

SC 035/60/SJ

27 February 2017

Subject: Management Discussion and Analysis for the year ended 31 December 2016

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 a policy of the government, Digital Economy, this policy is 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. The digital economy policy is important to help promote the growth of information and communications technology industry (ICT) of Thailand and the Company as well.

For the year ended 31 December 2016, the Company has total revenue of Baht 809.29 million or increasing of 85.24% comparing to the same period of prior year. In addition, the Company has net income of Baht 67.24 million or increasing by Baht 36.58 million or 119.28% and 232.45% comparing to the same periods of prior year as well.

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Analysis of Operating Results

1. Revenues

For the year ended 31 December 2016, the Company has total revenues of Baht 809.29 million in which they were growth for 85.24% as presented below.

Types of Service	31 December 2016		31 December 2015		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Service incomes	805.79	99.57	429.81	98.38	375.98	87.48
Other incomes	3.50	0.43	7.08	1.62	(3.58)	(50.58)
Total revenues	809.29	100.00	436.89	100.00	372.40	85.24

1.1. Service incomes

Type of Service	31 December 2016		31 December 2015		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
1. Service income from network rendering						
- Service income from network rendering	392.96	48.77	273.74	63.69	119.22	43.55
- Other service income	16.97	2.10	6.48	1.51	10.49	161.88
Total service income from network rendering	409.93	50.87	280.22	65.20	129.71	46.29
2. Service income from network installation service						
- Service income from network installation service	333.05	41.33	112.38	26.15	220.67	196.36
- Service income from network connection service	11.44	1.42	12.54	2.91	(1.10)	(8.77)
Total service income from network installation service	344.49	42.75	124.92	29.06	219.57	175.77
3. Service income from data center space service	51.37	6.38	24.67	5.74	26.70	108.23
Total service incomes	805.79	100.00	429.81	100.00	375.98	87.48

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 year ended 31 December 2016, the Company has service income from network rendering for Baht 409.93 million or represented 50.87% of total service income in which combined by service income from network rendering of Baht 392.96 million, and other service income of Baht 16.97 million. The service income from network rendering of 2016 increased from the same period of previous year by Baht 129.71 million or 46.29% because of the increasing of customers. It was because the Company increased the network coverage around 75 provinces to connect to customer premises. In addition, the Company's network is well-known because of the good quality service.

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 year ended 31 December 2016, these services generated revenue for Baht 344.49 million or 42.75% of total service income which can divide to service income from network installation service Baht 333.05 million and service income from network connection service Baht 11.44 million. The major project in 2016 is such as the ongoing project from 2015 that is the improvement of telecommunications network for internet provider has already recognized revenue for Baht 96.13 million in 2016. The other main project is the construction/improvement of telecommunications network for mobile operator which recognized revenue for Baht 81.33 million. It included State Public School Project which recognized revenue for Baht 86.44 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 year ended 31 December 2016, the Company has revenue from data center for Baht 51.37 million or 6.38% of total service income. It significantly increased because there was new customer coming in September 2015 which the Company recognized revenue for 4 months. However, in 2016, the Company recognized revenue for 12 months.

2. Costs and expenses

The major costs of the Company are such as costs of services, selling expenses, administrative expenses, other expenses and finance cost in which for the year ended 31 December 2016, their total amount is Baht 725.21 million.

2.1. Costs of services and gross profit margin

Costs of services are main costs of the Company. For year ended 31 December 2016, their value are Baht 602.92 million is higher than the same periods of 2015 by 104.56%. The increasing in cost of services was aligned with the increasing revenue of 2016. Below is table illustrated the components of costs of services and their relative % of GP.

Service Costs	31 December 2016		31 December 2015	
	Million Baht	Gross Profit Rate (%)	Million Baht	Gross Profit Rate (%)
Cost of network rendering	297.76	24.23	200.09	26.90
Cost of network installation service	273.24	20.68	77.42	38.02
Cost of data center space service	31.92	33.76	17.23	30.17
Total costs of services	602.92		294.74	

2.1.1. Cost of network rendering

For the year ended 31 December 2016, the Company has costs of network rendering for Baht 297.76 million in which resulting to gross profit margin of network rendering service is 24.23%. The gross profit margin of 2016 decreased when compared to 2015 because there are expenses occurring from expanding fiber optic network to cover 75 provinces. The major expenses are such as depreciation expenses, interconnection of network expenses, repair and maintenance expenses, rental space to install the network expenses and employee benefit expenses which represented 34.47%, 19.46%, 13.68%, 10.21% and 6.28% of total cost of network rendering of 2016, respectively.

