



AIT (VP-SEC) 024E/2019

August 8, 2019

Subject: Management's Discussion and Analysis of Operating Results for Q2-2019

To: The President of The Stock Exchange of Thailand

Summary of Operations Q2- 2019

	Balance by Quarter			Change			
	Q2-19	Q1-19	Q2-18	Q2-19 VS Q1-19		Q2-19 VS Q2-18	
	(Million Baht: MB)			(MB)	%	(MB)	%
Total Revenue	1,730.1	1,266.8	1,029.9	463.3	36.6	700.2	68.0
Total Operating Expenses	1,628.5	1,123.0	928.3	505.5	45.0	700.2	75.4
Profit for the period	69.8	102.8	72.1	(33.0)	(32.1)	(2.3)	(3.2)

In Q2-2019, the company's total revenue increased from Q1-2019 and Q2-2018, representing an increase of 463.3 MB and 700.2 MB or increase of 36.6% and 68.0%, respectively. This is because the Company had delivered many large-scale projects which had just been auctioned in early 2019. Those large-scale projects had delayed their procurement in previous years, such as the High-Speed Internet Service Project in Remote Area and the New Parliament Project in Information and Communication Technology. In addition, there were other large-scale projects such as Core Network Access and SDN project of KrungThai Computer Services Company Limited and the project of CAT Telecom Public Company Limited.

The total operating expenses varied in line with the company's revenue. Comparing the total revenue and the total operating expenses in Q2-2019 with Q1-2019 and Q2-2018, it showed that the change rate had increased in the same direction but the increased rate of the total operating expenses in Q2-2019 was much higher than those two compared quarters that were compared. It showed that the increased rate in revenue was 36.6% while the increased rate of cost was 45.0% compared with Q1-2019 and also the increased rate in revenue was 68.0% while the increased rate of cost was 75.4% compared with Q2-2018, the mainly due to the increased in cost of sales and services of many large-scale projects which their gross margin were low due to a high market competition. In addition, In Q2-2019, there was an additional reserve for employee benefits from the amendments to the law relating to the legal severance pay rates.

While the revenue of Q2-2019 increased from Q1-2019 and Q2-2018, the profit of Q2-2019 had decreased due to the increase in cost of sales and services of many large-scale projects. Furthermore, In Q2-2019, there was an additional reserve for employee benefits from the amendments to the law relating to the legal severance pay rates. As a result, the profit of Q2-2019 decreased.

Operating Results and Profitability

Performance from revenues, costs and expenses which has significant impact in Q2-2019 can be shown in the following table:

	Balance by Quarter			Change			
	Q2-19	Q1-19	Q2-18	Q2-19 VS Q1-19		Q2-19 VS Q2-18	
	(Million Baht: MB)			(MB)	%	(MB)	%
Revenue from Sales, Service and Construction contracts	1,699.0	1,222.5	968.6	476.5	39.0	730.4	75.4
Revenue from Rental income from equipment for lease	27.5	27.3	41.2	0.2	0.7	(13.7)	(33.3)
Cost of Sales, Service and Construction contracts	1,479.0	985.6	790.1	493.4	50.1	688.9	87.2
Administrative expenses	90.7	74.1	72.8	16.6	22.4	17.9	24.6

Revenues and Costs of Sales, Services and Construction contracts

The results of operations of the Company in Q2-2019, which its revenues from sales, services and construction contracts greatly increased from Q1-2019 and Q2-2018 representing an increase of 476.5 MB and 730.4 MB or 40.0% and 75.4%, respectively. This is because during Q2-2019, the Company had delivered many the large-scale projects, such as some parts of the New Parliament Project in Information and Communication Technology and Core Network Access and SDN project of KrungThai Computer Services Company Limited. Therefore, the Company received a higher income.

In term of cost of sales, services and construction contracts for Q2-2019 varied in line with the revenue. However, the increased rate of the cost of Sales and Service was higher than the increased rate of the revenue when compare it with Q1-2019 and Q2-2018. In the other words, the increased rate in revenue was 39.0% while the increased rate of cost was 50.1% compared with Q1-2019 and also the increased rate in revenue was 75.4% while the increased rate of cost was 87.2% compared with Q2-2018. The reason is that in Q2-2019, there was recognition of revenue from many large-scale projects which had a relatively low gross margin. Furthermore, In Q2-2019, there was an additional reserve for employee benefits from the amendments to the law relating to the legal severance pay rates.

Revenue from Rental income from equipment for lease

In Q2-2019, the Revenue from Rental equipment for lease decreased from Q2-2018. This is because the lease of IBM OTCA project had expired in early Q3-2018; as a result, the revenue from rental for Q2-2019 decreased.

Administrative Expenses

Administrative Expenses of Q2–2019 shows the increase of its outstanding from Q1–2019 and Q2–2018 which were in line with the increase in revenue. In addition, In Q2–2019, there was an additional reserve for employee benefits from the amendments to the law relating to the legal severance pay rates.

