



(Translation)

LTO-2019-0138

6 August 2019

Subject: Submission of the Management Discussion and Analysis based on the Financial Statements ended 30 June 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. 4/2019 on 6 August 2019. The Meeting approved the financial statements ended 30 June 2019, which were reviewed by the Company’s auditor.

We would like to submit the Management Discussion and Analysis based on the financial statements ended 30 June 2019.

Please be informed accordingly.

Sincerely yours,

(Ms. Patnarin Maliwal)
Chief Financial Officer

Executive Summary

In the first half year of 2019, the Company reported its total revenue of 455.57 million THB, decreased by 128.61 million THB or 22.02% 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 the first half year of 2019 was at the amount of 453.98 million THB equivalent to 99.65% of total revenue, in the first half year of 2018 the sales revenue was reported at 582.92 million THB equivalent to 99.78%. In term of cost of sales and SG&A expenses for the first half year of 2019, it was equivalent to 409.54 million THB or 89.90 % of total revenue compared to last year at the amount of 527.85 Million THB or 90.36%. This reflects a positive development in Q2/2019 due to more efficient in managing project costs leading to higher gross margin. Net profit for the first half year of 2019 was 36.43 million THB or 8.00% 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 45.39 million THB or 7.77 % of total revenue. The decrease derived mainly from the decline in revenue as aforementioned.

Considering the performance in 2nd quarter of 2019, the Company reports its total revenue at 198.63 million THB categorized into sale revenue at 197.87 million THB and other revenue at 0.76 million THB compared to total revenue of 226.34 million THB in the same period of 2018. Its cost of sales and expenses are at 180.10 Million THB or 90.67% of total revenue in Q2/2019 and at 205.02 million THB or 90.58% of total revenue in Q2/2018. Lastly, net profit is equivalent to 14.70 million THB or 7.40 % of total revenue in Q2/2019 showing a slight decrease when compared with the same period of last year equivalent to 16.95 million THB or 7.49% of total revenue.

For the second half of 2019 the Company anticipates that the announcement of the bidding outcomes from the government and state-enterprise projects in which the Company has partaken and shall remain in participating in bigger-sized project biddings in correspondence to our business plan as well as expanding in information technology and digital technology in the near future which may result in the performance at the yearend as foreseen.

1. Business Performance Analysis

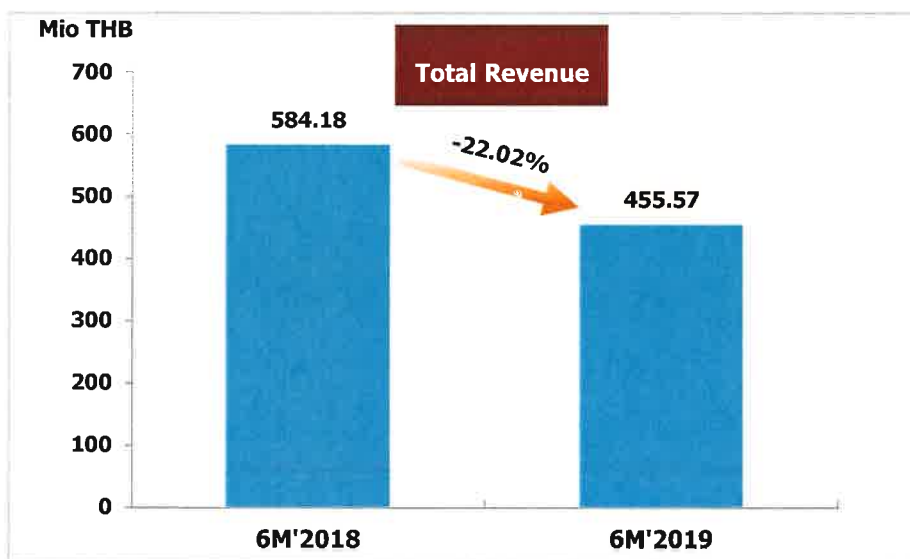
1.1 Revenue

For the first half of the year 2018 and of 2019 the Company reported its total revenue of 584.18 million THB and 455.57 million THB respectively with the decrease by 22.02% 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.-Jun. 2018		Jan.-Jun. 2019	
	MB	%	MB	%
1. Sales Revenue	582.92	99.78	453.98	99.65
2. Other Revenue*	1.26	0.22	1.59	0.35
Total	584.18	100.00	455.57	100.00

Remarks *Other Revenue comprises of interest income, etc.

