



MILL 039/2014

14 November 2014

Subject : Explanation and analysis of the management team oppose to a financial statement  
for 9 months as of 30 September 2014

Attention : President

The Stock Exchange of Thailand

Millcon Steel Public Company Limited ("Company") would like to send consolidated financial statement for 3 months and 9 month as of 30 September 2014 of the Company and its affiliate which have been reviewed by certified public accountant and approved by a board of director. The details are as follows:

1. Analysis of performance for 3 months and 9 months as of 30 September 2014 comparison with 2<sup>nd</sup> quarter of 2014 and quarter 3<sup>rd</sup> of 2013.

Table 1 Comparison of company's performance.

| Consolidated Financial Statement       | Q3/2014    | Q2/2014    | Q3/2013    | + (-)    |          | 9M/2014    | 9M/2013    | + (-)      |
|--|------------|------------|------------|----------|----------|------------|------------|------------|
|  |            |            |            | QoQ      | YoY      |            |            | YoY        |
| Sale of goods and services             | 3,229.02   | 2,304.68   | 3,045.97   | 924.34   | 183.05   | 8,676.68   | 10,424.34  | (1,747.66) |
| Cost of sale and service               | (3,057.27) | (2,160.16) | (2,857.49) | (897.11) | (199.78) | (8,154.86) | (9,658.43) | 1,503.57   |
| Gross profit                           | 171.74     | 144.51     | 188.47     | 27.23    | (16.73)  | 521.82     | 765.91     | (244.09)   |
| Gross profit margin                    | 5.32%      | 6.27%      | 6.19%      | -0.95%   | -0.87%   | 6.01%      | 7.35%      | -1.33%     |
| Other income                           | 26.31      | 17.17      | 7.39       | 9.15     | 18.93    | 70.55      | 45.85      | 24.70      |
| Selling expense                        | (30.86)    | (25.52)    | (37.09)    | (5.35)   | 6.23     | (94.72)    | (111.14)   | 16.41      |
| Administrative expense                 | (83.71)    | (80.72)    | (68.04)    | (3.00)   | (15.68)  | (211.33)   | (183.35)   | (27.98)    |
| other expense                          | (5.56)     | (2.03)     | (6.39)     | (3.53)   | 0.84     | (28.84)    | (44.80)    | 15.95      |
| Finance costs                          | (173.96)   | (171.30)   | (175.61)   | (2.67)   | 1.65     | (523.58)   | (514.25)   | (9.33)     |
| Shares of profit fo associated company | -          | -          | (0.49)     | -        | 0.49     | -          | (0.09)     | 0.09       |
| Profit before income tax               | (96.04)    | (117.89)   | (91.75)    | 21.85    | (4.29)   | (266.10)   | (41.85)    | (224.25)   |
| (Expense) tax income                   | 1.77       | 2.61       | 18.89      | (0.84)   | (17.11)  | 8.51       | 1.86       | 6.65       |
| Profit (loss) for the period           | (94.27)    | (115.27)   | (72.87)    | 21.01    | (21.40)  | (257.60)   | (40.00)    | (217.60)   |
| Profit (loss) for the parent company   | (93.29)    | (114.30)   | (72.95)    | 21.01    | (20.34)  | (255.70)   | (39.92)    | (215.79)   |

### 1.1 Sale of goods & services

The Company has income from selling and service of 3<sup>rd</sup> quarter of 2014 equivalent to 3,229.02 billion baht from sale volume of 164,905 ton. The sale volume comparison with 2<sup>nd</sup> quarter of 2014 and 3<sup>rd</sup> quarter of 2013 having increasing value equivalent to 40.1 and 6.0 respectively. As the sales volume increasing 42.6 percent and 4.5 percent comparison with the previous quarter and the same quarter of last year, respectively. The structure of income dividing to group of products are as follows:

Table 2 Sale Volume of the Company dividing to group of products

(Unit: Million Baht)

| Type of Products                    | Q3/2014  | Q2/2014  | Q3/2013  | Increase<br>(Decrease) |          | 9M/2014  | 9M/2013   | Increase<br>(Decrease) |
|-------------------------------------|----------|----------|----------|------------------------|----------|----------|-----------|------------------------|
|                                     |          |          |          | QoQ                    | YoY      |          |           | YoY                    |
| Group of steel bar and deformed bar | 2,128.42 | 1,882.53 | 1,874.40 | 245.89                 | 245.02   | 6,208.05 | 6,289.28  | (81.22)                |
| Structural Steel                    | 92.56    | 98.20    | 407.33   | (5.64)                 | (314.77) | 426.78   | 1,257.72  | (830.94)               |
| Billet                              | 949.81   | 291.43   | 757.78   | 658.38                 | 192.03   | 1,924.72 | 1,886.22  | 38.50                  |
| Raw Material                        | 27.22    | 9.87     | 2.73     | 17.35                  | 24.50    | 54.11    | 861.58    | (807.46)               |
| Other                               | 1.18     | 2.65     | 3.73     | (1.46)                 | (2.55)   | 8.38     | 21.28     | (12.90)                |
| Income from services and production | 29.82    | 20.01    | -        | 9.82                   | 29.82    | 56.64    | 108.27    | (53.63)                |
| Total                               | 3,229.01 | 2,304.68 | 3,045.97 | 924.33                 | 183.05   | 8,676.68 | 10,424.34 | (1,747.66)             |

From above information, it is shown that the highest sale volume is from steel bar and billet which made up 95% of total sale volume and services be equivalent to 95% of total sale volume and service. In addition, the sale volume and 2 the mentioned products has extended because a trend of steel price of half year has increased following the recovery of world economic and more good political situation, providing enough raw material to the production line. In addition, group of company has extended the business for supporting more client.

For 9 months, the Company has a total net sale volume of 8,676.68 million baht from the total sale volume of 440,328 tons, decreasing from a previous year which having total sale volume of 10,424.34 and total sale volume of 539,895 ton be equivalent to 16.8 % and 18.4% respectively. The main reason was the Company has stop to production for the first half year for the improvement of machinery and testing a special steel grade. In addition, it caused effect with internal political crisis which affect the growth of the economy and

steel consumption fell from a year ago. However, in the second half of year, the Company has continually produced and focus the produces which market need. The Company forecast that the product will meet the needs of the market and is likely the best price so that the Company will produce such large quantities to save the cost. As the company is expert about the management of inventory. For the popular product in the market, the company is planning to supply raw materials to sufficient quantities and at an affordable price in order to the manufacture of products sold during the high demand, the product is very popular among the market. The product will be produced when the orders in advance only.

#### 1.2 Gross profit and percentage of gross profit

In 3<sup>rd</sup> quarter of 2014, the Company has a gross profit total of 171.74 million baht or equivalent to 5.3 of total income. Once comparison with a previous year, the Company has an increasing gross profit total of 27.23 million baht but reducing from the same period of last year total of 16.73 million baht. The gross profit margin decreased by 6.3 percent and 6.2 percent in the previous quarter and the same quarter of last year, respectively. The company has focused on the investment of TSSI with caused higher costs, however, the margin was not reduced significantly due to inventory control and attention. As a result, the company has not been much affected by the price of raw materials.

The gross profit margin decreased by 6.3 percent and 6.2 percent in the previous quarter and the same quarter of last year, respectively. The company has focused on the subject of investing in TSSI thus higher costs, however, the margin was not reduced significantly. Due to inventory control and attention. As a result, the company has not been much affected by the price of raw materials.

For the 9 months, the company's gross profit of Baht 521.82 million, equivalent to 6.0 % of total revenue, decreasing from the same period last year, with gross margin of 7.4%.

#### 1.3 Other income

The Group's revenue in the first 3 months was 26.31 million baht, an increase from the previous quarter and an increase of Baht 9.15 million in the same period of last year 18.93 million baht. The mainly components are profit on disposal of investment 16.92 million baht and other income 8.44 million baht. While the 9 months, the company's revenue, including 70.55 million baht, an increase from the previous year 24.70 million baht, and due mainly to the gain on disposal of investment total of 16.92 million baht and profit for foreign exchange of 28.55 million baht.

