



AIT (VP-SEC) 026E/2020

August 10, 2020

Subject: Management's Discussion and Analysis of Operating Results for Q2-2020

To: The President of The Stock Exchange of Thailand

**Summary of Operations Q2- 2020**

	Balance by Quarter			Change			
	Q2-20	Q1-20	Q2-19	Q2-20 VS Q1-20		Q2-20 VS Q2-19	
	(Million Baht: MB)			(MB)	%	(MB)	%
Total Revenue	1,187.6	1,231.7	1,729.6	(44.1)	(3.6)	(542.0)	(31.3)
Total Operating Expenses	1,112.0	1,148.8	1,628.5	(36.8)	(3.2)	(516.5)	(31.7)
Profit for the period	50.4	59.7	69.8	(9.3)	(15.6)	(19.4)	(27.8)

The effects of COVID-19 are more severe than expected. Overall, the Thai economy in 2020 tends to contraction more than expected. The decreased domestic and foreign demand resulted in a strong contraction in private investment and it also still contracted in almost all components except government expenses. The government expenses play a key role to support the Thai economy in 2020 and earmarked to better help the economy in the next phase. It is expected that the government will accelerate the budget disbursement for the year 2020 remaining period. Including, restructuring of the expenditure budget for economic recovery through the Transferring of Budget Act 2020. However, the investment expenditure of state enterprises is likely to expand, which will be a key player to stimulate the economy in the long term.

In Q2-2020, the company's total revenue slightly decreased form Q1-2020, representing a decrease of 44.1 MB or 3.6% due to being in the effect of COVID-19. However, it considerably decreased compared to Q2-2020, representing a decrease of 542.0 MB or 31.3%. This is because in Q2-2020, the Company was affected by the ongoing outbreak of COVID-19 which caused the customers to change the work methods resulting in the delay in delivery and inspection of equipment or project. As a result, the revenue recognition in Q2-2020 decreased.

In terms of total operating expenses in Q2-2020, it decreased in line with the decreased in revenue at a very similar rate when compare to Q1-2020 and Q2-2019. The reason for the similar of decreased rate was due to the gross profit of the delivered projects in Q2-2020 higher than those of Q2-2019, but the selling and administrative expenses in Q2-2020 was higher than those of Q2-2019. As a result, the change rate in total operating expenses was similar to the change rate in total revenue.

In terms of the profit of the Company for Q2-2020, it had a lower change rate than the change rate in revenue when compare to Q1-2020. This is because there were higher selling and administrative expenses (SG&A) in Q2-2020 due to the provision of doubtful accounts for long-time outstanding receivables in accordance with IFRS 9 (Financial

Instruments), which was partly due to the effect of COVID-19 causing the receivables to postpone payment; but when compare the change rate of profit in Q2–2020 to Q2–2019, it found that the change rate of its profit was less than the change rate in revenue. This is because the revenue recognition projects in Q2–2020 have a higher gross margin that can be covered the increased SG&A expenses.

### Operating Results and Capabilities to Make Profit

Performance from revenues, costs and expenses which has significant impact in Q2-2020 can be shown in the following table:

	Balance by Quarter			Change			
	Q2–20	Q1–20	Q2–19	Q2–20 VS Q1–20		Q2–20 VS Q2–19	
	(Million Baht: MB)			(MB)	%	(MB)	%
Revenue from Sales and Service	1,137.4	1,187.1	1,699.0	(49.7)	(4.2)	(561.6)	(33.1)
Other revenue	19.7	11.8	3.1	7.9	66.9	16.6	535.5
Cost of Sales and Service	909.4	998.7	1,479.0	(89.3)	(8.9)	(569.6)	(38.5)
Administrative expenses	125.6	79.7	90.7	45.9	57.6	34.9	38.5

#### Revenues and Costs of Sales and Services

The results of operations of the Company in Q2–2020, which had revenues from sales and services slightly decreased from Q1–2020 but it significantly decreased from Q2–2019. This is because several projects in Q2–2020 were affected by the ongoing outbreak of COVID–19, forcing many customers to adjust their working method which have an effect on the operation and delivery of the Company's projects that cause the operation to be delayed than usual. As a result, the revenue recognition in Q2–2020 had also decreased.

Cost of Sales and Services for Q2–2020 had changed in the same direction as the change in revenue. However, the decreased rate in cost of sales and services in Q2–2020 compare to Q2–2019, it found that the decreased of those were 38.5% which were greater than the decreased rate in revenues were 33.1%. This is because the delivered projects in Q2–2020 had higher gross margins than the delivered projects in Q2–2019.

#### Other revenue

Other revenue in Q2–2020 increased from Q1–2020 and Q2–2019. The reason is that in Q2–2020, the Company received revenue from sales promotion from suppliers and reversed penalty on project delay that were fined in the previous year. As the result, the other revenue in Q2–2020 was higher than Q1–2020 and Q2–2019

#### Administrative Expenses

Administrative Expenses in Q2–2020 increased from Q1–2020 and Q2–2019, mainly due to the recording of allowance for doubtful accounts for long outstanding receivables in Q2–2020.

## Financial Analysis of the company

As of June 30, 2020, the Company has financial position that changed from its financial status as of December 31, 2019.

