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(Translation)

LTO-2019-0073

8 May 2019

Subject: Submission of the Management Discussion and Analysis based on the Financial Statements for 3-month period ended 31 March 2019

Attention: The President of the Stock Exchange of Thailand

Information and Communication Networks Public Company Limited (“Company”) held the Board of Directors’ Meeting No. 2/2019 on 8 May 2019. The Meeting approved the financial statements for 3-month period ended 31 March 2019, which were reviewed by the Company’s auditor.

We would like to submit the Management Discussion and Analysis based on the financial statements for 3-month period ended 31 March 2019.

Please be informed accordingly.

Sincerely yours,

(Ms. Patnarin Maliwal)  
Chief Financial Officer

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**Executive Summary**

In Q1/2019 the Company reported its total revenue of 256.94 million THB, decreased by 100.90 million THB or 28.20% compared to the same period in year 2018. Major projects had been awarded around the end of 2018 and they were at the early phase so the revenue can only be recognized at the later stage during the year 2019, for instance, High-Speed Internet Service Project in Remote Area (Zone C) and Communication System for Distribution Management System (DMS), etc. While sales revenue of Q1/2019 was at the amount of 256.11 million THB equivalent to 99.68% of total revenue, in Q1/2018 the sales revenue was reported at 357.10 million THB equivalent to 99.79%. In term of cost of sales and SG&A expenses for Q1/2019, it was equivalent to 229.44 million THB or 89.30 % of total revenue compared to last year at the amount of 322.82 Million THB or 90.21%. This reflects a positive development in Q1/2019 due to more efficient in managing project costs leading to higher gross margin. Net profit in Q1/2019 was 21.73 million THB or 8.46% of total revenue excluding the portion from non-controlling interests of the subsidiary. In comparison to the same period of 2018, net profit was reported at 28.43 million THB or 7.95% of total revenue. The decrease derived mainly from the decline in revenue as aforementioned.

Since 2 January 2019, ICN has acquired the common shares of Expert Engineering and Communication Co., Ltd. successfully by holding 51% of its total shares leading to the preparation of consolidated financial statements from this period onwards.

## 1. Business Performance Analysis

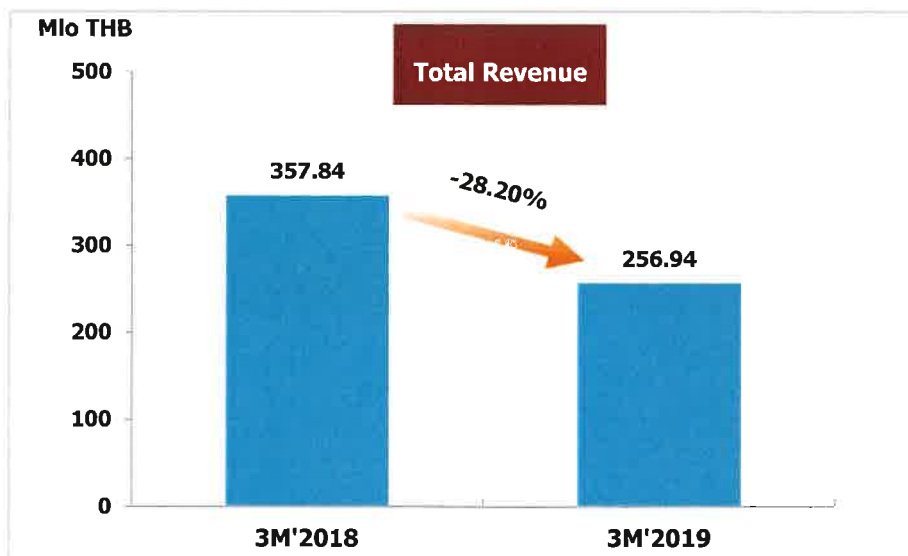
### 1.1 Revenue

For the first three months of 2018 and of 2019 the Company reported its total revenue of 357.84 million THB and 256.94 million THB respectively with the decrease by 28.20% compared to the same period of last year because major projects awarded around end of last year were at the early phase and the revenue recognition can be realized as per its progress, for instance, High-Speed Internet Service Project in Remote Area (Zone C) and Communication System for Distribution Management System (DMS), etc.

