

SC. 023/61/SJ

26 February 2018

Subject: Management Discussion and Analysis for the year ended 31 December 2017

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**

The Company operates in telecommunication business by providing telecommunication services through nationwide fiber optic network and providing installation of telecommunication infrastructure. 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 and equipment as to provide data center space services for companies and organizations according to their needs. The data center services have 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 year ended 31 December 2017, the Company has total revenue of Baht 1,081.25 million or increasing by Baht 271.96 million or 33.60% comparing to the same period of prior year. In addition, the Company has net income of Baht 101.78 million or increasing by Baht 35.16 million or 52.77% comparing to the same periods of prior year as well.

## Analysis of Operating Results

### 1. Revenues

For the year ended 31 December 2017, the Company has total revenues of Baht 1,081.25 million in which they were increased from the prior year by Baht 271.96 million or 33.60% as presented table below.

Types of Service	31 December 2017		31 December 2016		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Service incomes	1,076.60	99.57	805.79	99.58	270.81	33.61
Other incomes	4.65	0.43	3.50	0.42	1.15	32.97
<b>Total revenues</b>	<b>1,081.25</b>	<b>100.00</b>	<b>809.29</b>	<b>100.00</b>	<b>271.96</b>	<b>33.60</b>

#### 1.1. Service incomes

Type of Service	31 December 2017		31 December 2016		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
1. Service income from network rendering						
- Service income from network rendering	512.77	47.63	392.96	48.77	119.81	30.49
- Other service income	4.51	0.42	4.57	0.57	(0.06)	(1.31)
Total service income from network rendering	<b>517.28</b>	<b>48.05</b>	<b>397.53</b>	<b>49.34</b>	<b>119.75</b>	<b>30.12</b>
2. Service income from network installation service						
- Service income from network installation service	465.81	43.27	333.05	41.33	132.76	39.86
- Service income from network connection service	13.95	1.29	11.44	1.42	2.51	21.94
Total service income from network installation service	<b>479.76</b>	<b>44.56</b>	<b>344.49</b>	<b>42.75</b>	<b>135.27</b>	<b>39.27</b>
3. Service income from data center space service						
- Service income from data center space service	61.31	5.69	51.37	6.37	9.94	19.35
- Other service income	18.25	1.70	12.40	1.54	5.85	47.18
Total Service income from data center space service	<b>79.56</b>	<b>7.39</b>	<b>63.77</b>	<b>7.91</b>	<b>15.79</b>	<b>24.76</b>
<b>Total service incomes</b>	<b>1,076.60</b>	<b>100.00</b>	<b>805.79</b>	<b>100.00</b>	<b>270.81</b>	<b>33.61</b>

Service incomes are divided into 3 categories as follows.

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

For the year ended 31 December 2017, the Company has service income from network rendering for Baht 517.28 million or represented 48.05% of total service income in which combined by service income from network rendering of Baht 512.77 million, and other service income of Baht 4.51 million. The service income from network rendering of 2017 increased from 2016 by Baht 119.75 million or 30.12% because of the increasing of customers which is the normal growth in every quarter.

#### 1.1.2. Service income from network installation service

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

- 1) Service income from network installation service in which recognizes revenue by percentage of completion according to cost to cost method
- 2) Service income from network connection service in which recognizes revenue once the service has been completed.

For the year ended 31 December 2017, these services generated revenue for Baht 479.76 million or 44.56% of total service income which can divide to service income from network installation service Baht 465.81 million and service income from network connection service Baht 13.95 million. The major projects are the improvement of telecommunications network for internet provider which recognized revenue for Baht 26.05 million, the construction/improvement of telecommunications network for mobile operator which recognized revenue for Baht 53.11 million, the Pracharat internet by TOT which recognized revenue for Baht 35.73 million, the installation of mini outdoor OLT which recognized revenue for Baht 13.81 million, the 24 hours preventive maintenance of fiber optic network for North and South which recognized revenue for Baht 16.72 million, and the project of providing mobile broadband and high-speed internet service in border area Group 4 and 5 which recognized revenue for Baht 295.25 million.

#### 1.1.3. Service income from data center space service

The Company has operated data center space service in October 2014 after acquiring assets from ILINK.

For the year ended 31 December 2017, the Company has revenue from data center spare service for Baht 79.56 million or 7.39% of total service income. It increased because the electricity charged to customers and a new customer acquired during Quarter 1 of 2017. The occupancy rate of data center is 95%.

## 2. Costs and expenses

The major costs of the Company are such as costs of services, selling expenses, administrative expenses, and finance cost. For the year ended 31 December 2017, the total costs and expenses is Baht 978.85 million.

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

Costs of services are main expenses of the Company. For the year ended 31 December 2017, Cost of services is Baht 801.04 million. It is higher than the prior year by 32.86% which was aligned with the increasing revenue. The table below illustrated the components of costs of services and their gross profit margin.

