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(Translation)

LTO-2019-0030

20 February 2019

Subject: Submission of the Management Discussion and Analysis based on the Financial Statements ended 31 December 2018

Attention: The President of the Stock Exchange of Thailand

Information and Communication Networks Public Company Limited (“Company”) held the Board of Directors’ Meeting No. 1/2019 on 20 February 2019. The Meeting approved the financial statements ended 31 December 2018, which were examined by the Company’s auditor.

We hereby would like to submit the Management Discussion and Analysis based on the financial statements ended 31 December 2018.

Please be informed accordingly.

Sincerely yours,

(Ms. Patnarin Maliwal)  
Chief Financial Officer

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## Management Discussion and Analysis for the year 2018

### Executive Summary

The year 2018 is another remarkable year for ICN as the Company has been awarded a mega project i.e. high-speed internet provision in remote areas (Zone C), Group 5 in the north eastern area 3. In total there are 8 zones for the whole biddings and the Company together with our consortium partner under the name "IR Consortium" successfully won this bidding at the price of 2"426.66 Billion THB including VAT, out of which ICN partakes in 51% of the total contract price equivalent to 1"237.60 Billion THB including VAT.

The company performance for the year 2018 reflects a continuous growth compared to the same period of the year 2017. The Company reports its total revenue of 1,017.95 million THB, increased by 59.43 million THB or 6.20% compared to the year 2017, mainly derived from the major projects awarded e.g. IP Access Network, Backhaul System with Submarine Station, USO Mobile Network project, Fiber Optic Cable Network Maintenance project, etc.; while sales revenue of the year 2018 is at the amount of 1,015.55 million THB equivalent to 99.76% of total revenue, in the year 2017 the sales revenue is reported at 956.85 million THB equivalent to 99.83%. In term of cost of sales and expenses for the year 2018, it is equivalent to 910.09 million THB or 89.40% of total revenue compared to the same period of last year at the amount of 872.91 Million THB or 91.07%. Net profit shows a significant growth in 2018 in comparison to the previous year at 85.71 million THB or 8.42% of total revenue, therein other comprehensive income generated by gain from actuarial benefit in the amount of 0.93 million THB is also included. In comparison to the year 2017, net profit is reported at 66.18 million THB or 6.90% of total revenue.

Considering the performance in 4th quarter of 2018, the Company reports its total revenue at 286.52 million THB categorized into sale revenue at 285.83 million THB and other revenue at 0.69 million THB compared to total revenue of 357.61 million THB in the same period of 2017. There is a significant decline in sales revenue in this quarter compared to last year because there was certain deferral of some projects in contract signing, resulting in being unable to recognize the sales revenue as planned. Its cost of sales and expenses are at 257.65 Million THB or 89.92% of total revenue in Q4/2018 and at 328.40 million THB or 91.83% of total revenue in Q4/2017. This reflects a positive outcome since the Company has completed the projects with highly favorable gross margin. Lastly, net profit is equivalent to 22.43 million THB or 7.83% of total revenue in Q4/2018 and equivalent to 21.94 million THB or 6.13% of total revenue for Q4/2017.

Moreover, the Company has entered into a share transfer agreement with effective date on 2<sup>nd</sup> January 2019 in purchasing 51% of total shares of Expert Communication Networks Co., Ltd. in order to expand and strengthen the telecommunication engineering business, whereby the legal formalities have been smoothly completed.

