

SC. 076/60/SJ

10 August 2017

Subject: Management Discussion and Analysis for the 2nd quarter ended 30 June 2017

To: Directors and Managers
The Stock Exchange of Thailand

Management Discussion and Analysis of operating results and financial position

Overview of the past results' operation

The Company operates in telecommunication business by providing telecommunication services through nationwide fiber optic network and providing installation of telecommunication infrastructure. On 8 May 2012, the Company obtained Telecommunication license type 3 from National Broadcasting and Telecommunication Commission ("NBTC") in which, allowed the Company to own the network and rendering service through the mentioned network. The period of license is 15 years. The Company has started to construct core fiber optic network since 2012 in which the fiber optic were installed along with telegraph poles that the Company has 30 years' right of way since 19 October 2012 from The State Railway of Thailand. The Company has also constructed the main trunk routes and sub-routes along with the road through the poles as to connect to customers. The Company has launched a service under the network called "Interlink Fiber Optic Network" in June 2013.

In 2014, the Company has entered into data center business by acquiring assets from Interlink Communication Public Company Limited (ILINK) including building and equipment as to provide data center space services for companies and organizations according to their needs. The data center services have been operated in October 2014.

According to the policies of the government, Digital Economy and Thailand 4.0, they are to use information technology to apply to the economic and social activities, by focusing on the development of digital infrastructure and aiming to provide stability data connection in all areas with adequately supply for demand and could be access at a reasonable cost, as to lead to further development of the nation in both economic and social aspects in efficiency way. These policies are important to help promote the growth of information and communications technology industry (ICT) of Thailand and the Company as well.

For the three month period ended 30 June 2017, the Company has total revenue of Baht 206.13 million or increasing by Baht 11.40 million or 5.85% comparing to the same period of prior year. In addition, the Company has net income of Baht 24.82 million or increasing by Baht 0.59 million or 2.45% comparing to the same periods of prior year as well.

Analysis of Operating Results

1. Revenues

For the three month period ended 30 June 2017, the Company has total revenues of Baht 206.13 million in which they were growth for 9.70% as presented below.

Types of Service	30 June 2017		31 March 2017		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Service incomes	205.10	99.50	186.66	99.34	18.44	9.88
Other incomes	1.03	0.50	1.24	0.66	(0.21)	(16.94)
Total revenues	206.13	100.00	187.90	100.00	18.23	9.70

1.1. Service incomes

Type of Service	30 June 2017		31 March 2017		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
1. Service income from network rendering						
- Service income from network rendering	128.21	62.51	116.76	62.55	11.45	9.81
- Other service income	1.02	0.50	0.82	0.44	0.20	24.39
Total service income from network rendering	129.23	63.01	117.58	62.99	11.65	9.91
2. Service income from network installation service						
- Service income from network installation service	54.04	26.35	47.35	25.37	6.69	14.13
- Service income from network connection service	2.85	1.39	3.17	1.70	(0.32)	(10.09)
Total service income from network installation service	56.89	27.74	50.52	27.07	6.37	12.61
3. Service income from data center space service						
- Service income from data center space service	15.10	7.36	15.09	8.08	0.01	0.07
- Other service income	3.88	1.89	3.47	1.86	0.41	11.82
Total Service income from data center space service	18.98	9.25	18.56	9.94	0.42	2.26
Total service incomes	205.10	100.00	186.66	100.00	18.44	9.88

Service incomes are divided into 3 categories as follows.

1.1.1. Service income from network rendering

Service income from network rendering is categorized into various types such as Interlink MPLS IP-VPN, Interlink Wavelength, Interlink Dark Fiber, and Interlink IPLC which the Company has started the services since June 2013.

For the three month period ended 30 June 2017, the Company has service income from network rendering for Baht 129.23 million or represented 63.01% of total service income in which combined by service income from network rendering of Baht 128.21 million, and other service income of Baht 1.02 million. The service income from network rendering of 2017 increased from the 1st quarter by Baht 11.65 million or 9.91% because of the increasing of customers which is the normal growth in every quarter.

1.1.2. Service income from network installation service

Service income from network installation service is related to the construction of telecommunication hi-speed network and is categorized into 2 types as follows.

- 1) Service income from network installation service in which recognizes revenue by percentage of completion according to cost to cost method
- 2) Service income from network connection service in which recognizes revenue once the service has been completed.

For the three month period ended 30 June 2017, these services generated revenue for Baht 56.89 million or 26.35% of total service income which can divide to service income from network installation service Baht 54.04 million and service income from network connection service Baht 2.85 million. The major projects are the improvement of telecommunications network for internet provider which recognized revenue for Baht 7.32 million, the construction/improvement of telecommunications network for mobile operator which recognized revenue for Baht 24.93 million, the Pracharat internet by TOT which recognized revenue for Baht 15.24 million, and the installation of mini outdoor OLT which recognized revenue for Baht 4.93 million.

1.1.3. Service income from data center space service

The Company has operated data center space service in October 2014 after acquiring assets from ILINK.

For the three month period ended 30 June 2017, the Company has revenue from data center spare service for Baht 18.98 million or 9.25% of total service income. It increased because the electricity charged to customers. The occupancy rate of data center is 95%.

2. Costs and expenses

The major costs of the Company are such as costs of services, selling expenses, administrative expenses, and finance cost. For the three month period ended 30 June 2017, the total costs and expenses is Baht 175.45 million.

