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(Translation)

LTO-2018-0175

6 November 2018

Subject: Submission of the Management Discussion and Analysis based on the Financial Statements ended 30 September 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. 4/2018 on 6 November 2018. The Meeting approved the financial statements ended 30 September 2018, which were reviewed by the Company’s auditor.

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

Please be informed accordingly.

Sincerely yours,

(Ms. Patnarin Maliwal)  
Chief Financial Officer  
Company Secretary

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## Management Discussion and Analysis for the period Jan. – Sep. 2018

### Executive Summary

The company performance in the quarter 1 - 3 of 2018 reflects a continuous growth compared to the same period of the year 2017. The Company reports its total revenue of 731.43 million THB, increased by 130.52 million THB or 21.72% compared to the same period in 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 first nine months of 2018 is at the amount of 729.72 million THB equivalent to 99.77% of total revenue, in the first nine months of 2017 the sales revenue is reported at 599.94 million THB equivalent to 99.84%. In term of cost of sales and expenses for the first nine months of 2018, it is equivalent to 652.44 million THB or 89.20% of total revenue compared to the same period of last year at the amount of 544.52 Million THB or 90.62%. This reflects a positive development in 2018 due to significantly higher sales and revenue in 2018 as a result of capital increase via IPO providing the opportunity in participating in higher volume projects, 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 63.28 million THB or 8.65% 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 44.24 million THB or 7.36% of total revenue.

Considering the performance in 3rd quarter of 2018, the Company reports its total revenue at 147.25 million THB categorized into sale revenue at 146.80 million THB and other revenue at 0.45 million THB compared to total revenue of 223.42 million THB in the same period of 2017. There is a significant decline in sales revenue in this quarter compared to last year because the work could not be delivered resulting in being unable to recognize the sales revenue as per the plan. Its cost of sales and expenses are at 124.59 Million THB or 84.61% of total revenue in Q3/2018 and at 197.23 million THB or 88.28% of total revenue in Q3/2017. This reflects a positive outcome since the Company has completed the projects with highly favorable gross margin rate. Lastly, net profit is equivalent to 17.90 million THB or 12.15% of total revenue in Q3/2018 and equivalent to 20.61 million THB or 9.22% of total revenue for Q3/2017.

In the 4<sup>th</sup> quarter of 2018 the Company has participated 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**

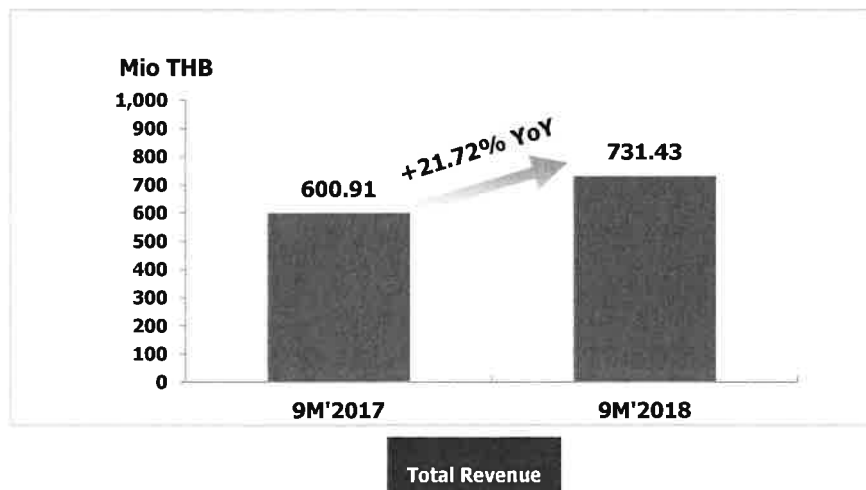
**1.1 Revenue**

For the first nine months of the year 2018 the Company reports its total revenue of 731.43 million THB with the growth of 21.72% compared to the same period of last year showing its total revenue of 600.91 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	Jan.-Sep. 2017		Jan.-Sep. 2018	
	MB	%	MB	%
1. Sales Revenue	599.94	99.84	729.72	99.77
2. Other Revenue*	0.97	0.16	1.71	0.23
<b>Total Revenue</b>	<b>600.91</b>	<b>100.00</b>	<b>731.43</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 nine months of 2018 and of 2017, sales revenue is accounted for 99.77%, and 99.84% of total revenue and other revenue is equivalent to 0.23% and 0.16% respectively.