Table 3 Comparison of other income transaction of the Company

| Consolidated                                  | Q3/2557      | Q2/2557      | Q3/2556     | + (-)       |              | 9M/2557      | 9M/2556      | + (-)        |
|---|--------------|--------------|-------------|-------------|--------------|--------------|--------------|--------------|
|   |              |              |             | QoQ         | YoY          |              |              | YoY          |
| Gain on exchange rate                         | -            | 7.13         | -           | (7.13)      | -            | 28.55        | -            | 28.55        |
| Interest income                               | 0.96         | 4.41         | 1.53        | (3.45)      | (0.57)       | 4.80         | 6.36         | (1.56)       |
| Net fair value loss from derivative financial | -            | -            | -           | -           | -            | -            | 14.77        | (14.77)      |
| Gain from disposal of property, plant and e   | -            | 0.06         | 0.54        | (0.06)      | (0.54)       | 0.01         | 2.63         | (2.62)       |
| Gain on sale of investments                   | 16.92        | -            | -           | 16.92       | 16.92        | 16.92        | -            | 16.92        |
| Others income                                 | 8.44         | 5.08         | 4.73        | 3.36        | 3.70         | 20.27        | 22.09        | (1.82)       |
| <b>Total Others income</b>                    | <b>26.31</b> | <b>17.17</b> | <b>7.39</b> | <b>9.15</b> | <b>18.93</b> | <b>70.55</b> | <b>45.85</b> | <b>24.70</b> |

#### 1.4 Expenses of sale and management

The Company's cost of sales in 3<sup>rd</sup> quarter of 2014 increased by 8.35 million baht from the previous quarter and a decrease of the total (9.45) compared to 3 years ago, the cost of the sale decreased to 6.23 million baht, but the cost of administration, increased to 15.68 million baht.

The cost of the company's sales in the first 9 months of 2014 was 94.72 million baht decreased from the previous year to 16.41 million baht, while the costs of administration increased from 183.35 million baht from the same period last year total of 211.33 million baht due in 3<sup>rd</sup> quarter of 2014 has to stop production for improvement and repair of machinery to be more effective.

Regarding to finance cost of the Company for 3<sup>rd</sup> quarter of 2014, there was no significant difference from the previous quarter and same quarter of the last year. While in the 9 months, the company's financial costs increased from 9.33 million baht from a year ago.

#### 1.5 Net Profit (loss) and percentage of net profit (loss)

The Company's net loss attributable to the parent company in 3<sup>rd</sup> quarter of 2014 is equal to (93.29) million baht by the loss in 2<sup>nd</sup> quarter of 2014 which has a net loss of (114.30), but an increase from 3<sup>rd</sup> quarter of 2014 of (72.95) million baht.

For the 9 months, the company has incurred a net loss attributable to the parent company as well (255.70) million baht, an increase over the loss (215.79) million baht from the same period last year, the net loss of (39.92) million baht by focusing on special steel grade.

## 2. Analysis of financial statement as of 30 September 2014 comparison with the date as of 31 December 2013.

Financial status of the Company and its subsidiaries as of 30 September 2014 as compared to 31 December 2013 is presented below.

### 2.1 Asset

As of 30 September 2014, the Company and its affiliate have the asset total of 15,673.59 Million Baht, increasing from 2013 be equal to 1,815.15 million baht or 13.10%. The change of asset having details are as follows:

**Table 6 Comparison transaction of company's assets**

|  | Q3/2014          | YE 2013          | + (-)           |
|--|------------------|------------------|-----------------|
| Consolidated                                     | (Million Baht)   | (Million Baht)   | (Million Baht)  |
| Cash and cash equivalents                        | 226.01           | 320.13           | (94.12)         |
| Restricted deposits at financial institutions    | 761.56           | 646.46           | 115.10          |
| Trade accounts and notes receivable - net        | 1,916.23         | 2,017.48         | (101.25)        |
| The right to claim over the assets of receivable | 1,034.98         | -                | 1,034.98        |
| Inventories - net                                | 2,423.35         | 2,573.07         | (149.72)        |
| Advances to suppliers for purchases of goods     | 708.21           | 608.72           | 99.49           |
| Derivative financial instruments                 | 2.38             | 36.74            | (34.37)         |
| Other current assets                             | 1,027.62         | 315.51           | 712.11          |
| <b>Total current assets</b>                      | <b>8,100.34</b>  | <b>6,518.11</b>  | <b>1,582.23</b> |
| Available-for-sale investments                   | -                | 14.00            | (14.00)         |
| Investments in subsidiaries - net                | 19.25            | 23.08            | (3.83)          |
| Property, plant and equipment - net              | 7,517.39         | 7,253.09         | 264.30          |
| Intangible assets - net                          | 21.67            | 28.84            | (7.17)          |
| Deferred tax assets                              | 8.86             | 14.90            | (6.04)          |
| Other non-current assets                         | 6.09             | 6.44             | (0.36)          |
| <b>Total non-current assets</b>                  | <b>7,573.25</b>  | <b>7,340.34</b>  | <b>232.91</b>   |
| <b>Total assets</b>                              | <b>15,673.59</b> | <b>13,858.45</b> | <b>1,815.15</b> |

Land building and machinery value has increased by 264.30 million baht or 3.64% from its value in the year 2013 due to our recent machine maintenance for higher efficiency.

Inventory decreased by 149.72 million baht or 5.82% due to the efficient inventory management and raw material cost reduction.

Trade accounts and notes receivable decreased by 101.25 million baht or 5.02% due to strict payment schedule enforced by the management team.

Current asset increase by 712.11 million baht or 225.70% due to asset held for sale.

Available for sale investments decrease by 14 million baht or 100% compare to 31 Dec 2013 due to the company selling assets held for sale.

## 2.2 Liabilities

As of 30 September 2014, the company and its subsidiary has total liabilities of 11,905.3 million baht, which increased by of 1,559.36 million baht from year end 2013 or 15.07%. Details of the change in the company Liabilities is as shown below.

Table 7 Comparison of company's liabilities

|  | Q3/2014          | YE 2013          | + (-)           |
|--|------------------|------------------|-----------------|
| Consolidated   | (Million Baht)   | (Million Baht)   | (Million Baht)  |
| Short-term loans from financial institutions - net                   | 8,943.04         | 8,478.64         | 464.40          |
| Trade accounts payable   | 954.30           | 1,231.07         | (276.78)        |
| Advances from customers for sales of goods                           | 846.76           | 251.71           | 595.05          |
| Current portion of long-term loans from financial institutions - net | 33.60            | 33.60            | -               |
| Current portion of liabilities under finance leases - net            | 2.57             | 5.47             | (2.90)          |
| Derivative financial instruments                                     | 1.20             | 6.72             | (5.52)          |
| Accounts payable for purchase of fixed assets                        | 38.02            | 7.07             | 30.94           |
| Other current liabilities  | 921.79           | 130.25           | 791.54          |
| <b>Total current liabilities</b>                                     | <b>11,741.28</b> | <b>10,144.54</b> | <b>1,596.74</b> |
| Long-term loans - net  | 29.63            | 54.83            | (25.20)         |
| Liabilities under finance leases - net                               | 9.58             | 11.11            | (1.53)          |
| Deferred tax liabilities   | 96.88            | 108.22           | (11.34)         |
| Retirement benefit obligations                                       | 17.86            | 15.73            | 2.13            |
| Other non-current liabilities  | 10.08            | 11.52            | (1.44)          |
| <b>Total non-current liabilities</b>                                 | <b>164.03</b>    | <b>201.41</b>    | <b>(37.38)</b>  |
| <b>Total liabilities</b>   | <b>11,905.30</b> | <b>10,345.95</b> | <b>1,559.36</b> |

Short-term loans from financial institutions increased by 464.40 million baht or 5.48% compare to year-end 2013

Trade accounts payable decreased by 276.78 million baht or 22.48% due to better trade account payable payment performance.

Other current liabilities increase by 791.54 million baht or 607.7% compare to year-end 2013 due to asset acquisition.

Advance from customers for sales of goods increase by 595.05 million baht or 236.41%

Long term loans for year end 2013 and 30 September 2014 decrease from 54.83 million baht to 29.63 million baht, net of 25.20 million baht reduced or 45.96%.