2.1.2. Cost of network installation service

For the year ended 31 December 2016, costs of network installation service are Baht 273.24 million in which resulting to gross profit margin of installation service is 20.68%. The gross profit margin of 2016 decreased comparing to 2015 because, in 2015, the Company has projects which were contributed high gross profit margin. In 2016, the Company got the State Public School Project which contributed low gross profit margin. However, the projects' average gross profit margin of 2016 complied with the Company's policy which is 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 year ended 31 December 2016, the Company has cost of data center space service for Baht 31.92 million in which resulting to gross profit margin of data center business is 31.92%. The gross profit margin of 2016 increased from 2015 because the Company has more customers. So, the utilization of assets is better in 2016. Major costs are such as depreciation expenses, utilities expenses, and employee benefit expenses.

2.1.4. Gross profit and gross profit margin

For year ended 31 December 2016, the Company has gross margin of Baht 202.88 million increased from 2015 by Baht 67.81 million. The gross profit margin of 2016 is 25.18%. It is lower than 2015 which has the gross profit margin at 31.43%. This is because of the decrease in gross profit margin of installation service as stated above.

2.2. Selling expenses

For the year ended 31 December 2016, the Company has selling expenses of Baht 32.42 million which is 4.69% of total revenues. Selling expenses increased by 34.59% compared to 2015. However, the selling expenses per total revenue are lower than that in 2015, because the Company controlled its expenses more effectively while its revenues are continuously growth. Major selling expenses are such as employee benefit expenses and marketing expenses that they are represented to 43.02% and 18.82%, respectively.

2.3. Administrative expenses

For the year ended 31 December 2016, the Company has administrative expenses of Baht 32.42 million that is higher by 36.06% comparing to the same period of the previous year or equivalent to 4.01 of total revenues. The administrative expenses per total revenue are lower than that in 2015, because the Company controlled its expenses more effectively while its revenues are continuously growth. Major administrative expenses are such as employee benefit expenses, IPO related expenses, professional expenses, and rental expenses which represented to 51.76%, 10.06%, 8.05% and 7.31% of total administrative expenses of 2016.

2.4. Other expenses

For the year ended 31 December 2016, the Company's other expenses are loss from exchange rate which significantly decreased because the Company has set policy to fully hedge by providing forward contract for every imported purchases since September 2015 and implemented effectively.

2.5. Finance costs

For the year ended 31 December 2016, the Company has finance costs of Baht 51.57 million. The finance costs are interest expenses from loans and equipment leasing. As of 31 December 2016, the Company has loans from financial institution amounted to Baht 1,213.90 million and leasing liability amounted to Baht 79.37 million.

2.6. Net income and percentage of net income

Based on the above explanation, the Company's net income for the year ended 31 December 2016 is Baht 67.24 million. The net profit margin is 8.31%. It is higher than net profit margin of 2015 because the Company has more customers and effectively controlled selling and administrative expenses.

2.7. Return on Equity (ROE)

ROE is changed in the same direction of the Company's operation profit or loss. In 2016, the Company's ROE equal to 10.71%, is higher than ROE of 2015 that is 9.92%.

Financial Position

1. Assets

As at 31 December 2016, the Company has total assets of Baht 3,336.16 million or 37.14% of increasing compared to Baht 2,432.59 million at the end of 2015. 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 31 December 2016's figures by 4.12%, 4.72%, 9.11% and 75.65% of total assets, respectively. The significant accounts that are notable increased are such as 1) cash and cash equivalent, increasing from cash funding from IPO 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 31 December 2016, the Company has total liabilities of Baht 1,929.57 million or decreased by 8.45% comparing to Baht 2,107.57 million at the end of 2015. Mainly, the decreasing is from repayment of principles of loans from parent company by Baht 850 million in September and December 2016.

However, the usual liabilities are continuously increased according to need of funding in order to expand the fiber optic network. Major liabilities are such as loans from financial institutions and trade accounts payable that they are approximately 62.91% and 32.32% of total liabilities, respectively.

3. Equity

As at 31 December 2016, the Company has equities at Baht 1,406.59 million or increased by 30.05% comparing to Baht 1,081.57 million at the end of 2015. The increasing is mainly from offering and selling of the Company's shares capital of Baht 200 million (200 million shares at Baht 1 each) at offering price of Baht 5.20. This is resulting to incoming funding of Baht 1,040 million net off with IPO related expenses of Baht 31.22 million, resulting to Baht 200 million as paid-up share capital and Baht 814.94 million of share premium. Other than that, the equity is also increased according to net comprehensive income of Baht 66.62 million for 2016 operation results.

4. Capital Structure

The Company has debt to equity ratio at 1.37 times as at 31 December 2016 that is decreased from 6.48 times of 2015. The significant decreasing is from the followings.

- 1) The offering and selling of the Company's share capital as mentioned in topic 3, resulting to increase in equity by Baht 1,014.94 million.
- 2) Repayment of loans from parent company by Baht 850 million by using fund from IPO, resulting to decrease in total liabilities.

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.

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As at 31 December 2016, the Company has the above ratios at 1.37 times and 1.33 times, respectively.

Please be informed accordingly.

Yours sincerely,



Telecom
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(Mr.Nuttanai Anuntarumporn)

Managing Director