

SC. 032/63/SJ

10 November 2020

Subject: Management Discussion and Analysis for the three-month period ended 30 September 2020

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**

Interlink Telecom Public Company Limited ("the Company") operates in telecommunication business by providing telecommunication services through nationwide fiber optic network, providing installation of telecommunication infrastructure, and providing data center space service. 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 improvement and equipment as to provide data center space services for companies and organizations according to their needs. The data center service has been operated in October 2014.

According to the policies of the government, Digital Economy and Thailand 4.0, they are 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. These policies are important to help promote the growth of information and communications technology industry (ICT) of Thailand and the Company as well.

For the three-month period ended 30 September 2020, the Company has total revenue of Baht 475.78 million or decreasing by Baht 274.93 million or 36.62% comparing to the same period of prior year. In addition, the Company has net income of Baht 49.96 million or increasing by Baht 1.57 million or 3.24% comparing to the same period of prior year as well.



## Analysis of Operating Results

### 1. Revenues

For the three-month period ended 30 September 2020, the Company has total revenues of Baht 475.78 million in which they were decreased from the prior year by Baht 274.93 million or 36.62% as presented table below.

Types of Service	30 September 2020		30 September 2019		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Service income	471.75	99.15	746.14	99.39	(274.39)	(36.77)
Other income	4.03	0.85	4.57	0.61	(0.54)	(11.82)
<b>Total revenues</b>	<b>475.78</b>	<b>100.00</b>	<b>750.71</b>	<b>100.00</b>	<b>(274.93)</b>	<b>(36.62)</b>

#### 1.1. Service incomes

Type of Service	30 September 2020		30 September 2019		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
1. Service income from network rendering	284.49	60.31	214.03	28.69	70.46	32.92
2. Service income from network installation	164.89	34.95	505.83	67.79	(340.94)	(67.40)
3. Service income from data center space	22.37	4.74	26.28	3.52	(3.91)	(14.88)
<b>Total service incomes</b>	<b>471.75</b>	<b>100.00</b>	<b>746.14</b>	<b>100.00</b>	<b>(274.39)</b>	<b>(36.77)</b>

Service incomes are divided into 3 categories as following:

#### 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 Dark Fiber, and Interlink IPLC which the Company has started the services since September 2013.

For the three-month period ended 30 September 2020, the Company had service income from network rendering for Baht 284.49 million or represented 60.31% of total service incomes. The service income increased from 2019 by Baht 70.46 million or 32.92% because of the Company started to recognize service income of the project of providing high-speed internet service in remote area (USO Phase 2).



### 1.1.2. Service income from network installation

Service income from network installation is related to the construction of telecommunication hi-speed network and is categorized into 2 types as following:

1) Service income from network installation in which recognizes revenue when the Company satisfies a performance obligation by transferring services to customers over time in accordance with term of each service contract with customers.

2) Service income from network connection in which recognizes revenue once the service has been completed.

For the three-month period ended 30 September 2020, these services generated revenue for Baht 164.89 million or 34.95% of total service income. The service income decreased from prior year Baht 340.94 million or 67.40% due to the major projects of this period are such as the project of purchase and installation of fiber optic cable distance of 3,140 Km. which recognized revenue of Baht 68 million, the project of providing high-speed internet service in remote area (USO Phase 2) which recognized revenue of Baht 42 million, and a contract for the installation of a fiber optic network of a telecommunication service provider Baht 27 million.

### 1.1.3. Service income from data center space

For the three-month period ended 30 September 2020, the Company had service income from data center space of Baht 22.37 million or 4.74% of total service income. It decreased because of the decreasing of electricity income.

## 2. Costs and expenses

The major costs of the Company are such as costs of services, service expenses, administrative expenses, and finance cost. For the three-month period ended 30 September 2020, the total costs and expenses was Baht 411.67 million as following:

### 2.1. Costs of services and gross profit margin

Costs of services are main expenses of the Company. For the three-month period ended 30 September 2020, cost of services was Baht 345.38 million. It was lower than the prior year by 44.66% which was aligned with the decreasing of service income from network installation. The table below illustrated the components of costs of services and their gross profit margin.

Service Costs	30 September 2020		30 September 2019	
	Million Baht	GPM (%)	Million Baht	GPM (%)
Cost of network rendering	186.49	34.45	180.08	15.86
Cost of network installation service	144.05	12.64	426.25	15.73
Cost of data center space service	14.84	33.66	17.74	32.48
<b>Total costs of services</b>	<b>345.38</b>		<b>624.07</b>	

#### 2.1.1. Cost of network rendering

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For the three-month period ended 30 September 2020, the Company had cost of network rendering of Baht 186.49 million in which resulting to gross profit margin of network rendering service was at 34.45% which increased comparing to the prior year. The major expenses are such as depreciation expenses, repair and maintenance expenses, interconnection of network expenses, rental space to install the network expenses, and employee benefit expenses which represented 30.15%, 14.55%, 14.01%, 9.99%, and 4.80% of total cost of network rendering for the three-month period ended 30 September 2020, respectively. The cost of service for USO is equal to 20.29% of total cost of network rendering.

#### 2.1.2. Cost of network installation service

For the three-month period ended 30 September 2020, the Company had cost of network installation service of Baht 144.05 million in which resulting to gross profit margin of installation service was at 12.64%. The gross profit margin of 2020 decreased comparing to prior year because the project of purchase and installation of fiber optic cable distance of 3,140 Km. which the Company recognized installation portion with lower gross profit margin about 10%. Major costs of network installation service are such as material cost and installation cost.

