variance
Income			
Revenue from sale of goods	12,923	29,910	(57%)
Net foreign exchange gains	216	105	105%
Net gain from write-off the expired legal prescription of liability	10	119	(91%)
Net gain from debt restructuring	0	1	(100%)
(Reversal of) loss on confirmed purchase orders for undelivered raw material	21	0	100%
Other income	97	45	116%
Total income	13,268	30,180	(56%)
Expenses			
Cost of sale - Cost of goods sold	13,386	29,342	54%
- idle costs	242	125	(93%)
- (Reverse of) loss on devaluation of inventory	(73)	160	145%
Total cost of sale	13,555	29,628	54%
Selling expenses	174	362	52%
Administrative expenses	543	500	(9%)
Bad and doubtful debts expense	0	10	(100%)
Loss on confirmed purchase orders for undelivered raw material	0	41	100%
Finance costs	348	475	27%
Total expenses	14,621	31,016	53%
Profit (loss) for the year	(1,353)	(836)	62%
Basic profit (loss) per share (in Baht)	(0.063)	(0.060)	4%

Table 5: Condensed Statement of Financial Position

Unit : Million Baht	31 December 2019	31 December 2018	% Variance
Assets			
Current assets			
Cash and cash equivalents	424	201	111%
Trade accounts receivable	6	14	(55%)
Inventories	1,367	3,861	(65%)
Short-term loan to related parties	0	94	(100%)
Other current assets	85	268	(68%)
Total current assets	1,882	4,438	(58%)
Non-current assets			
Advance payment for purchase of property, plant and equipment	210	210	0%
Property, plant and equipment	13,049	13,839	(6%)
Intangible assets	6	7	(9%)
Other non-current assets	340	330	3%
Total non-current assets	13,606	14,386	(5%)
Total assets	15,488	18,824	(18%)

Table 5: Condensed Statement of Financial Position

	31 December 2019	31 December 2018	% Increase (Decrease)
Unit : Million Baht			
Liabilities and equity			
Current liabilities			
Trade accounts payable	333	2,033	84%
Other payables and accrued expenses	340	661	49%
Advance from customers	20	33	39%
Short-term loan from related parties	0	1,239	100%
Accrued interest expenses	137	132	(4%)
Current portion of liabilities under rehabilitation plan	170	180	5%
Provision	19	41	53%
Other current liabilities	18	31	43%
Total current liabilities	1,038	4,350	76%
Non-current liabilities			
Trade accounts payable			
Other payables and accrued expenses	0	58	100%
Long-term loan from related parties	1,049	1,118	6%
Liabilities under financial lease	1	1	32%
Employee benefit obligations	106	80	(32%)
Total non-current liabilities	1,156	1,257	8%
Total liabilities	2,194	5,607	(61%)
Total equity	13,294	13,218	1%
Total liabilities and equity	15,488	18,824	(18%)

Table 6: Condensed Statement of Cash Flow**Unit : Million Baht****Jan - Dec 2019*****Cash flows from operating activities*****Net profit (Loss) for the period** **(1,353)**

Adjustments for

Depreciation and amortization 900

Work roll amortisation 74

Interest income (20)

Finance costs 348

Net gain from write-off the expired prescription of liabilities (10)

Unrealised gain on foreign exchange (87)

(Reversal of) loss on devaluation of inventories (73)

(Reversal of) loss on confirmed purchase orders of undelivered of raw material (21)

Employee benefit expenses 29

(209)***Changes in operating assets and liabilities***

Trade accounts receivable 8

Inventories 2,568

Advances to suppliers (8)

Other current assets 185

Other non-current assets (85)

Trade accounts payable (1,683)

Advances received from customers (13)

Other payables and accrued expenses (385)

Other current liabilities (12)

Paid employee benefit obligations (4)

Interest received 3

Net cash from (used in) operating activities **365**

Table 6: Condensed Statement of Cash Flow

Unit : Million Baht

Jan - Dec 2019

Cash flows from investing activities

Interest received	23
Short-term loan to related parties decrease (increase)	94
Purchase of property, plant and equipment	(2)
Purchase of intangible assets	(112)

Net cash from (used in) investing activities

3

Cash flows from financing activities

Receive short-term loan from related party	624
Repayment of liabilities under rehabilitation plan	(3)
Repayment of short-term loan from related party	(1,864)
Cash received from issuance of new ordinary shares	1,503
Pay the cost of issuing new shares	(74)
Finance costs paid	(331)

