

Management Discussion and Analysis (“MD&A”)

The 2017 Operating Performance

of TRC Construction Public Company Limited and Its Subsidiaries

(Unit : Million Baht)

	9-Month 2017	the 4 th Qtr 2017	2017	2016	Change (2017 - 2016)	
					Amount	Percentage
					Construction services income	1,840.18
Cost of construction services	-1,493.98	-365.74	-1,859.72	-2,946.65	-1,086.93	-36.89
Gross profit	346.20	164.21	510.41	750.65	-240.24	-32.00
Interest and other income	54.74	10.96	65.70	39.60	26.10	65.91
Administrative expenses	-275.42	-66.49	-341.91	-349.80	-7.89	-2.26
Doubtful debt (+reversal)	0.00	0.13	0.13	-7.03	-7.16	-101.85
Loss on change in shareholders' equity of associate	0.00	-34.99	-34.99	0.00	-34.99	N/A
Profit before share of loss from investment in associate, finance cost and income tax expenses	125.52	73.82	199.34	433.42	-234.08	-54.01
Share of loss from investments in associate	-26.97	-7.37	-34.34	-32.94	1.40	4.25
Share of loss from investments in joint venture	0.00	-0.11	-0.11	0.00	0.11	N/A
Finance cost	-12.21	-4.19	-16.40	-17.03	-0.63	-3.70
Income tax expenses	-34.85	-22.96	-57.81	-98.34	-40.53	-41.21
Profit for the period	51.49	39.19	90.68	285.11	-194.43	-68.19
Non-controlling interests of the subsidiaries	1.40	0.71	2.11	5.65	-3.54	-62.65
Profit attribute to equity holders of the Company	52.89	39.90	92.79	290.76	-197.97	-68.09
Earnings per Share (Baht)			0.016	0.050		
Gross Profit Margin	18.81%	30.99%	21.54%	20.30%		
Net Profit Margin	2.79%	7.38%	3.81%	7.78%		
Debt to Equity (Time)	0.71		0.67	0.86		

The 2017 Operating Performance Summary

1. Construction services income segment comparison

(Unit: Million Baht)

Construction services income	2017		2016		Increase (Decrease)	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
- Pipeline system	1,073.28	45.34	1,796.41	48.59	-721.73	-40.18
- Engineering system	345.45	14.58	1,158.54	31.33	-813.09	-70.18
- Civil work	950.00	40.08	742.35	20.08	207.65	27.97
Total	2,370.13	100.00	3,697.30	100.00	-1,327.17	-35.90

Construction services income was Baht 2,370.13 million, decreasing by Baht 1,327.17 million or 35.90% from last year. In 2017, there were many Thai and foreign contractors entered into the bidding of construction projects with the fierce competition. Some projects were awarded with bidding price significantly lower than the middle-price. Consequently, the Company could not win some projects as expected. In addition, the delay of ASEAN Potash Mining Project which the

Company has obtained the Letter of Award since February 2016 also brought about the delay of the EPCC contract signing. According to the previous plan, in 2017 the EPCC Contract for APOT Project should be mutually signed and the construction services income recognition should commence. As a result, the total revenue of TRC Group in 2017 was not as targeted.

During 2017, TRC and its subsidiaries acquired 14 projects, total work value of Baht 5,357.74 million. 8 projects were from private sector with work value of Baht 3,355.22 million and 6 projects were from government sector with work value of Baht 2,002.52 million. Most of construction services income in 2017 was from carried forward projects which were gradually recognized as services income by the percentage of work completion method. Construction service income can be classified by following type of business unit:

- Pipeline system derived from the 1st Transmission Pipeline Life Extension Project 28[”] Recoating Section from PTT Public Company Limited and Construction and Improvement and Expansion of Waterworks, Koh Samui Branch, Koh Samui District, Surat Thani Province from Provincial Waterworks Authority.
- Engineering system installation and factory construction for energy and petrochemical derived from Engineering Procurement and Construction for Dry Ice Expanded Tobacco Process, DIET Process (M-01/2) from Tobacco, Ministry of Finance
- Civil works derived from Srinakarin to Romklao Road, Phase 1 Construction Project from Bangkok Metropolitan Administration and related state enterprises.

TRC has concerned risk from the decrease of construction services income due to high competition, also the new investments projects for creating stability and opportunities have been developed. TRC and Sahakarn Wisavakorn Company Limited (subsidiaries) set up 2 new subsidiaries as follows:

- TRC Utility Company Limited for Water Supply Concession Project of SAO Tasit in Pluak Daeng District, Rayong Province
- SH Crossings Company Limited for construction of underground electrical conduits, trenchless for Horizontal Directional Drilling (HDD), boring and pipe jacking.

The revenue from the two companies will be recognized in 2017.

2. Interest income and other income were Baht 1.35 million and Baht 64.35 million, respectively. The total amount was Baht 65.70 million, increasing by Baht 26.10 million or 65.91%. Most of other income was from the claim to performance security of one supplier of Baht 39.40 million.