Type	Separate		Consolidated	
	Jan.-Mar. 2018		Jan.-Mar. 2019	
	MB	%	MB	%
1. Sales Revenue	357.10	99.79	256.11	99.68
2. Other Revenue*	0.74	0.21	0.83	0.32
<b>Type</b>	<b>357.84</b>	<b>100.00</b>	<b>256.94</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 three months of 2018 and of 2019, sales revenue is accounted for 99.79% and 99.68% of total revenue and other revenue was equivalent to 0.21% and 0.32% respectively.

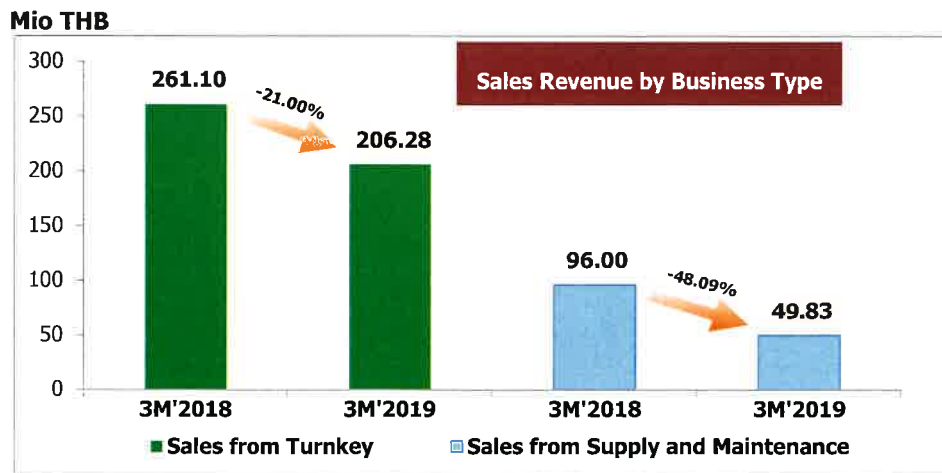


**Sales Revenue**

Sales revenue in the first three months of 2019 consists of turnkey business including telecommunication system and construction and electrical system, supply and maintenance.

Type	Separate		Consolidated	
	Jan.-Mar. 2018		Jan.-Mar. 2019	
	MB	%	MB	%
<b>Sales Revenue</b>				
<b>Sales Revenue from Turnkey Business</b>	<b>261.10</b>	<b>73.12</b>	<b>206.28</b>	<b>80.54</b>
- Sales Revenue from Telecommunication System	261.05	73.10	206.28	80.54
- Sales Revenue from Construction and Electrical System	0.05	0.01	0.00	0.00
<b>Sales Revenue from Supply and Maintenance</b>	<b>96.00</b>	<b>26.88</b>	<b>49.83</b>	<b>19.46</b>
- Sales Revenue from Supply of Telecommunication System	38.57	10.80	13.81	14.07
- Sales Revenue from Maintenance of Telecommunication System	57.43	16.08	36.02	5.39
<b>Total Sales Revenue</b>	<b>357.10</b>	<b>100.00</b>	<b>256.11</b>	<b>100.00</b>

During Q1/2019, sales revenue from turnkey business and supply and maintenance were reported at 206.28 million THB and 49.83 million THB or proportionately at 80.54% and 19.46% of total sales revenue respectively. Sales revenue from turnkey business showed a decrease by 21.00% compared to the same period of last year because major projects, awarded around the end of last year, were at the early phase and the revenue recognition can be realized as per its progress, for instance, High-Speed Internet Service Project in Remote Area (Zone C) and Communication System for Distribution Management System (DMS), etc. In term of revenue from supply and maintenance, it showed a decline by 48.09 compared to the same period last year because a number of supply projects have been delayed and they are under procurement process from customer side.



### Other Revenue

In the first three months of 2018 and of 2019, the Company reported its other revenue at 0.74 million THB and 0.83 million THB respectively, equivalent to 0.21% and 0.32% of total revenue and the major item was interest income.