Net cash from (used in) financing activities

(144)

Net increase (decrease) in cash and cash equivalents

224

Cash and cash equivalents at 1 January 2019	201
Effect of exchange rate changes on balances held in foreign currencies	(1)

Cash and cash equivalents at 31 December 2019

424

Non-cash transactions

From write-off the expired legal prescription of liabilities

Decrease in trade accounts payable	17
(Increase) in other payables and accrued expenses	(6)
Net gain from write-off the expired prescription of liabilities	(10)

5. Industry Overview and Outlook

Overview of World Steel Industry

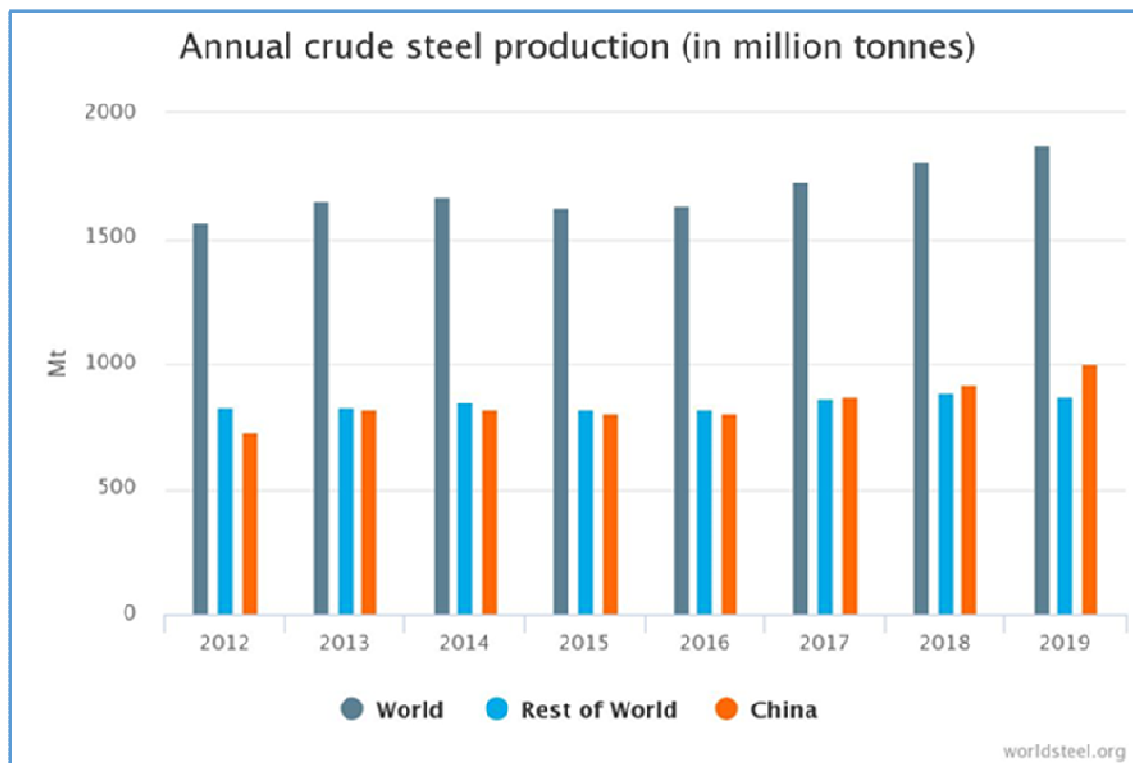
According to the World Steel Association's report on world crude steel production was 478.7 MT in the fourth-quarter of 2019 and accumulated world crude steel production in 2019 was 1,869.9 MT, up by 3.4% compared to 2018. The region with most production was Asia (including China, but not including the Middle East) 1,341.6 MT, an increase by 5.7%, The second most producing region was the European Union (EU), with 159.4 MT, decreased by 4.9% and North America's crude steel production was 120 MT, below by 0.8% as compared to 2018.

In 2019, China produced crude steel at 996.3 MT up by 8.3%, India produced crude steel at 111.2 MT increased by 1.8%, Japan at 99.3 MT slightly decreased 4.8% and South Korea at 71.4 MT below by 1.4% as compared to 2018.