## 1. Business Performance Analysis

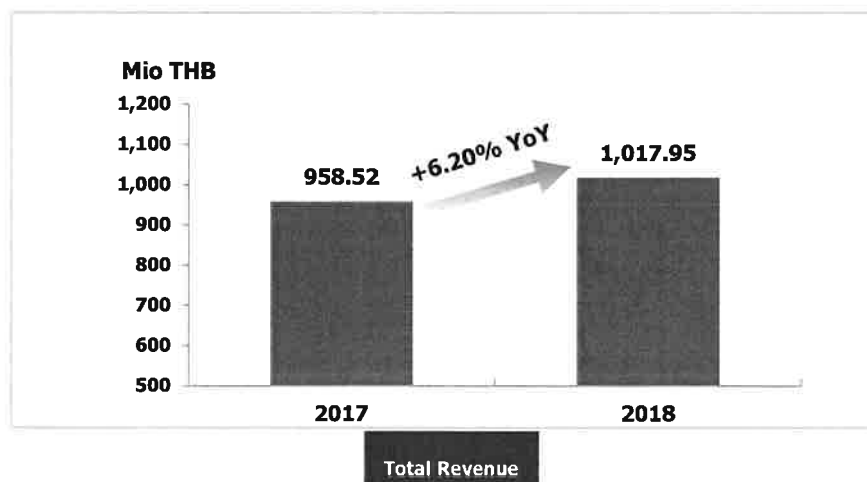
### 1.1 Revenue

For the year 2018 the Company reports its total revenue of 1,017.95 million THB with the growth of 6.20% compared to the last year showing its total revenue of 958.52 million THB because revenue recognition have been realized in major projects awarded e.g. IP Access Network, Backhaul System with Submarine Station, USO Mobile Network project, Fiber Optic Cable Network Maintenance project etc.

Type	2017		2018	
	MB	%	MB	%
1. Sales Revenue	956.85	99.83	1,015.55	99.76
2. Other Revenue*	1.67	0.17	2.40	0.24
<b>Total Revenue</b>	<b>958.52</b>	<b>100.00</b>	<b>1,017.95</b>	<b>100.00</b>

Remarks \*Other Revenue comprises of interest income, etc.

Total revenue can be categorized into sales revenue and other revenue, whereby in 2018 and 2017, sales revenue is accounted for 99.76%, and 99.83% of total revenue and other revenue is equivalent to 0.24% and 0.17% respectively.

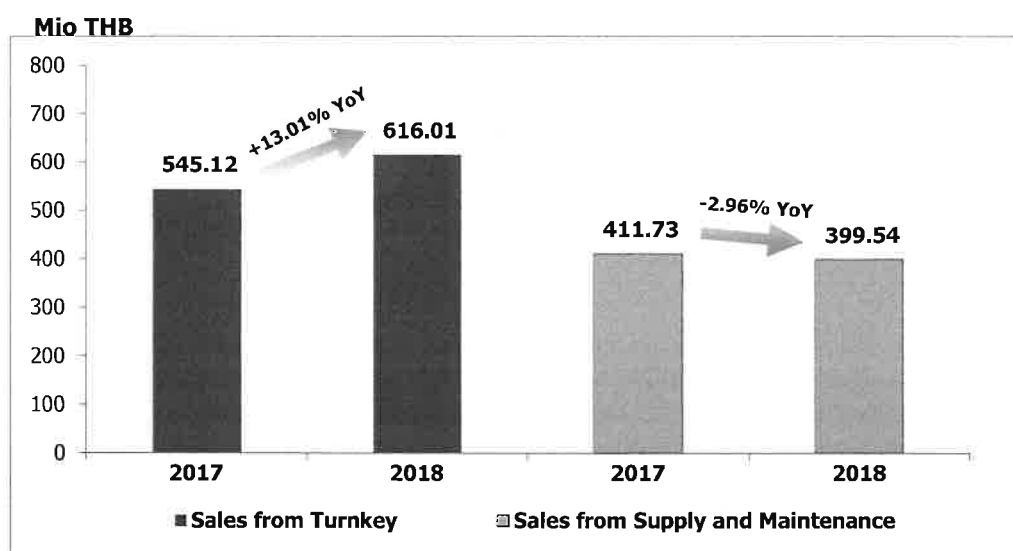


### Sales Revenue

Sales revenue in 2018 consists of turnkey business including telecommunication system and construction and electrical system, supply and maintenance.