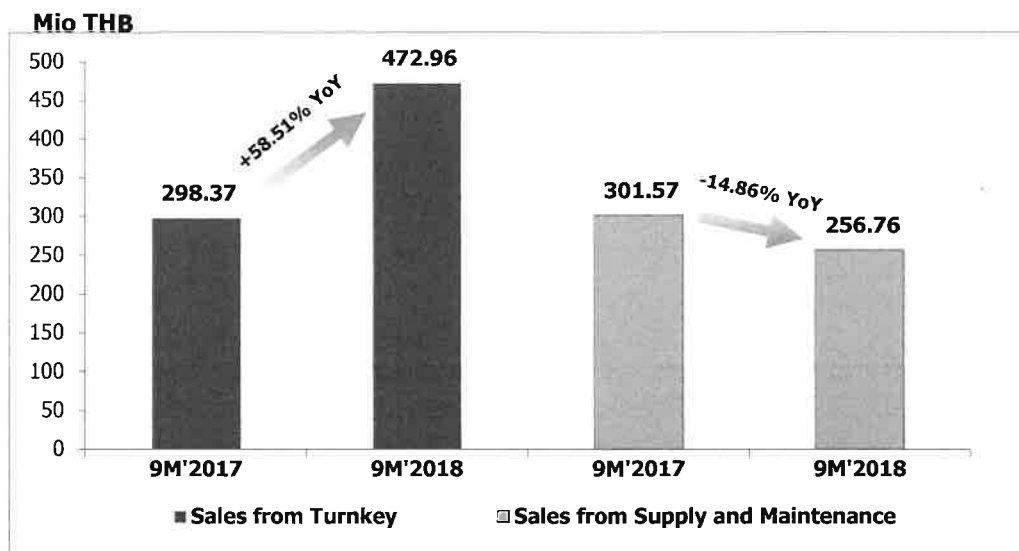


### Sales Revenue

Sales revenue as of Q3/2018 consists of turnkey business including telecommunication system and construction and electrical system, supply and maintenance.

Type	Jan.-Sep. 2017		Jan.-Sep. 2018	
	MB	%	MB	%
<b>Sales Revenue</b>				
<b>Sales Revenue from Turnkey Business</b>	<b>298.37</b>	<b>49.73</b>	<b>472.96</b>	<b>64.81</b>
- Sales Revenue from Telecommunication System	268.27	44.72	472.91	64.80
- Sales Revenue from Construction and Electrical System	30.10	5.01	0.05	0.01
<b>Sales Revenue from Supply and Maintenance</b>	<b>301.57</b>	<b>50.27</b>	<b>256.76</b>	<b>35.19</b>
- Sales Revenue from Supply of Telecommunication System	55.84	9.31	92.53	12.68
- Sales Revenue from Maintenance of Telecommunication System	245.73	40.96	164.23	22.51
<b>Total Sales Revenue</b>	<b>599.94</b>	<b>100.00</b>	<b>729.72</b>	<b>100.00</b>

During Q1-Q3 of 2018, sales revenue from turnkey business and supply and maintenance are reported at 472.96 million THB and 256.76 million THB or proportionately at 64.81% and 35.19% of total sales revenue respectively. Sales revenue from turnkey business shows a growth rate of 58.51% 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 14.86% based on the fact that the orders have been delayed from our plan; therefore, the revenue cannot be recognized as foreseen in Q3/2018.



