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(Translation)

LTO-2018-0123

7 August 2018

Subject: Submission of the Management Discussion and Analysis based on the Financial Statements ended 30 June 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. 3/2018 on 7 August 2018. The Meeting approved the financial statements ended 30 June 2018, which were reviewed by the Company’s auditor.

We would like to submit the Management Discussion and Analysis based on the financial statements ended 30 June 2018.

Please be informed accordingly.

Sincerely yours,

(Ms. Patnarin Maliwal)  
Chief Financial Officer  
Company Secretary

## Management Discussion and Analysis for the period Jan. - Jun. 2018

### Executive Summary

The Company performance in the first half year of 2018 reflects a continuous growth compared to the same period of the year 2017. The Company reports its total revenue of 584.18 million THB, increased by 206.69 million THB or 54.75%, mainly derived from the major projects awarded e.g. IP Access Network, Backhaul System with Submarine Station, USO Mobile Network project, etc.; while sales revenue of the first half year of 2018 is at the amount of 582.92 million THB equivalent to 99.78% of total revenue, the sales revenue in the same period of 2017 is reported at 376.83 million THB equivalent to 99.83%. In term of cost of sales and SG&A expenses for the first half year of 2018, it is equivalent to 527.84 million THB or 90.36 % of total revenue compared to the same period of last year at the amount of 347.23 Million THB or 91.98%. This clearly reflects a positive development in 2018 due to significantly higher sales revenue in 2018 as a result of capital increase via IPO providing the opportunity in participating in higher volume projects and our efficiency in optimizing project costs leading to higher gross margin in comparison to our performance last year. Net profit shows a significant growth in 2018 in comparison to the previous year at 45.39 million THB or 7.77% 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 same period of 2017, net profit is reported at 23.63 million THB or 6.26% of total revenue.

Considering the performance in 2nd quarter of 2018, the Company reports its total revenue at 226.34 million THB categorized into sale revenue at 225.82 million THB and other revenue at 0.52 million THB compared to total revenue of 225.24 million THB in the same period of 2017. Its cost of sales and expenses are at 205.02 Million THB or 90.58% of total revenue in Q2/2018 and at 199.47 million THB or 88.56% of total revenue in Q2/2017. Lastly, net profit is equivalent to 16.95 million THB or 7.49 % of total revenue in Q2/2018 showing a slight decrease when compared with the same period of last year equivalent to 20.35 million THB or 9.03% of total revenue. This derives from the increased costs of sales in high volume projects and the increase of number of personnel leading to higher selling expenses as such.

For the second half of 2018 the Company has aimed for participating in bigger-sized project biddings in correspondence to our business plan of telecommunication sector as well as in alignment of Thailand 4.0 Plan. Additionally, we have continuously endeavored in the business expansion in information technology in the near future.

## 1. Business Performance Analysis

### 1.1 Revenue

For the first half of the year 2018 the Company reports its total revenue of 584.18 million THB with the growth of 54.75% compared to the same period of last year showing its total revenue of 377.49 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, etc.

Type	Jan.-Jun. 2017		Jan.-Jun. 2018	
	MB	%	MB	%
1. Sales Revenue	376.83	99.83	582.92	99.78
2. Other Revenue*	0.66	0.17	1.26	0.22
<b>Total Revenue</b>	<b>377.49</b>	<b>100.00</b>	<b>584.18</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 the first half of 2018 and of 2017, sales revenue is accounted for 99.78%, and 99.83% of total revenue and other revenue is equivalent to 0.22% and 0.17% respectively.