Total revenue can be categorized into sales revenue and other revenue, whereby in the first half of 2018 and of 2019, sales revenue is accounted for 99.78% and 99.65% of total revenue and other revenue was equivalent to 0.22% and 0.35% respectively.



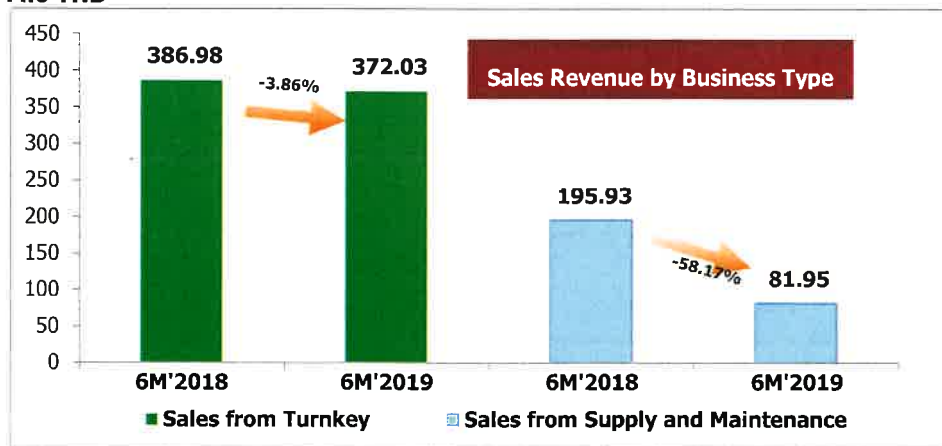
Sales Revenue

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

Type	Separate		Consolidated	
	Jan.-Jun. 2018		Jan.-Jun. 2019	
	MB	%	MB	%
Sales Revenue				
Sales Revenue from Turnkey Business	386.98	66.39	372.03	81.95
- Sales Revenue from Telecommunication System	386.93	66.38	356.78	78.59
- Sales Revenue from Construction and Electrical System	0.05	0.01	15.25	3.36
Sales Revenue from Supply and Maintenance	195.93	33.61	81.95	18.05
- Sales Revenue from Supply of Telecommunication System	86.23	14.79	15.54	3.42
- Sales Revenue from Maintenance of Telecommunication System	109.70	18.82	66.41	14.63
Total Sales Revenue	582.92	100.00	453.98	100.00

During the first half of 2019, sales revenue from turnkey business and supply and maintenance were reported at 372.03 million THB and 81.95 million THB or proportionately at 81.95% and 18.05% of total sales revenue respectively. Sales revenue from turnkey business showed a decrease by 3.86% 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 58.17 compared to the same period last year because the procurement process from the customer side has been delayed from the 2nd quarter; however, this is expected to be finalized within this business year.

Mio THB



Other Revenue

In the first half of 2018 and of 2019, the Company reported its other revenue at 1.26 million THB and 1.59 million THB respectively, equivalent to 0.22% and 0.35% 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 half of 2018 and 2019, the Company showed its cost of sales and expense at 527.85 million THB and 409.54 million THB respectively, proportionately at 90.36% and 89.90% of total revenue.

CoS and Expenses	Separate		Consolidated	
	Jan.-Jun. 2018		Jan.-Jun. 2019	
	MB	%	MB	%
Cost of Sales	491.63	84.16	373.28	81.94
Selling Expense	13.93	2.39	15.35	3.37
Administrative Expense	22.28	3.81	20.91	4.59
Finance Cost	0.01	0.00	-	-
Total CoS and Expenses	527.85	90.36	409.54	89.90
Total Revenue	584.18	100.00	455.57	100.00

Cost of Sales

Cost of sales in the first half of 2018 and of 2019 were 491.63 million THB and 373.28 million THB, resulting in gross margin of 15.66% and 17.78%. 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.-Jun. 2018		Jan.-Jun. 2019	
	MB	GM (%)	MB	GM (%)
CoS for Turnkey Business	332.62	14.05	310.56	16.52
CoS for Supply and Maintenance	159.01	18.85	62.72	23.46
Total CoS	491.63	15.66	373.28	17.78