Type	2017		2018	
	MB	%	MB	%
<b>Sales Revenue</b>				
<b>Sales Revenue from Turnkey Business</b>	<b>545.12</b>	<b>56.97</b>	<b>616.01</b>	<b>60.66</b>
- Sales Revenue from Telecommunication System	456.34	47.69	615.96	60.65
- Sales Revenue from Construction and Electrical System	88.78	9.28	0.05	0.01
<b>Sales Revenue from Supply and Maintenance</b>	<b>411.73</b>	<b>43.03</b>	<b>399.54</b>	<b>39.34</b>
- Sales Revenue from Supply of Telecommunication System	109.40	11.43	210.87	20.76
- Sales Revenue from Maintenance of Telecommunication System	302.33	31.60	188.67	18.58
<b>Total Sales Revenue</b>	<b>956.85</b>	<b>100.00</b>	<b>1,015.55</b>	<b>100.00</b>

In 2018, sales revenue from turnkey business and supply and maintenance are reported at 616.01 million THB and 399.54 million THB or proportionately at 60.66% and 39.34% of total sales revenue respectively. Sales revenue from turnkey business shows a growth rate of 13.01% compared to the same period of last year. As a result of the government stimulus campaign in 2017, the revenue can be recognized from the major awarded contracts leading to higher growth in sales revenue. Sales revenue from supply and maintenance decreases by 2.96% based on the fact that the contract awarding has been delayed from our plan; therefore, the revenue cannot be recognized as foreseen.



**Sales Revenue by Business Type**

### Other Revenue

In the year 2017 and 2018, the Company reports its other revenue at 1.67 million THB and 2.40 million THB respectively, equivalent to 0.17% and 0.24% of total revenue and the major item is interest income.

### **1.2 Cost of Sales and Expenses**

Major costs of the Company compose of cost of sales, selling expense, administrative expense and finance cost. In the year 2017 and 2018, the Company shows its cost of sales and expense at 872.91 million THB and 910.09 million THB respectively, proportionately at 91.07% and 89.40% of total revenue.

CoS and Expenses	2017		2018	
	MB	%	MB	%
Cost of Sales	811.61	84.67	844.40	82.95
Selling Expense	21.63	2.26	23.25	2.28
Administrative Expense	39.61	4.13	42.43	4.17
Financial Cost	0.06	0.01	0.01	0.00
<b>Total CoS and Expenses</b>	<b>872.91</b>	<b>91.07</b>	<b>910.09</b>	<b>89.40</b>
<b>Total Revenue</b>	<b>958.52</b>	<b>100.00</b>	<b>1,017.95</b>	<b>100.00</b>

### **Cost of Sales**

Cost of sales in 2017 and of 2018 are 811.61 million THB and 844.40 million THB respectively, resulting in gross margin of 15.18% and 16.85%. Cost of sales can be broken down for turnkey business and for supply and maintenance of which mostly are materials, service / sub-contractors and project management costs.

Cost of Sales (CoS)	2017		2018	
	MB	GM (%)	MB	GM (%)
CoS for Turnkey Business	457.15	16.14	515.85	16.26
CoS for Supply and Maintenance	354.46	13.91	328.55	17.77
<b>Total CoS</b>	<b>811.61</b>	<b>15.18</b>	<b>844.40</b>	<b>16.85</b>

### **Cost of Sales for Turnkey Business**

CoS for Turnkey business are 457.15 million THB in 2017 and 515.85 million THB in 2018 with the gross margin of 16.14% and 16.26% respectively.

### **Cost of Sales for Supply and Maintenance**

The Company reports its cost of sales for supply and maintenance for 2017 and 2018 at 354.46 million THB and 328.55 million THB respectively with the gross margin 13.91% and 17.77%. The positive development of gross margin in Q3/2018 derived mainly from better project cost management than plan and this can be mostly realized at project closing stage.

### **Selling Expenses**

In 2017 and 2018, the Company reports its selling expenses at 21.63 million THB, and 23.25 million THB, equal to 2.26% and 2.28% of total revenue. Selling expenses consist of personnel related expenses, which are for instance salary, social security, provident fund, etc., whereby the personnel related expenses from Sales and Products and Solution members at the amount of 2.96 million THB was allocated to the projects based on their contribution during the year 2018 leading to a slight increase from the previous year.

### **Administrative Expenses**

The Company reports its administrative expenses at 39.61 million THB and 42.43 million THB in the year 2017 and 2018 at the proportion 4.13% and 4.17% of total revenue respectively.