Meanwhile, in the EU, Germany produced crude steel at 39.7 MT below by 6.5%, Italy's crude steel production was 23.2 MT, below by 5.2%, France produced 14.5 MT of crude steel, a decrease of 6.1% and Spain produced crude steel at 13.6 MT, below by 5.2% compared to 2018.

The volumes of crude steel production in the year 2019 from other countries are as follows. The US produced 87.9 MT of crude steel, an increase of 1.5%, Russia produced 71.6 MT of crude steel, below by 0.7%, Brazil produced 32.2 MT, below by 9.0% and Turkey's crude steel production was 33.7 MT, a decrease of 9.6% compared to 2018.

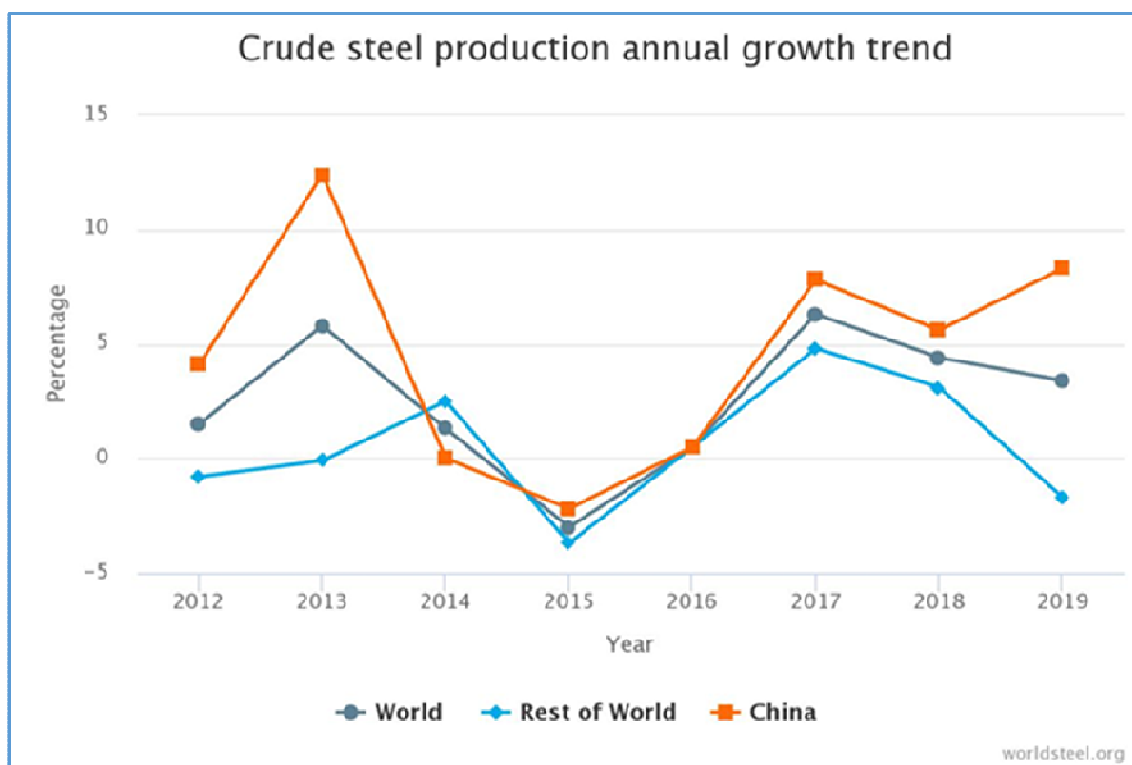
Chart of world crude steel production monthly, ending 31 December 2019