The changes are described as follows:

Assets Items that has significant changes	Balance by Quarter		Change	
	Q2-20	Q4-19	Q2-20 VS Q4-19	
	(MB)		(MB)	%
Cash and cash equivalent	157.1	190.2	(33.1)	(17.4)
Inventories	1,675.8	745.9	929.9	124.7
Advance payment for products and services	82.7	156.4	(73.7)	(47.1)
Other Current Assets	239.5	150.8	88.7	58.8
Right of Use Assets	26.3	-	26.3	100.0
Other non-current assets	69.9	49.3	20.6	41.8
Total Assets	6,843.0	5,728.6	1,114.4	19.5

### Assets

As of June 30, 2020, the Company's total assets increased by 1,114.4 MB, representing an increase of 19.5% from 31 December 2019. The increase in total Assets comes from the following major changes:

Cash and cash equivalent decreased by 33.1 MB, representing a decrease of 17.4%, mainly due to the investment in several large-scale projects during the first half year 2020. Those large-scale projects were under operation, thus the cash and cash equivalents decreased.

Inventories increased by 929.9 MB, representing an increase of 124.7% due to the investment in several large-scale projects during the first half year 2020, such as the D-ticket Project of State Railway of Thailand, the High-Speed Internet Service Project in Remote Area (USO), the New Network SDN Project of Government Savings Bank and the New Parliament Project in Information and Communication Technology, which those are still in process but have not yet completed according to the achievement stage, therefore those projects cannot be delivered. In addition, the ongoing outbreak of COVID-19 had hindered operations, resulting in the increased inventories.

Advance payment for products and services decreased by 73.7 MB, representing a decrease of 47.1% because in the first half year 2020, the Company received the product that had been paid in advance. As the result, the advance payment for products and services decreased.

Other current assets increased by 88.7 MB or representing an increase of 58.8% due to an increase in purchase tax for investments in several large-scale projects. In addition, there was also an increase in the prepaid project maintenance fee in Q2-2020.

Right of Use Assets increased by 26.3 MB or representing an increase of 100.0% due to the implementation of TFRS16 in 2020. It requires the renter to recognize assets and liabilities for every lease with a lease period of more than 12 months, unless the underlying asset is low.

Other non-current assets increased by 20.6 MB or representing an increase of 41.8%, mainly due to the project maintenance fee, which paid in advance and covered more than one year of insurance.

Assets Items that has significant changes	Balance by Quarter		Change	
	Q2-20	Q4-19	Q2-20 VS Q4-19	
	(MB)		(MB)	(MB)
Short-term loan from finance institution	1,050.0	400.0	650.0	162.5
Trust receipt	189.5	-	189.5	100.0
Trade and Other Payables	1,243.0	738.5	504.5	68.3
Unbilled payables	592.0	713.5	(121.5)	(17.0)
Current portion of liabilities under financial arrangement agreements	152.7	42.6	110.1	258.5
Current portion of lease liabilities	9.3	-	9.3	100.0
Income tax payable	13.3	32.4	(19.1)	(59.0)
Provision for penalty on projects delay	77.1	115.5	(38.4)	(33.3)
Current portion of liabilities under financial arrangement agreements - net of current portion	76.2	62.9	13.3	21.1
Lease liabilities - net of current portion	17.2	-	17.2	100.0
Provision for long-term employee benefits	135.2	97.8	37.4	38.2
Total liabilities	4,150.4	2,842.7	1,307.7	46.0

### Liabilities

As of June 30, 2020, the Company's total liabilities increased by 1,307.7 MB or 46.0% from December 31, 2019. The increase in total liabilities was due to the significant changes as follows:

Short-term loan from finance institution increased by 650.0 MB, representing an increase of 162.5% and Trust Receipt increased by 189.5 MB, representing an increase of 100% because during the first half year 2020, there were several investments in large-scale projects which were under operation. In addition, those were still in the process of receiving payments from receivables. Therefore, the company must use additional sources of funds from loans from finance institutions to operate the projects.

Trade and other Payables increased by 504.5 MB, representing an increase of 68.3% because in Q2-2020, the Company had purchased products and services of the large-scale project that had not yet been due for payment, resulting in the increase of its trade accounts payable.

Unbilled Payables decreased by 121.5 MB, representing a decrease of 17.0%. The reason is that the delivered projects in Q2-2020 had been slowed down because of the ongoing outbreak of COVID-19, leading to the obstacles to our operations. Therefore, unbilled payables decreased when it compared to the Q4-2019.



Liabilities under financial arrangement agreements (Both the Current portion and the Net of current portion) increased by 123.4 MB because during Q2-2020, the Company entered into an additional financial arrangement agreement for a new project in which the supplier conditions for payment in leasing installments.

Income tax payable decreased by 19.1 MB, representing a decrease of 59.0% because the annual tax payment of the year 2019 was paid during Q2-2020, thus the income tax payable has been decreased.

Provision for penalty on projects delay decreased 38.4 MB, representing a decrease of 33.33% because the recorded penalty on projects delay were paid during Q2-2020, thus the Provision for penalty on projects delay has been decreased.

Lease liabilities (Both the Current portion and the Net of current portion) increased by 26.5 MB, due to the implementation of TFRS16 in 2020.

Provision for long-term employee benefits increased by 37.4 MB, representing an increase of 38.2%, this is because the discount rate for calculating liabilities with long-term employee benefits which was based on the interest rate of the long-term bonds had extremely decreased. The Company has re-evaluated the provision for long-term employee benefits in the first half year 2020. As a result, the Company has to set more provision on employee benefits.

#### **Shareholders' Equity**

As of June 30, 2020, the Company had total equity equals to 2,692.7 MB, a decrease by 193.2 MB from as at December 31, 2019, which equals to 2,885.9 MB, a decrease of 6.7% such a decrease came from the annual dividend payment in Q2-2020 which decreases the profit from operations in the first half year 2020.

Sincerely yours,

(Ms. Sarin Chandranipapongse)

Company Secretary

Authorized signature on behalf of the Company