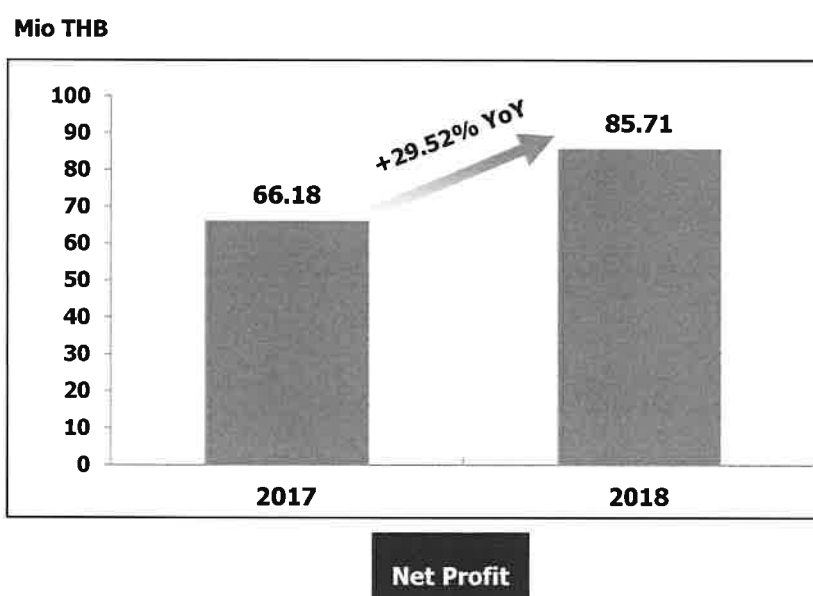
Administrative expenses mostly comprise of personnel related expenses including new headcounts in 2018, office expenses and professional fees.

### Financial Cost

The Company reports its financial cost for the year 2017 and 2018 at 0.06 million THB and 0.01 million THB at the proportion of 0.01% and 0.00% of total revenue. Most of financial cost is interest expense after allocation to projects.

### 1.3 Net Profit

As a result of overall business performance, the Company reports its net profit for 2017 and 2018 at 66.18 million THB and 85.71 million THB respectively, accounted for 6.90% and 8.42% of total revenue therein other comprehensive income generated by gain from actuarial benefit in the amount of 0.93 million THB is also included. For the year 2018, the net profit is increased compared to the last year because of significant increase in sales revenue and efficient project cost controlling.



## 2 Financial Status

### 2.1 Assets

At the end of 2017 and 2018, the Company reports its total assets of 971.26 million THB and 854.18 million THB respectively. The major asset items are cash and cash equivalents, trade receivables, unbilled receivables and inventories; at the end of 2017 proportionately at 19.40%, 31.72%, 14.79% and 15.31% of total assets respectively and at the yearend 2018 proportionately at 41.01%,

16.95%, 20.77% and 6.55% of total assets. Total current assets are accounted for 85.69% for the yearend 2017 and 90.83% for the yearend 2018 to total assets.

### Trade Receivables

At the end of 2017 and of 2018, the Company reports net trade receivables 307.55 million THB and 144.65 million THB or equal to 31.67% and 16.93% of total assets respectively.

Outstanding Period	At 31 Dec. 2017		At 31 Dec. 2018	
	MB	%	MB	%
<b><u>Trade Receivables</u></b>				
Undue	171.60	55.80	95.84	66.26
Overdue				
Less - equal to 3 months	69.91	22.73	44.55	30.80
More than 3 months but less than 6 months	42.09	13.69	2.13	1.47
More than 6 months but less than 12 months	23.95	7.78	2.13	1.47
<b>Total Trade Receivables</b>	<b>307.55</b>	<b>100.00</b>	<b>144.65</b>	<b>100.00</b>
<b>Deduct Allowance for doubtful debt</b>	-		-	
<b>Trade Receivables - Net</b>	<b>307.55</b>		<b>144.65</b>	

The table depicts trade receivables of the Company in the year 2017 with undue at 55.80% and overdue with less or equal to 3 months at 22.73%, overdue for 3 to 6 months at 13.69% and overdue between 6 to 12 months at 7.78% of net trade receivables.