**Sales Revenue by Business Type**

**Other Revenue**

In the first nine months of 2017 and of 2018, the Company reports its other revenue at 0.97 million THB and 1.71 million THB respectively, equivalent to 0.16% and 0.23% 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 nine months of 2017 and 2018, the Company shows its cost of sales and expense at 544.52 million THB and 652.44 million THB respectively, proportionately at 90.62% and 89.20% of total revenue.

CoS and Expenses	Jan.-Sep. 2017		Jan.-Sep. 2018	
	MB	%	MB	%
Cost of Sales	501.11	83.39	603.52	82.51
Selling Expense	16.58	2.76	17.82	2.44
Administrative Expense	26.77	4.45	31.09	4.25
Financial Cost	0.06	0.01	0.01	0.00
<b>Total CoS and Expenses</b>	<b>544.52</b>	<b>90.62</b>	<b>652.44</b>	<b>89.20</b>
<b>Total Revenue</b>	<b>600.91</b>	<b>100.00</b>	<b>731.43</b>	<b>100.00</b>

**Cost of Sales**

Cost of sales in the first nine months of 2017 and of 2018 are 501.11 million THB and 603.52 million THB respectively, resulting in gross margin of 16.47% and 17.29%. 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.-Sep. 2017		Jan.-Sep. 2018	
	MB	GM (%)	MB	GM (%)
CoS for Turnkey Business	239.06	19.88	393.53	16.79
CoS for Supply and Maintenance	262.05	13.11	209.99	18.22
<b>Total CoS</b>	<b>501.11</b>	<b>16.47</b>	<b>603.52</b>	<b>17.29</b>

**Cost of Sales for Turnkey Business**

CoS for Turnkey business are 239.06 million THB in the first nine months of 2017 and 393.93 million THB in the first nine months of 2018 with the gross margin of 19.88% and 16.79% respectively. The decrease of gross margin derived from less gross margin in 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 nine months of 2017 and 2018 at 262.05 million THB and 209.99 million THB respectively with the gross margin 13.11% and 18.22%. 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 the first nine months of 2017 and 2018, the Company reports its selling expenses at 16.58 million THB, and 17.82 million THB, equal to 2.76% and 2.44% 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 in Q3/2018 leading to a slight increase in Q3/2018 only.

**Administrative Expenses**

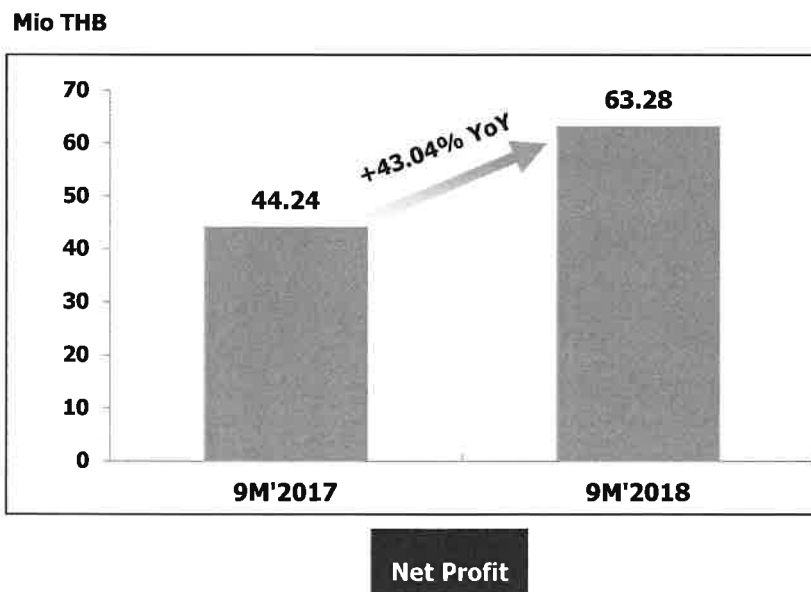
The Company reports its administrative expenses at 26.77 million THB and 31.09 million THB for the first nine months of 2017 and of 2018 at the proportion 4.45% and 4.25% of total revenue respectively. Administrative expenses mostly comprise of personnel related expenses including new headcounts in 2018, office expenses and professional fees.