3. Gross profit was Baht 510.41 million, decreasing by Baht 240.24 million. Gross profit margin was 21.54%, increasing from last year which was 20.30%. The 4th quarter 2017 gross profit margin was quite high at 30.99% because projects on hand carried forward from previous year are nearly completed and effective project management. Then, there was an adjustment of cost budget to be in line with the actual cost.

4. Administrative expenses and finance cost was Baht 341.91 million and Baht 16.40 million, respectively. Administrative expenses decreased Baht 7.89 million or 2.26%. Finance cost decreased Baht 3.70 million. Most of finance cost was interest expenses from short-term loans and debentures. As at 31 December 2017, the balance of debentures was Baht 300 million consisting of Baht 200 million debentures issued in March 2016 with 2-year maturity and Baht 100 million debentures issued in July 2017 with 1-year maturity.

5. Loss on change in shareholders' equity of associate was Baht 34.99 million. During 2017, APOT received the proceeds from a shareholder in payment for additional ordinary shares (1,174,866 newly issued shares at the price of Baht 68.43 per share) and registered the change in its paid-up capital from Baht 2,688 million to Baht 2,806 million. As a result,

TRC Group's shareholding in APOT decreased from 26.22% at the end of 2016 to 25.13% at the end of 2017. The Company recorded the net result from the change in the shareholders' equity of Baht 35 million, presenting in the consolidated comprehensive income for the year ended 31 December 2017

6. Share of loss from investments in associate was Baht 34.99 million due to the loss recognition by equity method from operating loss of APOT.

7. Profit attribute to equity holders of the Company was Baht 92.79 million, decreasing by Baht 290.76 million from last year which was Baht 290.76 million or 68.09% decrease. The net profit margin was 3.81%, decreasing from last year which was 7.78%. The decrease of net profit was from the decrease of construction services income, loss on change in shareholders' equity of associate and share of loss from investment in associate. In case the loss on change in shareholders' equity of APOT of Baht 34.99 million is excluded, the 2017 net profit will be Baht 127.78 million representing a 56.05% decrease, net profit margin of 5.25%.

Backlog on Hand

As at 31 December 2017, the Company and its subsidiaries had projects on hand with the remaining uncompleted works as follows:

	Number of the Projects	Uncompleted Work Value (Million Baht)
TRC Construction Public Company Limited*	8	4,634.76
Sahakarn Wisavakorn Co., Ltd.	11	2,077.24
Total	19	6,712.00

* Backlog on hand included Early Works I and II (total work value of Baht 3,022.08 million and uncompleted work value as at the end of Year 2017 of Baht 2,550.08 million) from Turnkey Delivery of APOT Project Package 2. Surface Processing and Facilities. However, it excluded the remaining project work value approximately of Baht 30,830.03 million because the EPCC Contract is not yet signed.

Assets, Liabilities and Debt to Equity Ratio

Analysis of Assets

	31 December 2017	31 December 2016	(Unit : Million Baht) Increase (Decrease)
Current assets	2,599.12	2,873.62	(274.50)
Investment in associate and Investments in joint ventures	1,266.36	1,330.71	(64.35)
Property, plant and equipment	684.74	726.61	(41.87)
Other non-current assets	48.15	72.22	(24.07)
Total assets	4,598.37	5,003.16	(404.79)

As at 31 December 2017, the Company and its subsidiaries recorded total assets of Baht 4,598.37 million, decreasing by Baht 404.79 million. The significant change was from below assets.

- Trade and other receivables increased from Baht 410.82 million to Baht 825.59 million or 100.96%. Most of trade receivables were classified as not yet due total of Baht 408.71 million.
- Unbilled receivable decreased from Baht 1,769.27 million to Baht 854.29 million or 51.54% due to the decrease of projects on hand value. And the value of invoices issued when the fulfillment of conditions according to the construction contract were higher than the previous year. (The recognized revenues which have not yet been due as per contracts have been shown under the caption of unbilled receivable.)
- The investment in associate decreased from Baht 1,328.33 million to Baht 1,259.00 million or 5.22% due to the loss on change in shareholders' equity of associate and share of loss from investment in associate.

Analysis of Liabilities and Shareholders' Equity

	(Unit : Million Baht)		
	31 December 2017	31 December 2016	Increase (Decrease)
Current liabilities	1,366.79	1,838.49	(471.70)
Short-term loans and Debentures	400.36	404.25	(3.89)
Non-current liabilities	75.40	76.56	(1.16)
Total liabilities	<u>1,842.55</u>	<u>2,319.30</u>	<u>(476.75)</u>
Total shareholders' equity	<u>2,755.82</u>	<u>2,683.86</u>	<u>71.96</u>
Total liabilities and shareholders' equity	<u>4,598.37</u>	<u>5,003.16</u>	<u>(404.79)</u>

- Total liabilities decreased from Baht 2,319.30 million to Baht 1,842.55 million. The unbilled payable decreased from Baht 923.47 million to Baht 414.27 million due the nearly completed projects. And new projects acquired in 2017 were at the beginning stage.
- Shareholders' equity increased from Baht 2,683.86 million to Baht 2,755.82 million due to the net profit of TRC and its subsidiaries of Baht 92.51 million. There was dividend payment for 2016 performance total of Baht 20.54 million.
- Debt to equity ratio decreased from 0.89 time as at the end of 2016 to 0.67 time as at 31 December 2017.