#### 2.1.3. Cost of data center space service

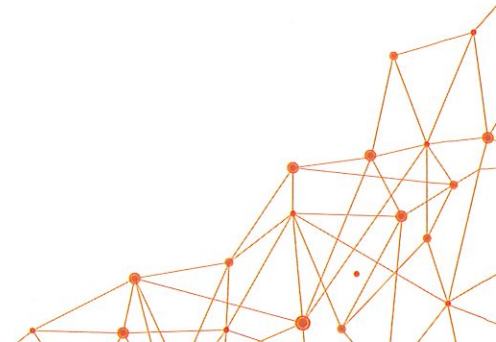
For the three-month period ended 30 September 2020, the Company had cost of data center space service of Baht 22.37 million in which resulting to gross profit margin of data center business was at 33.66% slightly increased from prior year. Major costs of data center space service are such as depreciation expenses, utilities expenses, employee benefit expenses, and repair & maintenance expenses.

#### 2.1.4. Gross profit and gross profit margin

For the three-month period ended 30 September 2020, the Company had gross profit of Baht 126.37 million which the gross profit margin was at 26.79%. The gross profit margin was increased by comparing to the prior year which has the gross profit of September 2019 was Baht 122.07 million and the gross profit margin was at 16.36%. The increase derived from gross profit margin for each type of service as stated above.

### 2.2. Finance costs

For the three-month period ended 30 September 2020, the Company had finance costs of Baht 39.03 million. The major of finance costs are interest expenses from loans that increasing in the line with loan principal amount. As of 30 September 2020, the Company had short-term loans from financial institutions amounted to Baht 2,057.12 million, long-term loans from financial institutions amounted to Baht 1,824.02 million, and finance lease liabilities amounted to Baht 220.85 million (Q3'2020: short-term loans from financial institutions amounted to Baht 2,201.04 million, long-term loans from financial institutions amounted to Baht 1,477.13 million, and finance lease liabilities amounted to Baht 54.87 million).



### 2.3. Net profit and net profit margin

The Company's net profit for the three-month period ended 30 September 2020 was Baht 49.96 million and the net profit margin was at 10.50% in which they were higher than that in the same period in 2019 which net profit was Baht 48.39 million and the net profit margin was at 6.44%. The increase mainly because of growth of service income as described above.

### Financial Position (Equity Method)

#### 1. Assets

As at 30 September 2020, the Company had total assets of Baht 6,764.39 million or 2.15% of increasing compared to Baht 6,621.87 million at the end of 2019. Major assets are such as trade and other receivables, work in process, accrued revenue from network installation service, accrued income from network rendering, fixed assets and telecommunication networks, and right-of-use assets which were presented as at 30 September 2020's figures by 7.05%, 3.27%, 17.43%, 6.24%, 56.69% and 3.85% of total assets, respectively. The significant accounts that were notable changed were such as

- 1) Trade and other receivables increased from billing the project of providing high-speed internet service in remote area (USO Phase 2).
- 2) Work in process, increasing according the receiving of USO phase 2 project stock which were in progress of installation;
- 3) Accrued revenue from network installation service, decreasing according to complete work but not yet billed. The Company recognized service income from network installation Baht 472.70 million, and billed to customers in the amount of Baht 577.10 million;
- 4) Accrued revenue from network rendering increasing as a result of rendering service of USO Phase 1 and USO Phase 2 not yet billed;
- 5) Fixed assets and telecommunication networks, increasing from expanding as to support sales and increase its coverage as well as its stability. However, there is reclassification of assets to comply with adoption of TFRS 16 to right-of-use assets by Baht 100.93 million; and
- 6) Right-of-use assets which is impacts of adoption of TFRS 16.

#### 2. Liabilities

As at 30 September 2020, the Company had total liabilities of Baht 4,907.56 million or decreased by 0.05% comparing to Baht 4,910.17 million of the end of 2019. Mainly, the change is from the adoption of TFRS 16 which caused leasing liabilities to increase by Baht 153.57 million, the proceeds from long-term loans from financial institution by Baht 63.05 million, and the repayment of long-term loans from financial institutions by Baht 129.53 million and trade and other payables by Baht 91.68 million. In addition, the Company had extended the repayment period of long-term borrowing agreement for one year in 2<sup>nd</sup> quarter of 2020.

Major liabilities are such as short-term and long-term loans from financial institutions and trade and other payables that they are approximately 79.09% and 14.61% of total liabilities as at 30 September 2020, respectively

### 3. Equity

As at 30 September 2020, the Company had equities of Baht 1,856.84 million or increased by 8.48% comparing to Baht 1,711.70 million at the end of 2019. The shareholders' equity increased by Baht 147.85 million as a result of the nine-month period ended 30 September 2020. The Company has adopted the new Thai Financial Reporting Standards (TFRS) from 1 January 2020 under the modified retrospective approach and the comparative figures have not been restated. The opening balance of retained earnings was decreased by Baht 2.71 million.

### 4. Capital Structure

The Company had debt to equity ratio at 2.64 times as at 30 September 2020 that is decreased from 2.87 times of 2019 because of positive operation in 2020 and repayment partial of loan which is collected from network installation service. In addition, the Company had debt exclude project finance to equity ratio at 1.87 times as at 30 September 2020 comparing to 1.91 times as at the end of 2019.

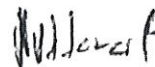
In addition, the Company had to comply to 2 conditions of debt covenant as follows:

- 1) Loans from financial institution to equities and loans from related party must not be greater than 2.5 times; and
- 2) DSCR must not be less than 1.2 times.

As at 30 September 2020, the Company had complied ratios at 2.21 times and 1.21 times, respectively. However, the financial institution will evaluate at the end of fiscal year.

Please be informed accordingly.

Yours sincerely,



(Mr. Nuttanai Anuntarumporn)

Chief Executive officer