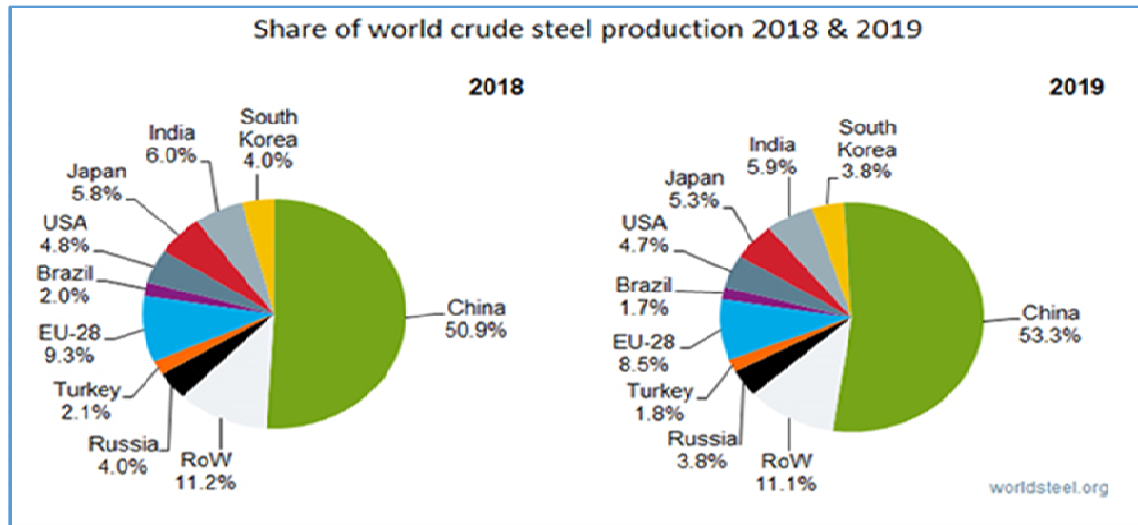
Source: World Steel Association

Rank	Country	2019 (Mt)	2018 (Mt)	%2019/2018
1	China	996.3	920.0	8.3
2	India	111.2	109.3	1.8
3	Japan	99.3	104.3	-4.8
4	United States	87.9	86.6	1.5
5	Russia (e)	71.6	72.0	-0.7
6	South Korea	71.4	72.5	-1.4
7	Germany (e)	39.7	42.4	-6.5
8	Turkey	33.7	37.3	-9.6
9	Brazil	32.2	35.4	-9.0
10	Iran (e) (1)	31.9	24.5	30.1

(e) - annual figure estimated using partial data or non-worldsteel resources.



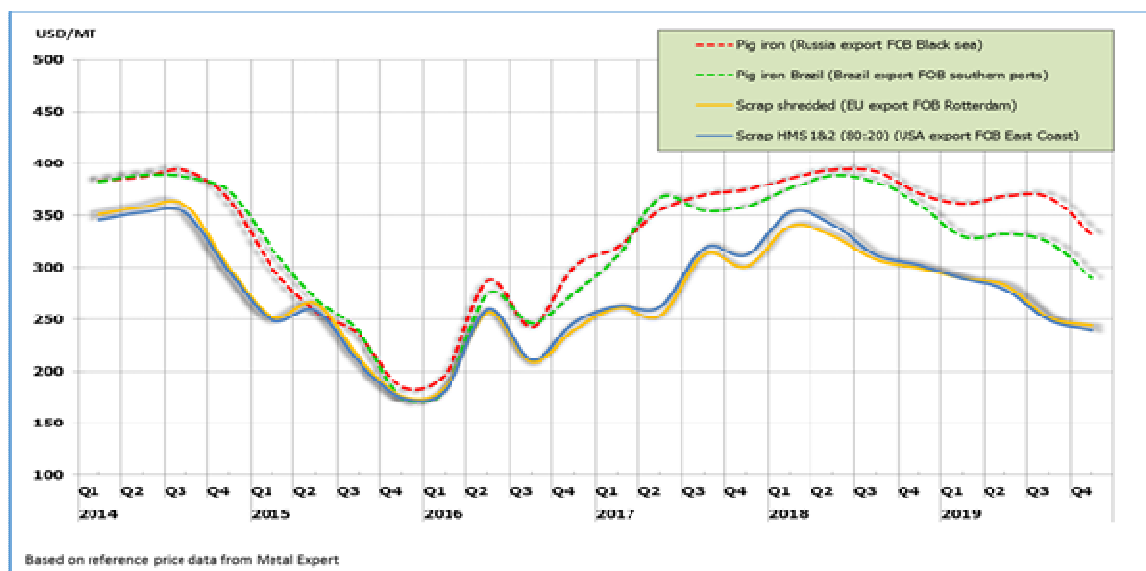
Source: World Steel Association



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 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 fourth quarter of 2019 was averaged at USD 240/MT. FOB, decreased from the previous quarter at USD 250/MT. FOB, and pig iron Russia export price of the fourth quarter of 2019 averaged at USD 332/MT. FOB, decreased from USD 368/MT. from the previous quarter.