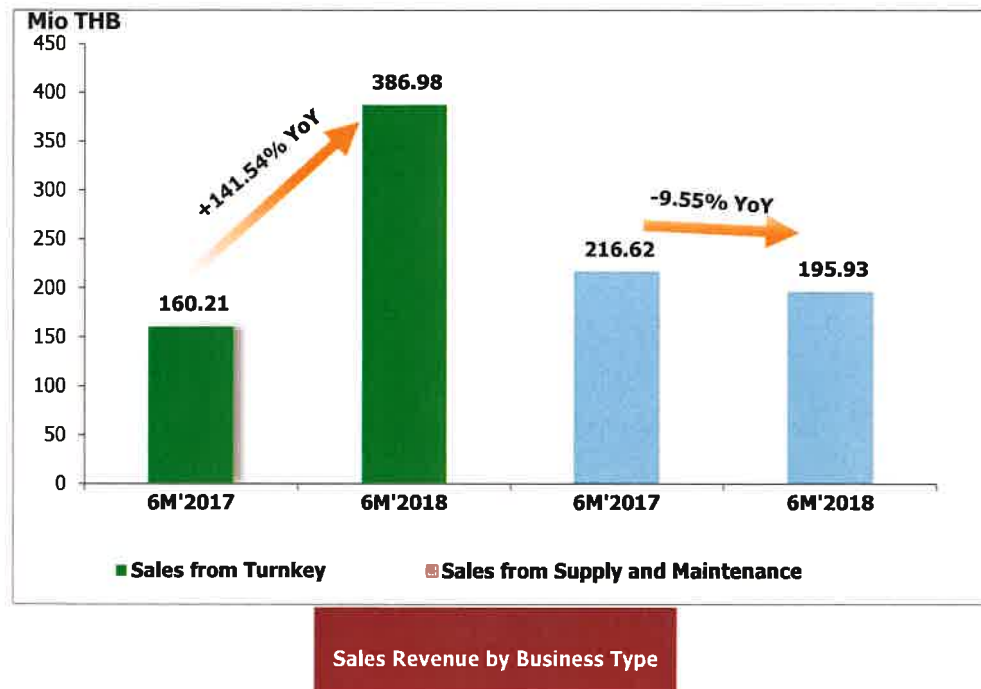


## Sales Revenue

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

Type	Jan.-Jun. 2017		Jan.-Jun. 2018	
	MB	%	MB	%
<b>Sales Revenue</b>				
<b>Sales Revenue from Turnkey Business</b>	<b>160.21</b>	<b>42.52</b>	<b>386.98</b>	<b>66.39</b>
- Sales Revenue from Telecommunication System	160.14	42.50	386.93	66.38
- Sales Revenue from Construction and Electrical System	0.07	0.02	0.04	0.01
<b>Sales Revenue from Supply and Maintenance</b>	<b>216.62</b>	<b>57.48</b>	<b>195.93</b>	<b>33.61</b>
- Sales Revenue from Supply of Telecommunication System	54.41	14.44	86.23	14.79
- Sales Revenue from Maintenance of Telecommunication System	162.21	43.04	109.70	18.82
<b>Total Sales Revenue</b>	<b>376.83</b>	<b>100.00</b>	<b>582.92</b>	<b>100.00</b>

During the first half of 2018, sales revenue from turnkey business and supply and maintenance are reported at 386.98 million THB and 195.93 million THB or proportionately at 66.39% and 33.61% of total sales revenue respectively. Sales revenue from turnkey business shows a growth rate of 141.54% 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 together with the increasing financial capacity of the company after IPO via mai (Market for Alternative Investment) leading to higher growth in sales revenue. Sales revenue from supply and maintenance decreases by 9.55% because the revenue cannot be recognized in Q2 in various projects due to the equipment is under progress to deliver to our warehouse from the vendor sides.



### Other Revenue

In the first half of 2017 and of 2018, the Company reports its other revenue at 0.66 million THB and 1.26 million THB respectively, equivalent to 0.16% and 0.22% 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 first half of 2017 and 2018, the Company shows its cost of sales and expense at 347.29 million THB and 527.85 million THB respectively, proportionately at 92.00% and 90.36% of total revenue.

