

MD&A



Executive Summary

In Q217, dtac reported service revenue growth (excluding IC) of 2.3%YoY and 1.1%QoQ, and continued to build momentum on the successful network perception campaign, the “Go No Limit” price plans, and revamped dtac Reward CRM program, launched in the previous quarter. The service revenue growth was driven by postpaid segment, while prepaid segment remained challenging due to subsidized handsets being available in the market and churn of low quality subscribers. Our 2.1GHz network densification project continued to make progress with 2.8k additional 4G/3G nodes installed during Q217, delivering better network and a smoother experience for our customers.

With continuing focus on operational efficiency, our Q217 EBITDA (before other items) increased 21%YoY and 16%QoQ to THB 7,976 million. The strong growth in EBITDA was primarily driven by service revenue growth, lower level of handset subsidy and structural improvement in operating costs. In addition, regulatory costs declined to 13.3% of service revenue excluding IC, following the increasing traffic on the licensed network and USO rate reduction. SG&A expenses were kept under control, with improved efficiency. dtac continued to generate strong operating cash flow

(defined as EBITDA-CAPEX) of THB 3,856 million during the quarter. Net profit was THB 743 million, increasing 426%YoY and 224%QoQ, due to strong EBITDA growth, which was partly offset by higher depreciation and amortization charges from network investments. Our financial position remains healthy and flexible, with net debt to EBITDA at 0.9x and strong operating cash flow.

The 2017 outlook remains unchanged, supported by service revenue growth momentum and focus on improving operational efficiency. In the first half of this year (1H17), our service revenue growth (excluding IC) was 0.5% YoY and EBITDA was THB 14,869 million, both in line with FY17 guidance. CAPEX spending in 1H17 was THB 8.6 billion, mainly for the densification of 2.1GHz network to strengthen customers’ Internet experience. In the second half of this year, we expect to be more active, strengthening market momentum and delivering digital experience to our customers, with an aim to become the no. 1 digital brand in Thailand by 2020. In addition, we are currently in contracting process with TOT Public Company Limited (“TOT”) for the provision of wireless services on the 2300 MHz spectrum band.

Operational Summary

In Q217, we maintained momentum of the successful network perception campaign as well as the “Flip It” brand platform, launched in the previous quarter. We gained 168k postpaid subscribers in Q217, bringing total postpaid subscriber to 5.4 million at the end of the quarter. As a result, postpaid subscriber mix increased to 23% of the total subscriber base, compared to 19% in Q216, and this trend is expected to continue. The increase was attributable to the success of “Go No Limit” packages, attractive handset bundling offers and prepaid-to-postpaid migration. However, total subscriber base stood at 23.6 million, decreasing by 2.9% from the end of Q117. The decline was due to the loss of customers in prepaid segment, where the competitive environment remained challenging.

At the end of Q217, 96% of the total subscriber base was registered on the 2.1GHz licensed network (DTN), an increase from 92% in Q216. Smartphone penetration reached 70%, up from 65% in Q216, but stable QoQ. We continued to grow the 4G customer base to 28% of our total subscriber base and increased the 4G device penetration to 43% of total subscriber base with attractive handset bundling packages, 4G network experience and improving perception.

Average Revenue per User excluding IC (ARPU) increased to THB 230 per month, an increase of 8.8%YoY and 4.2%QoQ due to the higher mix of high ARPU subscribers. Blended Minutes of Use excluding IC (MOU) was 115 minutes and continued to decline while Internet usage per user continued to grow.

MANAGEMENT DISCUSSION AND ANALYSIS				SECOND QUARTER 2017	
Active subscribers (in thousand)	Q216	Q117	Q217	%QoQ	%YoY
Postpaid (under concession from CAT)	507	379	350	-7.8%	-31%
Prepaid (under concession from CAT)	1,420	647	514	-21%	-64%
Postpaid (under 2.1GHz license)	4,116	4,841	5,038	4.1%	22%
Prepaid (under 2.1GHz license)	18,910	18,443	17,703	-4.0%	-6.4%
Total	24,953	24,310	23,605	-2.9%	-5.4%
Net additional subscribers (in thousand)	Q216	Q117	Q217	%QoQ	%YoY
Postpaid	191	195	168	-14%	-12%
Prepaid	-715	-365	-873	-139%	-22%
Total	-524	-170	-705	-315%	-35%
MOU (minutes/sub/month)	Q216	Q117	Q217	%QoQ	%YoY
Postpaid	290	264	262	-0.8%	-10%
Prepaid	157	130	125	-4.1%	-20%
Blended	179	157	153	-2.1%	-15%
Postpaid excluding IC	205	185	185	-0.4%	-10%
Prepaid excluding IC	123	101	97	-4.6%	-22%
Blended excluding IC	138	118	115	-2.6%	-16%
ARPU (THB/sub/month)	Q216	Q117	Q217	%QoQ	%YoY
Postpaid	549	559	567	1.4%	3.3%
Prepaid	160	153	158	2.9%	-1.5%
Blended	227	233	242	3.9%	6.8%
Postpaid excluding IC	517	533	541	1.6%	4.7%
Prepaid excluding IC	148	144	149	3.3%	0.7%
Blended excluding IC	211	221	230	4.2%	8.8%

Financial Summary

Revenues

In Q217, total revenues decreased by 1.8% YoY and 1.5%QoQ to THB 19,443 million primarily due to lower handset sales and IC revenue after interconnection rate reduction from beginning of 2017. However, service revenue excluding IC increased by 2.3%YoY and 1.1%QoQ to THB 16,407 million as data revenue growth outpaced declining voice revenues. Postpaid revenue continued to grow strongly. In the first half of this year, service revenue excluding IC increased by 0.5%YoY, in line with our full year guidance.