Significant Events during 2017 - Present

- **Investment in TRC Utility Company Limited**

The 4/2017 Board of Directors' Meeting held on 11 May 2017 approved to set up a new subsidiary namely TRC Utility Company Limited for the investment in the Water Supply Concession Project of SAO Tasit in Pluak Daeng District, Rayong Province. Initial registered capital was Baht 1 million with 99.97% TRC's Shareholding. On 20 June 2017, this company registered its establishment with 25% of its share capital paid up, amounting to Baht 0.25 million.

- **Issuance of Baht 100 Million Debentures**

On 12 July 2017, the Company issued No. 1/2017 unsubordinated and unsecured debentures without a debenture holders' representative in the name-registered certificate to be offered by way of private placement of Baht 100 million consisting of 100,000 units of debentures at par value of Baht 1,000 per unit at offering value of Baht 1,000 per unit with 1-year maturity at interest rate of 4.50% per annum with quarterly interest payment.

- **Investment in SH Crossings Company Limited**

The 5/2017 Board of Directors' Meeting held on 7 August 2017 approved to set up a new subsidiary company between Sahakarn Wisavakorn Company Limited ("SKW"), which is the company's subsidiary and Langfang Huayuan Mechanical & Electricity Engineering Company Limited (China). New subsidiary company namely SH Crossings Company Limited for construction of underground electrical conduits, trenchless for horizontal directional drilling (HDD), boring and pipe jacking. Registered capital was Baht 40 million with 51% SKW's shareholding. On 17 November 2017, this company registered its establishment with 25% of its share capital paid up, amounting to Baht 10 million.

- **TRC was chosen as one of sSET index during first and second half of 2017 and continue to first half of 2018**

TRC was elected for sSET index constituents calculating for first and second half of 2017. And in December 2017, TRC Securities was continually elected for sSET index for the first half of 2018. sSET Index represents the price movement of common stocks apart from constituents in the SET50 Index and SET100 Index, that have constant liquidity and comply with requirements regarding the distribution of shares to minor shareholders.

- **In 2017, TRC Group obtained 14 projects, work value of Baht 5,357.74 million**

TRC: 6 projects, Baht 3,327.80 million, the significant projects consisting of:

1. LNTP for Turnkey Delivery of APOT Project Package 2. Surface Processing and Facilities (Long Lead Equipment for Processing Plant) from ASEAN Potash Chaiyaphum Public Company Limited: The project's work value is approximately Baht 2,310.72 million with 2-year construction period.
2. Revamp LPG Transfer Pump to Domestic BRP from PTT Public Company Limited: The project's work value is approximately of Baht 208.50 million with 17-month construction period.
3. BV4.19 PIG Launcher and Receiver Installation Project from PTT Public Company Limited.: The project's work value is approximately Baht 229.28 million with 16-month construction period.
4. EPC for RDCC Catalyst Cooler Project Part 2 Back Pressure Steam and Utilities System from IRPC Public Company Limited: The project's work value is approximately Baht 492.00 million with 21-month construction period.

Sahakarn Wisavakorn: 8 Projects, Baht 2,029.94 million, the significant projects consisting of:

1. The Kanlapaphruek Road Extension from Department of Highways, Ministry of Transport and related state enterprises: The project's work value is approximately of Baht 849.72 million with 900-day construction period.
2. The Improvement Nature Trail into National Park Office Hat-Khanom-Mu-Ko-Thale-Tai phase Ao Thong Yang - Ao Thong Yee from Nakhonsithammarat Province: The project's work value is approximately of Baht 98.12 million with 8-month construction period.

3. Improvement of Pracharumjai Road – Mitmaitri Road from The Bangkok Metropolitan Administration, Metropolitan Electricity Authority, Metropolitan Waterworks Authority and TOT Public Company Limited: The project's work value is approximately Baht 990.84 million with 30-month construction period.

- **New awarded 2 projects during January – February 2018**

TRC: Engineering, Procurement, Construction, Commissioning and Start-up of the 14 block valve & facility stations under the Fifth Transmission Pipeline Project Phase 1 which owned by PTT Public Company Limited from Sinopec International Petroleum Service Corporation (project Contractor): The project's work value is Baht 755.23 million with 33-month construction period

Sahakarn Wisavakorn: The Construction of Highway Route No. 4 A. Takua Pa – A. Thai Mueang between Km.803+000.00 to Km.813+300.00 from Bureau of road construction 1 (The Department of Highways): The project's work value is Baht 347.38 million with 600-day construction period.

Dividend Payment for the 2017 Operating Performance

The 3/2018 Board of Directors' Meeting is scheduled to be on 12 March 2018 to consider the date, time, place and proposed agenda of the 2018 Annual General Meeting of Shareholders including the dividend payment for the 2017 operating performance.



(Mr. Pasit Leesakul)

Director and Chief Executive Officer

27 February 2018