Chart of raw material reference prices on world market for Q1/2014 – Q4/2019

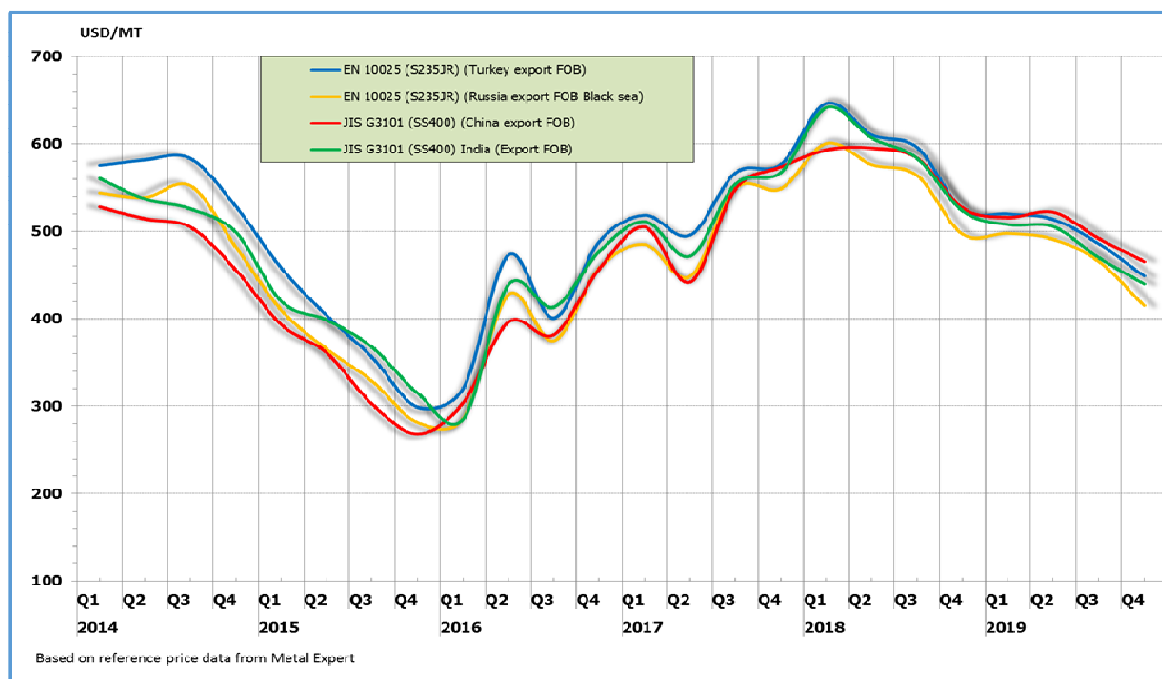


Processed price data from: Metal Expert

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 and fourth quarter of 2019 accordingly.

The reference prices for hot-rolled coil on the world market are that China export price for fourth quarter of 2019 was averaged at USD 466/ MT FOB, decreased from the previous quarter at USD 492/ MT FOB. Russia export price average was decreased from USD 466/MT FOB, to 415/mt. FOB, Turkey export price average was dropped from USD 486/MT FOB, to 449/MT FOB and India export price average was also decreased from USD 470/MT FOB, to 440/MT FOB in fourth quarter of 2019

Chart of hot-rolled coil reference prices on world market for Q1/2014 – Q4/2019



Processed price data from: Metal Expert

Overview of Thai Steel Industry

ISIT had reported the domestic steel-production for 2019 was at 7.63 MT, decreasing 15.47% compared to the same period of previous year consisting of the long finished steel production of 5.01 MT, decreasing 11.50% and the flat finished steel production of 2.63 MT, decreasing 22.11% compared to the same period of previous year.