Voice revenue amounted to THB 3,810 million, a decrease of 35%YoY and 12%QoQ, and was impacted by voice-to-data substitution, including voice over IP usage.

Data revenue amounted to THB 11,052 million, increasing by 27%YoY and 6.5%QoQ, and was driven by increasing data traffic. The high growth was supported by popularity of streaming contents, the successful "Go No Limit" price plans launched in Q117, and competitive and ongoing improvement of 4G network. Consequently, data revenue contribution increased to 67.4% of service revenue excluding IC, compared to 64.0% in Q117 and 54.2% in Q216.

International Roaming (IR) revenues amounted to THB 308 million, decreasing by 4.2%YoY due to competition and alternative services in the market. QoQ, IR revenues decreased by 14% due to lower inbound revenue.

Other service revenues amounted to THB 1,237 million, an increase of 3.1%YoY and 7.4%QoQ.

Handset and starter kit sales amounted to THB 2,055 million, a decrease of 12%YoY and 16%QoQ, due to seasonality, lower iPhone sales and controlled handset subsidies. As a result, the net loss in handset and starter kits sales decreased to THB 742 million, compared to a net loss of THB 958 million in Q117 and THB 889 million in Q216.

Cost of Services

Cost of services excluding IC amounted to THB 10,955 million, increasing by 7.8%YoY due to higher depreciation and amortization (D&A) and network OPEX from network investment. However, cost of services excluding IC decreased by 1.2%QoQ due to lower regulatory cost more than offsetting negative impact from higher D&A.

Regulatory costs amounted to THB 2,188 million, declining by 11%YoY and 15%QoQ due to increasing traffic on the licensed network and USO rate reduction. As a result, regulatory costs to service revenues excluding IC decreased to 13.3%, in comparison to 15.8% in Q117 and 15.3% in Q216.

Network OPEX increased by 7.6%YoY to THB 1,609 million as a result of network expansion. In Q217, we focused on 2.1GHz network densification program, resulting in a 57% increase of 2.1GHz 4G/3G nodes from Q216. At the end of Q217, the total number of 3G/4G nodes increased to 55.8k, up 34% from Q216. QoQ, network OPEX was stable as a result of ongoing implementation of operational efficiency programs.

Other operating costs of services amounted to THB 839 million and increased by 2.3%QoQ, mainly due to higher commission. However, other operating cost of services decreased by 1.3%YoY partly due to lower IP transit costs.

Depreciation and Amortization (D&A) of costs of services amounted to THB 6,319 million, an increase of 18%YoY and 3.8%QoQ, due to ongoing investment in network.

Selling, General and Administrative Expenses (SG&A)

SG&A expenses amounted to THB 3,581 million, a decrease of 25%YoY and 7.9%QoQ. The decrease was due to ongoing implementation of operational efficiency measures and the one-time restructuring cost of THB 394 million in Q216, partly offset by higher bad debt.

Selling and Marketing (S&M) expenses amounted to THB 1,028 million, declining by 46%YoY and 24%QoQ. We were more efficient in S&M spending, with selective marketing activities and optimized execution, aiming to deliver more impactful results. In Q217, we maintained the momentum of the “Flip It” brand platform launched in Q117 and increased brand visibility, as well as customer engagement with the “dtac reward” program, while controlling spending in media advertising. The YoY decrease was also partly due to the accounting adjustment implemented in Q117. In the second half of this year, we expect to be more active to maintain revenue momentum and continue improving network perception and strengthening our value-for-money position.

General administrative expenses amounted to THB 1,934 million, a decrease of 21%YoY and 2.4%QoQ. The YoY decrease was primarily due to the one-time restructuring cost of THB 394 million in Q216, while overall administrative expenses were kept under control.

Provision for bad debt amounted to THB 396 million, increasing by 100%YoY and 23%QoQ, reflecting a higher postpaid subscriber base. We are addressing this issue by tightening subscriber intake process and other measures.

EBITDA and Net Profit

EBITDA (before other items) increased by 21%YoY and 16%QoQ to THB 7,976 million. The EBITDA growth was supported by the service revenue growth, lower regulatory cost and effective cost measures, including those on handset subsidy. The EBITDA growth was somewhat offset by higher network OPEX and bad debt provision. EBITDA margin improved to 41.0% from 33.4% in Q216 and 34.9% in Q117. In the first half of this year, EBITDA was THB 14,869 million and higher than the EBITDA of the same period last year of THB 13,933 million, in line with our full year guidance.

