

SC. 040/62/SJ

26 February 2019

Subject: Management Discussion and Analysis for the year ended 31 December 2018

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 September 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 2018, the Company has total revenue of Baht 1,611.36 million or increased by Baht 530.11 million or 49.03% comparing to the same period of prior year. In addition, the Company has net income of Baht 133.00 million or increased by Baht 31.22 million or 30.67% comparing to the same period of prior year as well.

### **INTERLINK TELECOM PUBLIC COMPANY LIMITED**

48 INTERLINK Building, Soi Rung-Reung, Ratchadapisek Rd., Samsennok, Huay Khwang, Bangkok 10310, Thailand  
TEL : 0-2666-2222 (30 lines) Fax : 0-2666-2299  
Interlink Fiber Optic Network (NOC) Hotline : 0-2181-1188 Fax : 0-2181-1155

## Analysis of Operating Results

### 1. Revenues

For the year ended 31 December 2018, the Company has total revenues of Baht 1,611.36 million in which was increased comparing to the prior year by Baht 530.11 million or 49.03% as presented table below.

Type of Services	31 December 2018		31 December 2017		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Service incomes	1,607.91	99.79	1,076.60	99.57	531.31	49.35
Other incomes	3.45	0.21	4.65	0.43	(1.20)	(25.81)
<b>Total revenues</b>	<b>1,611.36</b>	<b>100.00</b>	<b>1,081.25</b>	<b>100.00</b>	<b>530.11</b>	<b>49.03</b>

#### 1.1. Service incomes

Type of Service	31 December 2018		31 December 2017		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
1. Service income from network rendering						
- Service income from network rendering	671.44	41.76	512.77	47.63	158.67	30.94
- Other service income	11.26	0.70	4.51	0.42	6.75	149.67
Total service income from network rendering	<b>682.70</b>	<b>42.46</b>	<b>517.28</b>	<b>48.05</b>	<b>165.42</b>	<b>31.98</b>
2. Service income from network installation						
- Service income from network installation	823.14	51.19	465.81	43.27	357.33	76.71
- Service income from network connection	8.31	0.52	13.95	1.29	(5.64)	(40.43)
Total service income from network installation	<b>831.45</b>	<b>51.71</b>	<b>479.76</b>	<b>44.56</b>	<b>351.69</b>	<b>73.31</b>
3. Service income from data center space						
- Service income from data center space	65.95	4.10	61.31	5.69	4.64	7.57
- Other service income	27.81	1.73	18.25	1.70	9.56	52.38
Total Service income from data center space	<b>93.76</b>	<b>5.83</b>	<b>79.56</b>	<b>7.39</b>	<b>14.20</b>	<b>17.85</b>
<b>Total service incomes</b>	<b>1,607.91</b>	<b>100.00</b>	<b>1,076.60</b>	<b>100.00</b>	<b>531.31</b>	<b>49.35</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 2018, the Company had service income from network rendering by Baht 682.70 million or represented 42.46% of total service incomes in which combined by service income from network rendering of Baht 671.44 million, and other service income of Baht 11.26 million in which were increased by Baht 165.42 million or increased of 31.98% comparing to prior year. The increasing of this type of revenue is mainly from increasing in customer base in which will be accumulated every period.

#### 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 follows:

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

For the year ended 31 December 2018, these services generated revenue for Baht 831.45 million or 51.71% of total service incomes which can be divided to service income from network installation of Baht 823.14 million and service income from network connection of Baht 8.31 million. The major projects of this period are such as the project of providing mobile broadband and high-speed internet service in border area which recognized revenue for Baht 682.31 million, and the Optical Fiber Optic Installation for mobile operator which recognized revenue for Baht 63.42 million.

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

The Company has operated data center space service in October 2014 after acquiring assets from ILINK. For the year ended 31 December 2018, the Company has revenue from data center space service for Baht 93.76 million or 5.83% of total service incomes. It increased because the electricity charged to customers. The occupancy rate of data center is 95%. In addition, the Company had revenue from Data Center Service rendering to Genesis Data Center in order to operate data center business since September 2017, which also caused revenue from data center space service in 2018 increasing by Baht 14.20 million or 17.85% comparing to the prior year.

## 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 2018, the total costs and expenses is Baht 1,327.55 million as followings:

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

Costs of services are main expenses of the Company. For the year ended 31 December 2018, Cost of services is Baht 1,215.23 million. It is higher than the prior year by 51.70% which was aligned with the increasing of revenue. The table below illustrated the components of costs of services and their related gross profit margin.



Service Costs	31 December 2018		31 December 2017	
	Million Baht	GPM (%)	Million Baht	GPM (%)
Cost of network rendering service	502.59	26.38	387.29	25.13
Cost of network installation service	662.83	20.28	373.89	22.07
Cost of data center space service	49.81	46.87	39.86	49.90
<b>Total costs of services</b>	<b>1,215.23</b>		<b>801.04</b>	

#### 2.1.1. Cost of network rendering service

For the year ended 31 December 2018, the Company has costs of network rendering service for Baht 502.59 million in which resulting to gross profit margin of network rendering service is at 26.38% that increased comparing to the prior year, mainly because of the revenue recognition of network rendering service of the project of providing mobile broadband and high-speed internet service in border area. However, the cost of preventive and corrective maintenance of the fiber optic network, and the underground duct rental usage and their related rental cost were increased during 2018. The major expenses are such as depreciation expenses, interconnection of network expenses, repair and maintenance expenses, rental space to install the network expenses, and employee benefit expenses which represented 34.61%, 14.05%, 17.25%, 17.26%, and 6.47% of total cost of network rendering for the year ended 31 December 2018, respectively.