2.1. Costs of services and gross profit margin

Costs of services are main expenses of the Company. For the three month period ended 30 June 2017, Cost of services is Baht 142.03 million. It is higher than the 1st quarter by 7.04% which was aligned with the increasing revenue. The table below illustrated the components of costs of services and their gross profit margin.

Service Costs	30 June 2017		31 March 2017	
	Million Baht	GPM (%)	Million Baht	GPM (%)
Cost of network rendering	96.35	24.85	87.19	25.84
Cost of network installation service	36.85	35.23	36.07	28.59
Cost of data center space service	8.83	53.48	9.43	49.22
Total costs of services	142.03		132.69	

2.1.1. Cost of network rendering

For the three month period ended 30 June 2017, the Company has costs of network rendering for Baht 96.35 million in which resulting to gross profit margin of network rendering service is 24.85%. The gross profit margin of 2017 slightly decreased when compared to 1st quarter of 2017 because of the increasing of conduit rental expense from the operator. The major expenses are such as depreciation expenses, repair and maintenance expenses, rental space to install the network expenses, interconnection of network expenses, and employee benefit expenses which represented 34.07%, 20.43%, 17.30%, 13.41%, and 5.92% of total cost of network rendering for the three month period ended 30 June 2017, respectively.

2.1.2. Cost of network installation service

For the three month period ended 30 June 2017, costs of network installation service are Baht 36.85 million in which resulting to gross profit margin of installation service is 35.23%. The gross profit margin of 2017 increased comparing to 1st quarter of 2017 because the Company got short-term project which was contributed high gross profit margin. The Company's policy is to acquire the project which gross profit margin above 20%. Major costs from network installation service are such as material cost and installation cost.

2.1.3. Cost of data center space service

For the three month period ended 30 June 2017, the Company has cost of data center space service for Baht 8.83 million in which resulting to gross profit margin of data center business is 53.48%. The gross profit margin of 2nd quarter of 2017 increased from 1st quarter of 2017. Major costs are such as depreciation expenses, utilities expenses, and employee benefit expenses.

2.1.4. Gross profit and gross profit margin

For year three month period ended 30 June 2017, the Company has gross margin of Baht 63.07 million increased from 1st quarter of 2017 by Baht 9.10 million. The gross profit margin of 2nd quarter of 2017 is 30.75%. It is higher than 1st quarter of 2017 which has the gross profit margin at 28.91%. This is because of the increase in gross profit margin of installation service as stated above.

2.2. Finance costs

For the three month period ended 30 June 2017, the Company has finance costs of Baht 15.73 million. The finance costs are interest expenses from loans and equipment leasing. As of 30 June 2017, the Company has loans from financial institution amounted to Baht 1,456.02 million and leasing liability amounted to Baht 73.15 million.

2.3. Net income and percentage of net income

Based on the above explanation, the Company's net income for the three month period ended 30 June 2017 is Baht 24.82 million. The net profit margin is 12.04%. It is higher than net profit margin of 1st quarter of 2017 because the Company has more customers and effectively controlled selling and administrative expenses.

2.4. Return on Equity (ROE)

ROE as of 2nd quarter of 2017 is 6.06%.

Financial Position

1. Assets

As at 30 June 2017, the Company has total assets of Baht 3,593.87 million or 7.72% of increasing compared to Baht 3,336.16 million at the end of 2016. Major assets are such as cash and cash equivalent, trade accounts receivable, accrued revenue from network installation service, and fixed assets and telecommunication networks which are presented as at 30 June 2017's figures by 1.38%, 6.09%, 9.16% and 77.04% of total assets, respectively. The significant accounts that are notable changed are such as 1) cash and cash equivalent, decreasing from cash payment for purchases of fixed assets and telecommunication networks 2) trade accounts receivable, increasing in line with sales 3) accrued revenue, increasing according to progress work that still to be billed and 4) fixed assets, increasing from expanding as to support sales, increase its coverage as well as its stability.

2. Liabilities

As at 30 June 2017, the Company has total liabilities of Baht 2,144.03 million or increased by 11.11% comparing to Baht 1,929.57 million at the end of 2016. Mainly, the increasing is from the proceeds from long-term loans from financial institution net-off the deferred financing fee by Baht 242.12 million.

Major liabilities are such as loans from financial institutions and trade accounts payable that they are approximately 67.91% and 27.46% of total liabilities, respectively.

3. Equity

As at 30 June 2017, the Company has equities at Baht 1,449.83 million or increased by 3.07% comparing to Baht 1,406.58 million at the end of 2016. The shareholders' equity increased by Baht 43.25 million as a result of the six month period operation results.

4. Capital Structure

The Company has debt to equity ratio at 1.48 times as at 30 June 2017 that is increased from 1.37 times of 2016. The significant increase is due to the proceeds from long-term loans from financial institution to payment for purchases of fixed assets and telecommunication networks.

In addition, the Company has to comply to 2 conditions of debt covenant as follows.

1) Loans from financial institution to equities and loans from related party must not be greater than 2 times and

2) DSCR must not be less than 1.2 times.

As at 30 June 2017, the Company has the above ratios at 1.48 times and 1.24 times, respectively.

Please be informed accordingly.

Yours sincerely,



Telecom
PUBLIC COMPANY LIMITED



(Mr. Nuttanai Anuntarumporn)
Managing Director