### 1.2 Cost of Sales and Expenses

Major costs of the Company compose of cost of sales, selling expense, administrative expense and interest expense. In the first three months of 2018 and 2019, the Company showed its cost of sales and expense at 322.82 million THB and 229.44 million THB respectively, proportionately at 90.21% and 89.30% of total revenue.

CoS and Expenses	Separate		Consolidated	
	Jan.-Mar. 2018		Jan.-Mar. 2019	
	MB	%	MB	%
Cost of Sales	303.49	84.81	210.53	81.94
Selling Expense	7.06	1.97	8.04	3.13
Administrative Expense	12.27	3.43	10.87	4.23
Finance Cost	0.00	0.00	0.00	0.00
<b>Total CoS and Expenses</b>	<b>322.82</b>	<b>90.21</b>	<b>229.44</b>	<b>89.30</b>
<b>Total Revenue</b>	<b>357.84</b>	<b>100.00</b>	<b>256.94</b>	<b>100.00</b>

### Cost of Sales

Cost of sales in the first three months of 2018 and of 2019 were 303.49 million THB and 210.53 million THB, resulting in gross margin of 15.01% and 17.80%. 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)	Separate		Consolidated	
	Jan.-Mar. 2018		Jan.-Mar. 2019	
	MB	GM (%)	MB	GM (%)
CoS for Turnkey Business	228.18	12.61	173.04	16.11
CoS for Supply and Maintenance	75.31	21.56	37.49	24.78
<b>Total CoS</b>	<b>303.49</b>	<b>15.01</b>	<b>210.53</b>	<b>17.80</b>

Cost of Sales for Turnkey Business

CoS for Turnkey business were 228.18 million THB in the first three months of 2018 and 173.04 million THB in the first three months of 2019 with the gross margin of 12.61% and 16.11% respectively. The increase of gross margin derived from efficient project cost management.

Cost of Sales for Supply and Maintenance

The Company reported its cost of sales for supply and maintenance for the first three months of 2018 and 2019 at 75.31 million THB and 37.49 million THB respectively with the gross margin 21.56% and 24.78%.

Selling Expenses

In the first three months of 2018 and 2019, the Company reported its selling expenses at 7.06 million THB, and 8.04 million THB, equal to 1.97% and 3.13% of total revenue. The proportion of selling expenses to total revenue was increased due to lower revenue for the first three months compared to last year. Selling expenses consist of personnel related expenses, which are for instance salary, social security, provident fund, etc.

Administrative Expenses

The Company reports its administrative expenses at 12.27 million THB and 10.87 million THB for the first three months of 2018 and of 2019 at the proportion 3.43% and 4.23% of total revenue respectively. Administrative expenses mostly comprise of personnel related expenses, office expenses and professional fees.

**1.3 Net Profit**

As a result of overall business performance, the Company reported its net profit for the first three months of 2018 and 2019 at 28.43 million THB and 21.73 million THB based on the equity holder of the Company respectively, accounted for 7.95% and 8.46% of total revenue. For the first three months of 2019, the net profit was decreased compared to last year mainly because of the decline in revenue.



## 2 Financial Status

### 2.1 Assets

At the end of 2018 and of Q1/2019, the Company reported its total assets of 854.18 million THB and 950.83 million THB respectively. The major asset items are cash and cash equivalents, account receivables, unbilled receivables and restricted bank deposits; at the end of 2018 proportionately at 41.01%, 16.95%, 20.77% and 7.87% of total assets respectively and at Q1/2019 proportionately at 32.28%, 23.12%, 23.63% and 10.83% of total assets. Total current assets are accounted for 90.83% for the year end 2018 and 85.82% for Q1/2019 to total assets.

#### Trade Receivables

At the end of 2018 and Q1/2019, the Company reported net trade receivables 144.65 million THB and 219.70 million THB or equal to 16.93% and 23.11% of total assets respectively.