Service Costs	31 December 2017		31 December 2016	
	Million Baht	GPM (%)	Million Baht	GPM (%)
Cost of network rendering	387.29	25.13	297.76	25.10
Cost of network installation service	373.89	22.07	273.24	20.68
Cost of data center space service	39.86	49.90	31.92	49.95
<b>Total costs of services</b>	<b>801.04</b>		<b>602.92</b>	

#### 2.1.1. Cost of network rendering

For the year ended 31 December 2017, the Company has costs of network rendering for Baht 387.29 million in which resulting to gross profit margin of network rendering service is 25.13%. The gross profit margin of 2017 slightly increased when compared to 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 34.95%, 19.06%, 13.00%, 12.39%, and 6.91% of total cost of network rendering for the year ended 31 December 2017, respectively.

#### 2.1.2. Cost of network installation service

For the year ended 31 December 2017, costs of network installation service are Baht 373.89 million in which resulting to gross profit margin of installation service is 22.07%. The gross profit margin of 2017 increased comparing to prior year because the Company got the State Public School Project which contributed low gross profit margin in 2016. However, the projects' average gross profit margin of 2016 and 2017 still complied with the Company's policy which is above 20%. Major costs from network installation service are such as material cost and installation cost.

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

For the year ended 31 December 2017, the Company has cost of data center space service for Baht 39.86 million in which resulting to gross profit margin of data center business is 49.90%. The gross profit margin of 2017 slightly decreased comparing to prior year. Major costs are such as depreciation expenses, utilities expenses, and employee benefit expenses.

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

For the year ended 31 December 2017, the Company has gross margin of Baht 275.56 million increased from prior year by Baht 72.69 million. The gross profit margin of 2017 is 25.60%. It is higher than 2016 which has the gross profit margin at 25.18%. This is because of the decrease in gross profit margin of installation service as stated above.

## 2.2. Administrative expenses

For the year ended 31 December 2017, the Company has administrative expenses of Baht 39.96 million that is higher by Baht 7.54 million comparing to the same period of the previous year or equivalent to 3.70 of total revenues. The administrative expenses per total revenue are lower than that in 2016. Major administrative expenses are such as employee benefit expenses, and rental expenses which represented to 54.81%, and 6.07% of total administrative expenses of 2016.

## 2.3. Finance costs

For the year ended 31 December 2017, the Company has finance costs of Baht 66.25 million. The finance costs are interest expenses from loans and equipment leasing. As of 31 December 2017, the Company has loans from financial institution amounted to Baht 1,844.64 million and leasing liability amounted to Baht 57.11 million.

## 2.4. Net income and percentage of net income

Based on the above explanation, the Company's net income for the year ended 31 December 2017 is Baht 102.40 million. The net profit margin is 9.46%. The net profit increased because the Company has more customers and effectively controlled selling and administrative expenses.

## 2.5. Return on Equity (ROE)

ROE as of 31 December 2017 is 7.03%.

## Financial Position

### 1. Assets

As at 31 December 2017, the Company has total assets of Baht 4,293.92 million or 28.71% of increasing compared to Baht 3,336.16 million at the end of 2016. Major assets are such as cash and cash equivalent, trade accounts receivable, accrued revenue from network installation service, and fixed assets and telecommunication networks which are presented as at 31 December 2017's figures by 2.41%, 6.17%, 12.71% and 71.56% of total assets, respectively. The significant accounts that are notable changed are such as 1) cash and cash equivalent, decreasing from cash payment for purchases of fixed assets and telecommunication networks, 2) trade accounts receivable, increasing in line with sales, 3) accrued revenue, increasing according to progress work that still to be billed, and 4) fixed assets, increasing from expanding as to support sales, increase its coverage as well as its stability.

### 2. Liabilities

As at 31 December 2017, the Company has total liabilities of Baht 2,785.56 million or increased by 44.36% comparing to Baht 1,929.57 million at the end of 2016. Mainly, the increasing is from the proceeds from long-term loans from financial institution net-off the deferred financing fee by Baht 499.94 million, short-term loans from financial institutions by Baht 130.80 million, trade and other accounts payable by Baht

134.99 million which increased aligned with the percentage of completion, and advance received from network installation service by Baht 98.61 million.

Major liabilities are such as loans from financial institutions and trade accounts payable that they are approximately 66.22% and 27.24% of total liabilities as at 31 December 2017, respectively.

### 3. Equity

As at 31 December 2017, the Company has equities at Baht 1,508.37 million or increased by 35.13% comparing to Baht 1,406.58 million at the end of 2016. The shareholders' equity increased by Baht 101.78 million as a result of 2017 operation results.

### 4. Capital Structure

The Company has debt to equity ratio at 1.85 times as at 31 December 2017 that is increased from 1.37 times of 2016. The significant increase is due to the proceeds from long-term loans from financial institution to payment for purchases of fixed assets and telecommunication networks.

In addition, the Company has to comply to 2 conditions of debt covenant as follows.

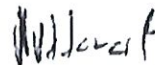
1) Loans from financial institution to equities and loans from related party must not be greater than 2 times and

2) DSCR must not be less than 1.2 times.

As at 31 December 2017, the Company has the above ratios at 1.85 times and 1.47 times, respectively.

Please be informed accordingly.

Yours sincerely,



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Managing Director