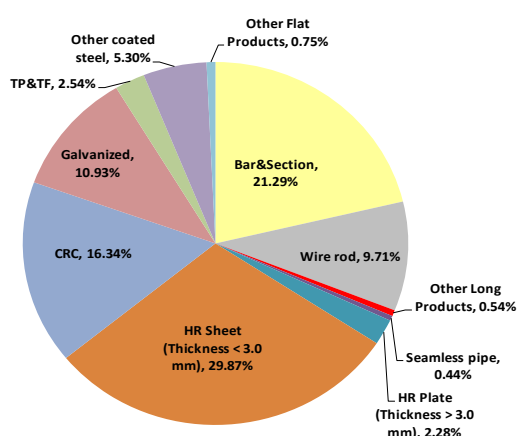
The consumption of finished steel products in Thailand for 2019 was at 18.47 MT, decreasing 4.47% compared to the same period of previous year consisting of the long finished steel consumption at 6.97 MT, decreasing 7.30% resulting from the less consumption of bar and structural steel and the flat finished steel consumption at 11.50 MT, decreasing 2.67% 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

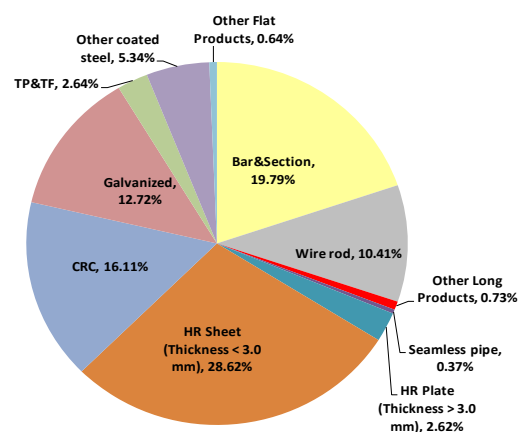
Total Apparent Finished Steel (Unit : Tons)	2018	2019	% Change
Production	9,031,718	7,634,912	-15.47%
Import	12,056,501	12,219,872	1.36%
Export	1,754,326	1,384,722	-21.07%
Consumption	19,333,893	18,470,062	-4.47%

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

Steel Consumption 2018



Steel Consumption 2019



The imported of finished steel in Thailand for 2019 was at 12.22 MT, increasing 1.36% compared to the same period of previous year. The highest import quantity was Hot Rolled Steel at 4.33 MT, increasing 1.63% compared to the same period of previous year. The second highest import quantity was Galvanize steel at 1.80 MT and Cold Rolled steel at 1.65 MT respectively.

The export of finished steel in Thailand for 2019 was at 1.38 MT, decreasing 21.07% compared to the same period of previous year. The highest export quantity was structural steel at 0.308 MT. The export of deformed bars for construction was at 0.226 MT.

Overview of Hot Rolled Steel in Thailand

The Hot Rolled Steel production for 2019 was at 2.63 MT, decreasing 22.11% consisting of thin gauge at 2.50 MT, decreasing 21.69% and Thick gauge at 0.127 MT, decreasing 29.59% compared to the same period of previous year.

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

Total Hot Roll (Unit : Tons) (Excluding Stainless Steel)	2018	2019	% Change
Production	3,373,850	2,627,809	-22.11%
Import	3,963,408	4,036,952	1.86%
Export	73,977	8,013	-89.17%
Consumption	7,263,281	6,656,748	-8.35%

Total Hot Roll Plate (Unit : Tons) (Excluding Stainless Steel, Thickness > 3 mm.)	2018	2019	% Change
Production	179,839	126,628	-29.59%
Import	356,797	442,014	23.88%
Export	18,268	2,431	-86.69%
Consumption	518,368	566,211	9.23%

Total Hot Roll Sheet (Unit : Tons) (Excluding Stainless Steel, Thickness < 3 mm.)	2018	2019	% Change
Production	3,194,011	2,501,181	-21.69%
Import	3,606,611	3,594,938	-0.32%
Export	55,709	5,582	-89.98%
Consumption	6,744,913	6,090,537	-9.70%

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

The Hot Rolled Steel consumption for 2019 was at 6.66 million metric tons, decreasing 8.35% consisting of thin gauge at 6.09 MT, decreasing 9.70% and thick gauge at 0.566 MT, increasing 9.23% compared to the same period of previous year.

The import of Hot Rolled Steel for 2019 had increased of 1.86% at 4.04 MT consisting of thin gauge at 3.59 MT, decreasing of 0.32% and at 0.442 MT, increasing 23.88% for the thick gauge compared to the same period of previous year.

The export of Hot Rolled Steel in Thailand for 2019 was at 8.01 thousand metric tons, decreasing 89.17% consisting of thin gauge at 5.58 thousand metric tons, decreasing of 89.98% and at 2.43 thousand metric tons, decreasing 86.69% for the thick gauge compared to the same period of previous year.