Financial Analysis of the company

As of June 30, 2019, the Company has financial position that changed from its financial status as of December 31, 2018. The changes are described as follows:

Assets Items that has significant changes	Balance by Quarter		Change	
	Q2–19	Q4–18	Q2–19 VS Q4–18	
	(MB)		(MB)	%
Cash and cash equivalent	479.1	1,265.8	(786.7)	(62.2)
Unbilled receivables	1,183.9	560.2	623.7	111.3
Inventories	1,949.0	268.0	1,681.0	627.2
Advance payment for products and services	17.9	-	17.9	100
Other Current Assets	229.0	186.8	42.2	22.6
Investments in joint ventures	47.2	71.7	(24.5)	(34.2)
Other non-current assets	20.5	33.1	(12.6)	(38.1)
Total Assets	5,405.2	4,272.8	1,132.4	26.5

Assets

As of June 30, 2019, the Company's total assets increased by 1,132.4 MB, representing an increase of 26.5% from 31 December 2018. The increased in total Assets is from the following major changes:

Cash and cash equivalent in Q2–2019 decreased by 786.7 MB, or 62.2%; the main reason is that, in the first half year 2019, there was the investment on many large–scale projects which the Company has just recently received. Those projects were in operation, as the result, cash and cash equivalents decreased.

Unbilled receivables increased 623.7 MB or 111.3%, because the large-scale project that those had been implemented and recognized the revenue by completed of work but not yet reached the invoice. As the result, the unbilled receivables increased.

Inventories increased by 1,681.0 MB, representing an increase of 627.2% due to the investment on many large–scale projects in the first half year 2019, such as the New Parliament Project in Information and Communication Technology, the High–Speed Internet Service Project in Remote Area and the E-ticket project of the Transport Computer Services Company Limited. Those projects were in the process of operation and waiting for delivery and inspection according to the work period.

Advance payment for products and services increased by 17.9 MB, representing an increase of 100% because the advance payment for products and services in Q2–2019 were made. Especially, to the Aluminum ingot for the fabrication project of the Provincial Electricity Authority.

Other current assets increased by 42.2 MB or representing an increase of 22.6%, mainly due to the increase in investment of work in process of large projects, therefore, the Input VAT was higher than the Output VAT.

Investments in joint ventures decreased by 24.5 MB or decrease of 34.2%, due to the recognition of share of loss from the joint venture

Other non-current assets decreased by 12.6 MB or decrease of 38.1%, due to the reduction of maintenance project which was paid in advance

Assets Items that has significant changes	Balance by Quarter		Change	
	Q2–19	Q4–18	Q2–19 VS Q4–18	
	(MB)		(MB)	(MB)
Short-term loans from financial institutions	300.0	-	300.0	100.0
Trade and Other Payables	1,257.1	642.8	614.3	95.6
Income tax payable	17.7	-	17.7	100.0
Advanced receipts from customers	789.8	94.5	695.3	735.8
Other current liabilities	44.3	60.0	(15.7)	(26.2)
Liabilities under finance lease agreements, net of current portion	33.6	44.0	(10.4)	(23.6)
Total liabilities	2,628.5	1,528.1	1,100.4	72.0

Liabilities

As of June 30, 2019, the Company's total liabilities increased by 1,104.4 MB or 72.0 % from December 31, 2018, the reasons for major changes are as follows:

Short-term loans from financial institutions increase by 300.0 MB, representing an increase of 100.0% from Q4–2018. This is because in the first half year 2019, there was an investment in many large-scale projects that were in the process of delivering and inspecting. Therefore, those projects require funding from loans of financial institutions.

Trade accounts payable and other Payables increased by 614.3 MB, representing an increase of 95.6% from Q4–2018. This is because in Q2–2019, the company had purchased products and services of the large-scale project that had not yet been due for payment. Thus, the trade accounts payable increased.

Income tax payable increase by 17.7 MB, representing an increase of 100.0%, this is because, in the year 2018, the withholding tax was higher than an income tax resulting in no income tax payable. While in Q2–2019, the Company's net profit and income tax was higher than withholding tax resulting in accrued income tax payable.



Advanced receipts from customers increased by 695.3 MB, representing an increase of 735.8% from Q4–2018, due to the receiving advance payment from the project which had just implemented in the first half year 2019, especially from the New Parliament Project in Information and Communication Technology.

Other current liabilities decreased by 15.7 MB, representing a decrease of 26.2%, mainly because the decrease of the withholding taxes was waiting to be made in December 2018 and it was already made in January 2019.

Liabilities under finance lease agreements, net of current portion decreased by 10.4 MB, representing a decrease of 23.6%, due to the payment of liabilities under the financial lease agreement according to payment period in the first half year 2019.

Shareholders' Equity

As of June 30, 2019, the Company had total equity equals to 2,776.7 MB, an increase by 32.0 MB from as at December 31, 2018, which equals to 2,744.7 MB, representing an increase of 1.2%. Such an increase came from the profit from operations in the first half year 2019 which decrease the annual dividend payment in Q2–2019.

Sincerely yours,

(Ms. Sarin Chandranipapongse)

Company Secretary

Authorized signature on behalf of the Company