



*-Translation-*

Ref. No. BJC/SET 2560-003

February 27, 2017

Subject: Clarification on Significant Changes in Operating Results for Year 2016

To: President  
The Stock Exchange of Thailand

BJC Heavy Industries Public Company Limited (hereinafter referred to as "Company" or "BJCHI") would like to clarify the underlying drivers for the changes in 2016 Operating Results as follows.

## **Revenue**

### Contracted Revenue

Contracted Revenue in 2016 was 5,202.2 million baht, falling by 7.3% from 5,611.6 million baht in 2015. The decreased contract revenue resulted from the final phase of executing TUIP FPSO modules (01B) and QGI FPSO modules. In addition, the project value of QGI FPSO modules has been decreasingly adjusted due to the overlap of work scope while the revenue recognition from TUIP FPSO modules (03B) was lower than the previous expectation due to the delay in raw material which suppliers could not procure as scheduled as well as the delay in tender bids of several projects. As a result of that, these factors resulted in the decrease in contracted revenue in 2016 from the prior year.

### Other Revenue

In 2016, other revenue (excluding FX gain) was 75.7 million baht comparing with 32.2 million baht in 2015 representing an increase of 135.3%. The increase in other revenue stemmed from the transaction of rebate and claim from a steel supplier and contractors, respectively.

## **Expenses**

### Contracted Costs

In 2016, contracted costs was 4,893.9 million baht, rising by 20.8% from 2015 which was 4,052.9 million baht. The increase in contracted cost in 2016 was significantly driven by costs related to executing TUIP FPSO modules project and QGI FPSO modules project.

TUIP FPSO modules as EPC project, composing of 3 scopes of work such as Engineering, Procurement and Construction. In general, EPC project would have lower profitability than the project awarded from EPC channel. Moreover, TUIP FPSO modules project has still additional cost relevant to changing in work design, expedite cost and repaired cost during the period of project transportation as well as the cost of material and equipment delay which the project owner couldn't deliver on schedule.

Regarding QGI FPSO modules project, this project was partially suspended since mid 2015 and then the project was resumed again in early 2016. However, the company also confronted with addition cost from such project preparation of QGI FPSO modules project as well as the issue of material and equipment delay supplied by the project owner. Thus, these factors also caused the increased contracted costs composing of rental in pre-assembly yard nearby Maptaphut Port, tools and equipment for executing the project as well as partial cost which couldn't fully be compensated by the client.

#### Selling, General and Administrative expenses (SG&A)

Selling, General and Administrative expenses (SG&A) decreased by 14.9% from 366.6 million baht in 2015 to 311.9 million baht in 2016. The contraction of SG&A in 2016 resulted from the decreased compensation cost during the slowdown of project activities as well as the cost management policy in more effective ways.

#### Foreign Exchange (FX) Impact

In 2016, the company recognized FX gain by 46.6 million baht, decreasing from 2015 which was reported at 110.2 million baht. This was due to the anticipation of THB as compared to US dollar after foreign capital fund flows entered into many developing markets including Thailand.

#### **Profit and Profitability**

##### Gross Profit

The increase in contracted cost as mentioned above was due to the fact that the company couldn't partially recognize revenue from QGI FPSO modules stemming from the decrease of the project value of QGI FPSO modules because of the overlap of work scope. Thus, 2016 gross profit was reported to 308.3 million baht, decreasing from 1,558.7 million baht as 2015 gross profit or representing a decrease of 80.2%. At the same time, gross profit margin reduced from 27.8% in 2015 to 5.9% in 2016.

##### Net Profit

2016 net profit was reported at 112.4 million baht, decreasing by 91.5% from 2015 net profit at 1,320.2 million baht. On the other hand, net profit margin was 2.1% as compared with 22.9% in 2015 due mainly to the increased contract cost as previously mentioned.

Please be informed accordingly.

Respectfully Yours,  
BJC Heavy Industries Public Company Limited

-Signed-

(Mr. Seung Woo Lee)  
Director/Deputy Managing Director