At the yearend 2018, the Company reports the undue trade receivables, overdue with less or equal to 3 months, overdue for 3 to 6 months and overdue between 6 to 12 months at 66.26%, 30.80%, 1.47% and 1.47% of net trade receivables. Net trade receivables decreases when compared with the same period of last year, since the long outstanding trade receivables, due to the customer contract amendment was not finalized at the end of 2017, are paid fully after the amendment was completed.



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**Unbilled Receivables**

Due to its turnkey business, the revenue recognition is performed based on percentage of completion method which may deviate from the payment term according to the contractual conditions. Unbilled receivables are reported at the end of 2017 and of 2018 at 143.67 million THB and 177.42 million THB or equivalent to 14.79% and 20.77% of total assets respectively because there are some projects under delivery and acceptance as per its scope prior to the billing conditions.

**Inventories**

At the end of 2017 and of 2018, the Company reports the inventories at 148.75 million THB and 55.97 million THB in conjunction to the computation based on percentage of completion method. At the end of 2017, inventories are reported with drastic increase due to the equipment was delivered to the project sites for certain projects; however, the installation could not be performed. The equipment was therefore reported as inventories at that stage. In this year, the installation could be conducted resulting in lower inventories in this period.

**Other Current Assets**

Other current assets comprises of VAT, undue VAT, A/R Revenue Department, etc. At the yearend 2017 and 2018, the Company reports other current assets in the amount of 24.15 million THB and 7.91 Million THB respectively. Other current assets at the yearend 2017 are mostly from A/R Revenue Department from VAT 11.67 million THB.

**Restricted Bank Deposits**

At the yearend 2017 and 2018, the amount of restricted bank deposits are at 128.96 million THB and 67.22 million THB respectively. The change is subject to the credit facilities required for operating the business. However, the balance decreased from former year because the Company has negotiated for a better credit condition i.e. the percentage of collateral required in order to increase the liquidity in business operation.

**2.2 Sources of Fund****Liabilities**

The Company reports its total liabilities at 474.92 million THB at the end of 2017 and 335.13 million at the end of 2018 and the major items are account payables and unbilled payables which are regarded as working capital for running the business.

Most of the liabilities are current liabilities with its proportion as at 2017 and at 2018 at 98.63% and 97.91% of total liabilities respectively.

### Trade and Other Payables

The Company reports its trade and other payables at the end of 2017 and of 2018 at 372.64 million THB and 250.12 million THB respectively and this shall vary in relation to the company business performance and cost of sales.

Trade and Other Payables	At 31 Dec. 2017		At 31 Dec. 2018	
	MB	%	MB	%
Trade Payables	352.95	94.72	233.97	93.55
Other Payables	1.05	0.28	1.51	0.60
Trade Payables - Retention	1.88	0.50	0.48	0.19
Accrued Expenses	16.76	4.50	14.16	5.66
<b>Total Trade and Other Payables</b>	<b>372.64</b>	<b>100.00</b>	<b>250.12</b>	<b>100.00</b>

The major trade and other payables are trade payables, mostly for equipment, service and sub-contractors costs in projects.

### Unbilled Payables

Unbilled payables incur when the invoice from vendors are not placed when recognizing its revenue in the project and the Company reports accrued costs at the end of 2017 and 2018 at 35.89 million THB and 44.95 million THB respectively.

### Advance Receipts from Customers

Advance receipts from customers take place when the Company can invoice and collect the customer payment based on the invoicing plan. Mostly they will incur when collecting the money shortly after signing the contract. At the end of 2017 and of 2018, the amount for advance receipts from customer are 40.63 million THB and 16.51 million THB respectively. The advance receipts shall be recognized as revenue along with the project progress.

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**Shareholders' Equity**

The shareholders' equity is in the amount of 496.34 million THB at the year end of 2017 and of 519.05 million THB at the year end of 2018 which has constantly increased corresponding to the business result of which the legal reserve is accounted for 10.30 million THB and the rest of retained earnings is 128.69 million THB after deducting dividend payment amounting to 63.00 million THB.

**Funding Structure**

D/E ratio of the Company is at 0.96, and 0.65 at the end of 2017 and of 2018 respectively.