CoS and Expenses	Jan.-Jun. 2017		Jan.-Jun. 2018	
	MB	%	MB	%
Cost of Sales	318.86	84.47	491.63	84.16
Selling Expense	11.19	2.96	13.93	2.39
Administrative Expense	17.18	4.55	22.28	3.81
Finance Cost	0.06	0.02	0.01	0.00
<b>Total CoS and Expenses</b>	<b>347.29</b>	<b>92.00</b>	<b>527.85</b>	<b>90.36</b>
<b>Total Revenue</b>	<b>377.49</b>	<b>100.00</b>	<b>584.18</b>	<b>100.00</b>

### Cost of Sales

Cost of sales in the first half of 2017 and of 2018 are 318.86 million THB and 491.63 million THB respectively, resulting in gross margin of 15.39% and 15.66%. 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)	Jan.-Jun. 2017		Jan.-Jun. 2018	
	MB	GM (%)	MB	GM (%)
CoS for Turnkey Business	130.99	18.24	332.62	14.05
CoS for Supply and Maintenance	187.87	13.27	159.01	18.85
<b>Total CoS</b>	<b>318.86</b>	<b>15.39</b>	<b>491.63</b>	<b>15.66</b>

### Cost of Sales for Turnkey Business

CoS for Turnkey business are 130.99 million THB in the first half of 2017 and 332.62 million THB in the first half of 2018 with the gross margin of 18.24% and 14.05% respectively. The decrease of gross margin derived from less gross margin in the projects recognized the current year compared to the ones of project realized last year as a consequence of high competition in the market.

### Cost of Sales for Supply and Maintenance

The Company reports its cost of sales for supply and maintenance for the first half of 2017 and 2018 at 187.87 million THB and 159.01 million THB respectively with the gross margin 13.27% and

18.85%. The positive development of gross margin in Q2/2018 derived mainly from better project cost management than plan and this can be mostly realized at project closing stage.

### **Selling Expenses**

For the first six months of 2017 and 2018, the Company reports its selling expenses at 11.19 million THB and 13.93 million THB, equal to 2.96% and 2.39% of total revenue. Selling expenses consist of personnel related expenses including new headcounts in 2018, which are for instance salary, social security, provident fund, etc.

### **Administrative Expenses**

The Company reports its administrative expenses at 17.18 million THB and 22.28 million THB for the first half of 2017 and of 2018 at the proportion 4.55% and 3.81% 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 first half of 2017 and 2018 at 0.06 million THB and 0.01 million THB at the proportion of 0.02% 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 the first half of 2017 and 2018 at 23.63 million THB and 45.39 million THB respectively, accounted for 6.26% and 7.77% of total revenue. For the first half of 2018, the net profit is increased compared to the same period of last year because of significantly increase in sales revenue and efficient project cost controlling.



## 2 Financial Status

### 2.1 Assets

At the end of 2017 and Q2/2018, the Company reports its total assets of 971.26 million THB and 746.59 million THB respectively. The major asset items are account receivables, unbilled receivables, inventories and restricted bank deposits; at the end of 2017 proportionately at 31.72%, 14.79%, 15.31% and 13.28% of total assets respectively and at Q2/2018 proportionately at 28.91%, 15.34%, 4.59% and 16.95% of total assets. Total current assets are accounted for 85.69% for the yearend 2017 and 81.25% for Q2/2018 to total assets.

#### Trade Receivables

At the end of 2017 and Q2/2018, the Company reports net trade receivables 307.55 million THB and 213.99 million THB or equal to 31.67% and 28.66% of total assets respectively.