### 2.3 Shareholder Equity

As of 30 September 2014, total shareholder equity is equal to 3,768.29 million baht, which increased from year end 2013 by 255.79 million baht or 7.28%. The details of change in Shareholder Equity is presented in the table below.

Table 8 Comparison of company's shareholders'equity

|   | Q3/2014         | YE 2013         | + (-)          |
|---|-----------------|-----------------|----------------|
| Consolidated                                  | (Million Baht)  | (Million Baht)  | (Million Baht) |
| Issued and paid-up share capital              |                 |                 |                |
| 639,691,757 preferred shares of par Baht 0.4  | 255.88          | -               | 255.88         |
| 1,863,096,005 ordinary shares of par Baht 0.4 | 745.24          | -               | 745.24         |
| 294,864,171 preferred shares of par Baht 0.4  | -               | 117.95          | (117.95)       |
| 1,682,005,065 ordinary shares of par Baht 0.4 | -               | 672.80          | (672.80)       |
| Share Subscription                            | -               | 173.90          | (173.90)       |
| Convertible bonds                             | 175.00          | 175.00          | -              |
| Premium on paid-up capital                    |                 |                 |                |
| Premium on preferred shares                   | 1,651.96        | 1,089.89        | 562.07         |
| Premium on ordinary shares                    | 735.55          | 734.86          | 0.69           |
| Retained earnings                             |                 |                 |                |
| Appropriated - legal reserve                  | 32.44           | 32.44           | -              |
| Unappropriated                                | (8.13)          | 346.21          | (354.34)       |
| Other components of shareholders' equity      | 148.12          | 135.32          | 12.80          |
| Equity attributable to owners of the parent   | 3,736.05        | 3,478.37        | 257.68         |
| Non-controlling interests                     | 32.24           | 34.13           | (1.89)         |
| <b>Total shareholders'equity</b>              | <b>3,768.29</b> | <b>3,512.50</b> | <b>255.79</b>  |

Issued and paid-up shares capital increased by 210.37 million baht due to the company paying dividend in the amount of 72.44 million baht. Leading to a total 745.24 million baht issued and paid-up share capital. The company also issued preference shares in the amount of 137.93 million baht making the issued and paid-up share sum up to 255.88 million baht.

Premium on shares increase by 562.76 million baht or 51.57% due to capital increase and allotment of dividend shares and preferred shares. Premium on ordinary share and preferred shares are 0.69 and 562.07 million baht, respectively.

Unappropriated retained earning decreased by 354.34 million baht or 102.35% compare to year end 2013 due to loss from 9 months operation in 2014

### 3. Liquidity and Capital Structure

The company and its subsidiary cash flow for the 9 month period ending on 30 September 2014 has decreased by 94.12 million baht. The cash and cash equivalents at the beginning of the period and end of the period equal to 320.13 and 226.01 million baht respectively. The cash flow from activities for the 9 months period ending on 30 September 2014 is shown below.

|   | Q3/2014        | Q3/2013        | + (-)          |
|---|----------------|----------------|----------------|
| Consolidated  | (Million Baht) | (Million Baht) | (Million Baht) |
| Net cash provided (used) from operating activities  | 1,003.17       | 1,216.12       | (212.95)       |
| Net cash provided (used ) form investing activities | (1,555.19)     | (21.71)        | (1,533.49)     |
| Net cash provided (used) from financing activities  | 457.91         | (944.90)       | 1,402.81       |
| Net Increase (Decrease) in cash and cash equivalen  | (94.12)        | 249.51         | (343.62)       |

Highlight of the company liquidity ratio and capital structure is as follow.

|                             | Q3/2014 | YE 2013 |
|-----------------------------|---------|---------|
| Consolidated                |         |         |
| Quick Ratio                 | 0.48    | 0.39    |
| Current Ratio               | 0.69    | 0.64    |
| D/E Ratio                   | 3.16    | 2.95    |
| Interest Bearing Debt Ratio | 2.39    | 2.44    |

Kindly be informed accordingly

Yours sincerely,

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(Mr. Sittichai Leeswadtrakul)  
CEO and President