Outstanding Period	At 31 Dec. 2018		At 31 Mar. 2019 (Consolidated)	
	MB	%	MB	%
<b><u>Trade Receivables</u></b>				
Undue	95.84	66.26	156.37	71.17
Overdue				
Less - equal to 3 months	44.55	30.80	46.70	21.26
More than 3 months but less than 6 months	2.13	1.47	13.89	6.32
More than 6 months but less than 12 months	2.13	1.47	2.74	1.25
<b>Total Trade Receivables</b>	<b>144.65</b>	<b>100.00</b>	<b>219.70</b>	<b>100.00</b>
<b>Deduct Allowance for doubtful debt</b>	-		-	
<b>Trade Receivables - Net</b>	<b>144.65</b>		<b>219.70</b>	

The table depicts that trade receivables in the year 2018 with undue and overdue less or equal to 3 months is at 97.06%, overdue more than 3 months but less than 6 months at 1.47% and overdue more than 6 months but less than 12 months at 1.47% of Net trade receivables.



In Q1/2019, the Company reported the undue and overdue less or equal to 3 months, overdue for 3 to 6 months and overdue between 6 to 12 months at 92.43%, 6.32% and 1.25% of total trade receivables. The overdue trade receivables between 3 to 6 months are still under the process of customer acceptance and final document review though the bill placement was performed.

#### **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 2018 and Q1/2019 at 177.42 million THB and 224.70 million THB or equivalent to 20.77% and 23.63% of total assets respectively because there were some projects under delivery and acceptance as per their scope but not conforming to the billing conditions yet.

#### **Other Current Assets**

Other current assets comprise of prepaid expenses, undue VAT, A/R Revenue Department etc. At the yearend 2018 and Q1/2019, the Company reported other current assets in the amount of 7.91 million THB and 9.39 Million THB respectively. Other current assets in Q1/2019 were mostly from tax related items i.e. undue VAT 4.80 million THB.

#### **Restricted Bank Deposits**

At the yearend 2018 and in Q1/2019, the amount of restricted bank deposits was 67.22 million THB and 102.94 million THB respectively. The change was subject to the credit facilities required for operating the business depending on the requirement in the projects.

## **2.2 Sources of Fund**

#### **Liabilities**

The Company reported its total liabilities at 335.13 million THB at the end of 2018 and 392.92 million in Q1/2019 and the major items are trust receipts and account payables which are regarded as working capital for running the business.

Most of the liabilities are current liabilities with its proportion as at 2018 and in Q1/2019 at 97.91% and 97.93% of total liabilities respectively.

#### **Trust Receipts**

In Q1/2019, the amount was reported at 121.64 million THB due to the loan from bank under domestic letters of credit for the equipment in significant amount.



### Trade and Other Payables

The Company reported its trade and other payables at the end of 2018 and in Q1/2019 at 250.12 million THB and 143.36 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. 2018		At 31 Mar. 2019 (Consolidated)	
	MB	%	MB	%
Trade Payables	233.97	93.54	127.84	89.18
Other Payables	1.51	0.61	0.94	0.65
Trade Payables - Retention	0.48	0.19	1.32	0.92
Accrued Expenses	14.16	5.66	10.34	7.21
Advance received	-	-	2.92	2.04
<b>Total Trade and Other Payables</b>	<b>250.12</b>	<b>100.00</b>	<b>143.36</b>	<b>100.00</b>

The major trade and other payables were 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 reported the unbilled payables at the end of 2018 and in Q1/2019 at 44.95 million THB and 54.93 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 shortly after signing the contract. At the end of 2018 and Q1/2019, the amount for advance receipts from customer were 16.51 million THB and 40.14 million THB respectively. This advance receipts shall be gradually recognized as revenue during the project progress.

### Shareholders' Equity

The shareholders' equity is in the amount of 519.05 million THB at the year end of 2018 and of 543.10 million THB in Q1/2019 which has constantly increased corresponding to the business result of which the legal reserve is accounted for 10.30 million THB and the rest of retained earnings is 152.73 million THB at the end of Q1/2019.

### Funding Structure

D/E ratio of the Company was at 0.65, and 0.72 for the year end 2018 and in Q1/2019 respectively.