#### 2.1.2. Cost of network installation service

For the year ended 31 December 2018, costs of network installation service are Baht 662.83 million in which resulting to gross profit margin of installation service is at 20.28%. The gross profit margin of 2018 decreased comparing to prior year because in 2018, the Company has run the project of providing mobile broadband and high-speed internet service in border area that have gross profit margin is lower than 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 2018, the Company has cost of data center space service for Baht 49.81 million in which resulting to gross profit margin of data center business is at 46.87%. The gross profit margin decreased due to the increasing of electricity expense and the increasing of employee benefit expense.

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

For the year ended 31 December 2018, the Company has gross profit margin of Baht 392.68 million increasing from prior year by Baht 117.12 million. The gross profit margin rate of 2018 is at 24.42% that is lower than 2017 which has the gross profit margin rate at 25.60% because of the decrease in gross profit margin as stated above.

## 2.2. Administrative expenses

For the year ended 31 December 2018, the Company has administrative expenses of Baht 61.51 million that is higher by Baht 21.55 million comparing to the same period of the previous year or equivalent to 53.93% of total revenues. The administrative expenses per total revenue are higher than that in 2017. Major administrative expenses are such as employee benefit expenses, and Back Office Share Service expenses which represented to 36.02%, and 15.98% of total administrative expenses of 2018.

## 2.3. Finance costs

For the year ended 31 December 2018, the Company had finance costs of Baht 95.51 million. The main finance costs are interest expenses from loans that increasing in the line with Loan principle amount. As of 31 December 2018, the Company had short-term loans from financial institution amounted to Baht 1,036.95 million, long-term loans from financial institution amounted to Baht 1,709.31 million and finance lease liability amounted to Baht 43.08 million which are all increased comparing to the prior year. (As of 31 December 2017, the Company has short-term loans from financial institutions amounted to Baht 130.80 million, long-term loans from financial institution amounted to Baht 1,713.84 million and finance lease liability amounted to Baht 57.11 million, respectively.)

## 2.4. Net income and net profit margin

The Company's net income for the year ended 31 December 2018 was Baht 133 million. The net profit margin is at 8.25% in which the net income is higher in term of amount but lower in term of the percentage comparing to the same period of the prior year (the year ended 31 December 2017: net income was Baht 101.78 million and the net profit margin was 9.40%). The net profit margin decreased in line with the decreasing of the gross profit margin as described above.

## 2.5. Return on Equity (ROE)

ROE as of 31 December 2018 is 8.56%.

## Financial Position

### 1. Assets

As at 31 December 2018, the Company had total assets of Baht 5,415.44 million or increased by 26.12% comparing to Baht 4,293.92 million at the end of 2017. Major assets are such as trade accounts receivable, accrued revenue from network installation service, and fixed assets and telecommunication networks which are presented as at 31 December 2018's figures by 6.73%, 16.98% and 65.93% of total assets, respectively. The significant accounts that are notable changed are such as

- 1) Trade and other receivable, increasing according to higher of sales during the period
- 2) Accrued revenue, increasing according to progress work that still to be billed, and
- 3) Fixed assets and telecommunication network, increasing from expanding as to support sales, increase its coverage as well as its stability.

## 2. Liabilities

As at 31 December 2018, the Company has total liabilities of Baht 3,817.07 million or increased by 37.03% comparing to Baht 2,785.56 million at the end of 2017. Mainly, the increasing is from the proceeds from short-term loans from financial institutions by Baht 906.15 million, and trade and other accounts payable by Baht 154.04 million which increased aligned with the percentage of completion. However, the Company has paid for long-term loans from financial institution which be due by Baht 208.41 million in 2018 and has new long-term loans by Baht 202.68 million during the period.

Major liabilities are such as loans from financial institutions and trade accounts payable that they are approximately 71.95% and 23.91% of total liabilities as at 31 December 2018, respectively.

## 3. Equity

As at 31 December 2018, the Company has equities at Baht 1,598.37 million or increased by 5.97% comparing to Baht 1,508.37 million at the end of 2017. The change in the shareholders' equity is from Baht 133.00 million of yearly operation results, net off with Baht 43.00 million of dividend payment.

## 4. Capital Structure

The Company has debt to equity ratio at 2.39 times as at 31 December 2018 that is increased from 1.85 times at the end of 2017. The significant increasing is due to the proceeds from loans from financial institution to payment for purchasing of fixed assets and telecommunication networks and investing in network installation service.

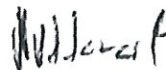
In addition, the Company has to comply to 2 conditions of debt covenant as follows:

- 1) Loans from financial institution (only interest bearing debt) 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 2018, the Company has the above ratios at 1.75 times and 1.43 times, respectively. However, the financial institution will evaluate at the end of fiscal year.

Please be informed accordingly.

Yours sincerely,



(Mr. Nuttanai Anuntarumporn)

Managing Director