**Financial Cost**

The Company reports its financial cost for the first nine months of 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 the first nine months of 2017 and 2018 at 44.24 million THB and 63.28 million THB respectively, accounted for 7.36% and 8.65% 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 first nine months 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 of Q3/2018, the Company reports its total assets of 971.26 million THB and 694.46 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 Q3/2018 proportionately at 27.84%, 28.74%, 20.81% and 0.52% of total assets. Total current assets are accounted for 85.69% for the yearend 2017 and 87.51% for Q3/2018 to total assets.

#### Trade Receivables

At the end of 2017 and Q3/2018, the Company reports net trade receivables 307.55 million THB and 197.54 million THB or equal to 31.67% and 28.44% of total assets respectively.

Outstanding Period	At 31 Dec. 2017		At 30 Sep. 2018	
	MB	%	MB	%
<b><u>Trade Receivables</u></b>				
Undue	171.60	55.80	45.99	23.28
Overdue				
Less - equal to 3 months	69.91	22.73	85.07	43.07
More than 3 months but less than 6 months	42.09	13.69	18.51	9.37
More than 6 months but less than 12 months	23.95	7.78	18.64	9.44
More than 12 months	-	-	29.32	14.84
<b>Total Trade Receivables</b>	<b>307.55</b>	<b>100.00</b>	<b>197.54</b>	<b>100.00</b>
<b>Deduct Allowance for doubtful debt</b>	-		-	
<b>Trade Receivables - Net</b>	<b>307.55</b>		<b>197.54</b>	

The table depicts trade receivables of the Company in the year 2017 with undue at 55.80% and overdue less or equal to 3 months at 22.73%, 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 Q3/2018, 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 23.28%, 43.07%, 9.37%, 9.44% and 14.84% of net trade receivables. For the overdue trade receivables with more than 12 months, the collection was made completely in October 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. Unbilled receivables are reported at the end of 2017 and Q3/2018 at 143.67 million THB and 144.49 million THB or equivalent to 14.79% and 20.81% 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 Q3/2018, the Company reports the inventories at 148.75 million THB and 3.61 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 Q3/2018, the Company reports other current assets in the amount of 24.15 million THB and 4.43 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 in Q3/2018, the amount of restricted bank deposits are at 128.96 million THB and 73.34 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 175.34 million in Q3/2018 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 in Q3/2018 at 98.63% and 96.24% of total liabilities respectively.

### Trade and Other Payables

The Company reports its trade and other payables at the end of 2017 and in Q3/2018 at 372.64 million THB and 88.85 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 Sep. 2018	
	MB	%	MB	%
Trade Payables	352.95	94.72	68.44	77.03
Other Payables	1.05	0.28	1.71	1.92
Trade Payables - Retention	1.88	0.50	0.81	0.91
Accrued Expenses	16.76	4.50	17.89	20.14
<b>Total Trade and Other Payables</b>	<b>372.64</b>	<b>100.00</b>	<b>88.85</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 Q3/2018 at 35.89 million THB and 49.18 million THB respectively.

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**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 Q3/2018, the amount for advance receipts from customer are 40.63 million THB and 17.33 million THB respectively. The advance receipts shall be recognized as revenue along with the project progress.

**Shareholders' Equity**

The shareholders' equity is in the amount of 496.34 million THB at the year end of 2017 and of 519.12 million THB in Q3/2018 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 133.06 million THB after deducting dividend payment amounting to 40.50 million THB.

**Funding Structure**

D/E ratio of the Company is at 0.96, and 0.34 at the end of 2017 and Q3/2018 respectively.