Selling Expenses

In the first half of 2018 and 2019, the Company reported its selling expenses at 13.93 million THB, and 15.35 million THB, equal to 2.38% and 3.37% of total revenue. The proportion of selling expenses to total revenue was increased due to lower revenue for the first six 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 22.28 million THB and 20.91 million THB for the first half of 2018 and of 2019 at the proportion 3.81% and 4.59% 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 half of 2018 and 2019 at 45.39 million THB and 36.43 million THB based on the equity holder of the Company respectively, accounted for 7.77% and 8.00% of total revenue. For the first half 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 Q2/2019, the Company reports its total assets of 854.18 million THB and 832.95 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 Q2/2019 proportionately at 24.38%, 20.87%, 28.00% and 13.78% of total assets. Total current assets are accounted for 90.83% for the yearend 2018 and 82.49% for Q2/2019 to total assets.

Trade Receivables

At the end of 2018 and Q2/2019, the Company reported net trade receivables 144.65 million THB and 173.66 million THB or equal to 16.93% and 20.85% of total assets respectively.

Outstanding Period	At 31 Dec. 2018		At 30 Jun. 2019 (Consolidated)	
	MB	%	MB	%
Trade Receivables				
Undue	95.84	66.26	23.31	13.42
Overdue				
Less - equal to 3 months	44.55	30.80	118.75	66.38
More than 3 months but less than 6 months	2.13	1.47	14.96	6.62
More than 6 months but less than 12 months	2.13	1.47	16.60	9.56
Over 12 months	-	-	0.04	0.02
Total Trade Receivables	144.65	100.00	173.66	100.00
Deduct Allowance for doubtful debt	-		-	
Trade Receivables - Net	144.65		173.66	

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 Q2/2019, the Company reported the undue and overdue less or equal to 3 months, overdue for 3 to 6 months, overdue between 6 to 12 months and over 12 months at 81.80%, 8.62%, 9.56% and 0.02% of net trade receivables. However, most of the overdue items between 6 to 12 months have been collected in July 2019 and the rest is under payment process by the customer which should be settled soon.

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 Q2/2019 at 177.42 million THB and 233.23 million THB or equivalent to 20.77% and 28.00% 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 Q2/2019, the Company reported other current assets in the amount of 7.91 million THB and 16.97 Million THB respectively. Other current assets in Q2/2019 were mostly from prepaid expenses 5.44 million THB, A/R Revenue Department from VAT 6.73 million THB.

Restricted Bank Deposits

At the yearend 2018 and in Q2/2019, the amount of restricted bank deposits was 67.22 million THB and 114.76 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 300.79 million in Q2/2019 and the major items are trade and other 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 2018 and in Q2/2019 at 97.91% and 97.02% of total liabilities respectively.

Short term loans from financial institutions

In Q2/2019, the Company reports its short term loans from financial institutions of 18.77 million THB. The major item is trust receipts 14.01 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 Q2/2019 at 250.12 million THB and 157.96 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 30 Jun. 2019 (Consolidated)	
	MB	%	MB	%
Trade Payables	233.97	93.54	140.89	89.19
Other Payables	1.51	0.60	1.95	1.23
Trade Payables - Retention	0.48	0.20	2.98	1.89
Accrued Expenses	14.16	5.66	9.22	5.84
Advance received	-	-	2.92	1.85
Total Trade and Other Payables	250.12	100.00	157.96	100.00

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 Q2/2019 at 44.95 million THB and 24.81 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 Q2/2019, the amount for advance receipts from customer were 16.51 million THB and 71.37 million THB respectively, whereby the major portion of advance receipt in 2019 was from High-Speed Internet Service Project in Remote Area (Zone C). 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 517.30 million THB in Q2/2019 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 126.94 million THB after deducting dividend payment amounting to 40.50 million THB in Q2/2019.

Funding Structure

D/E ratio of the Company was at 0.65, and 0.58 for the year end 2018 and in Q2/2019 respectively.