Outstanding Period	At 31 Dec. 2017		At 30 Jun. 2018	
	MB	%	MB	%
<b><u>Trade Receivables</u></b>				
Undue	171.60	55.80	83.01	38.79
Overdue				
Less - equal to 3 months	69.91	22.73	25.63	11.98
More than 3 months but less than 6 months	42.09	13.69	38.15	17.83
More than 6 months but less than 12 months	23.95	7.78	54.93	25.67
More than 12 months	-	-	12.27	5.73
<b>Total Trade Receivables</b>	<b>307.55</b>	<b>100.00</b>	<b>213.99</b>	<b>100.00</b>
<b>Deduct Allowance for doubtful debt</b>	<b>-</b>		<b>-</b>	
<b>Trade Receivables - Net</b>	<b>307.55</b>		<b>213.99</b>	

The table depicts trade receivables of the Company in the year 2017 with undue and overdue less or equal to 3 months is at 78.53%, overdue more than 3 months but less than 6 months at 13.69% and overdue more than 6 months but less than 12 months at 7.78% of Net trade receivables.

In Q2/2018, the Company reports the undue trade receivables, overdue with less or equal to 3 months, overdue for 3 to 6 months, overdue between 6 to 12 months and overdue with more than 12 months at 38.79%, 11.98%, 17.83%, 25.67% and 5.73% of net trade receivables. The overdue trade receivables with more than 12 months are still under the process of customer contract amendment and the collection can be triggered once the amendment is completed which is expected to be collected within Q3/2018.

#### **Unbilled Receivables**

Due to its turnkey business, the revenue recognition is performed based on percentage of completion method which may deviate from the payment plan according to the contractual conditions. As a result, unbilled receivables are reported at the end of 2017 and Q2/2018 at 143.67 million THB and 114.52 million THB showing slight reduction or equivalent to 14.79% and 15.34% of total assets respectively.

### **Inventories**

At the end of 2017 and Q2/2018, the Company reports the inventories at 148.75 million THB and 34.28 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 first half 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, withholding tax, etc. At the yearend 2017 and in Q2/2018, the Company reports other current assets in the amount of 24.15 million THB and 6.05 Million THB respectively. Other current assets in Q2/2018 are mostly from tax related items i.e. undue VAT 2.45 million THB and withholding tax 1.91 million THB.

### **Restricted Bank Deposits**

At the yearend 2017 and in Q2/2018, the amount of restricted bank deposits are at 128.96 million THB and 126.58 million THB respectively. The change is subject to the credit facilities required for operating the business.

However, the Company has negotiated for a better credit condition i.e. the percentage of collateral required which shall be effective in Q3/2018 onwards in order to increase the liquidity in business operation.

### **Office Improvement and Equipment**

At the yearend 2017 and in Q2/2018, the amount of fixed assets are at 5.24 million THB and 8.56 million THB respectively of which are basically the office improvement, office supplies, vehicles and computer equipment. The incremental part of fixed assets at the end of Q2/2018 are mostly the tool & test equipment for handling large scale projects.

## **2.2 Sources of Fund**

### **Liabilities**

The Company reports its total liabilities at 474.92 million THB at the end of 2017 and 245.36 million in Q2/2018 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 Q2/2018 at 98.63% and 97.49% of total liabilities respectively.

### **Trade and Other Payables**

The Company reports its trade and other payables at the end of 2017 and of Q2/2018 at 372.64 million THB and 132.26 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 30 Jun. 2018	
	MB	%	MB	%
Trade Payables	352.95	94.72	111.92	84.62
Other Payables	1.05	0.28	5.76	4.35
Accrued Interest	-	-	-	-
Trade Payables - Retention	1.88	0.50	0.66	0.50
Accrued Expenses	16.76	4.50	13.92	10.53
<b>Total Trade and Other Payables</b>	<b>372.64</b>	<b>100.00</b>	<b>132.26</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 in Q2/2018 at 35.89 million THB and 75.27 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 Q2/2018, the amount for advance receipts from customer are 40.63 million THB and 14.76 million THB respectively. This 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 yearend 2017 and of 501.23 million THB in Q2/2018 which has constantly increased corresponding to the business result of which the legal reserve is accounted for 6.00 million THB and the rest of retained earnings is 115.16 million THB after deducting dividend payment amounting to 40.50 million THB in Q2/2018.

### **Funding Structure**

D/E ratio of the Company is at 0.96, and 0.49 at the end of 2017 and Q2/2018 respectively.