Net profit increased by 426%YoY and 224%QoQ to THB 743 million, driven by EBITDA growth, which was more than offset the higher depreciation and amortization and the restructuring cost of THB 394 million in Q216.

Balance Sheet and Key Financial Information

At the end of Q217, total asset was THB 113,963 million, decreasing from THB 115,379 million at end of FY16. The decrease was mainly due to declining concessionary asset partly offset by higher cash and increasing non-concessionary asset. Net interest bearing debt at the end of Q217 was THB 26,735 million and was lower than the level at the end of FY16 due to higher cash and cash equivalent. Furthermore, interest-bearing debt remained unchanged at THB 49,165 million. Net debt to EBITDA was 0.9x compared to 1.1x in Q117 and Q216.

CAPEX in Q217 was THB 4,120 million in Q217, compared to THB 4,477 million in Q117. As a result, Operating Cash Flow (EBITDA-CAPEX) was THB 3,856 million and increased from THB 2,416 million in Q117.

Statement of financial position (THB million)	Q416	Q217
Cash and cash equivalent	18,293	22,430
Other current assets	13,618	12,382
Non-current assets	83,467	79,151
Total assets	115,379	113,963
Current liabilities	38,232	35,849
Non-current liabilities	50,002	50,000
Total liabilities	88,234	85,849
Total shareholders' equity	27,145	28,114
Total liabilities and shareholders' equity	115,379	113,963

Cash flows statement (THB million)	1H16	1H17
Cash flows from operating activities	17,593	14,608
Cash paid for interest expenses and tax	(2,224)	(916)
Net cash flows from operating activities	15,369	13,692
Net cash flows from investing activities	(7,675)	(9,556)
Net cash receipt/(Repayment) - loan & debenture	1,000	-
Dividend paid	(1,231)	-
Other items	-	(0)
Net cash flows from financing activities	(231)	(0)
Net change in cash & cash equivalent Increase/(decrease)	7,463	4,137
Beginning cash & cash equivalent	10,121	18,293
Ending cash & cash equivalent	17,584	22,430

MANAGEMENT DISCUSSION AND ANALYSIS
SECOND QUARTER 2017

Income statement (THB million)	Q216	Q117	Q217	%QoQ	%YoY
Voice	5,831	4,338	3,810	-12%	-35%
Data	8,685	10,377	11,052	6.5%	27%
IR	321	357	308	-14%	-4.2%
Others	1,200	1,151	1,237	7.4%	3.1%
Service revenues ex. IC	16,038	16,224	16,407	1.1%	2.3%
IC revenues	1,157	848	820	-3.3%	-29%
Service revenues	17,195	17,071	17,226	0.9%	0.2%
Handsets and starter kits sales	2,331	2,446	2,055	-16%	-12%
Other operating income	273	230	162	-30%	-41%
Total revenues	19,799	19,748	19,443	-1.5%	-1.8%
Cost of services	(11,253)	(11,893)	(11,754)	-1.2%	4.5%
<i>Regulatory</i>	<i>(2,456)</i>	<i>(2,571)</i>	<i>(2,188)</i>	<i>-15%</i>	<i>-11%</i>
<i>Network</i>	<i>(1,496)</i>	<i>(1,604)</i>	<i>(1,609)</i>	<i>0.3%</i>	<i>7.6%</i>
<i>IC</i>	<i>(1,092)</i>	<i>(807)</i>	<i>(799)</i>	<i>-1.0%</i>	<i>-27%</i>
<i>Others</i>	<i>(850)</i>	<i>(821)</i>	<i>(839)</i>	<i>2.3%</i>	<i>-1.3%</i>
<i>Depreciation and Amortization</i>	<i>(5,358)</i>	<i>(6,090)</i>	<i>(6,319)</i>	<i>3.8%</i>	<i>18%</i>
Cost of handsets and starter kits	(3,221)	(3,405)	(2,797)	-18%	-13%
Total cost	(14,473)	(15,297)	(14,551)	-4.9%	0.5%
Gross profit	5,326	4,451	4,892	10%	-8.1%
SG&A	(4,803)	(3,889)	(3,581)	-7.9%	-25%
<i>Selling & Marketing expenses</i>	<i>(1,914)</i>	<i>(1,357)</i>	<i>(1,028)</i>	<i>-24%</i>	<i>-46%</i>
<i>General administrative expenses</i>	<i>(2,441)</i>	<i>(1,983)</i>	<i>(1,934)</i>	<i>-2.4%</i>	<i>-21%</i>
<i>Provision for bad debt</i>	<i>(198)</i>	<i>(322)</i>	<i>(396)</i>	<i>23%</i>	<i>100%</i>
<i>Depreciation and Amortization</i>	<i>(250)</i>	<i>(227)</i>	<i>(223)</i>	<i>-2.1%</i>	<i>-11%</i>
Gain/(Loss) on foreign exchange	(3)	16	4	-76%	215%
Interest income	38	43	54	25%	41%
Other income & share of profit from investment in associated company	14	13	6	-53%	-58%
EBIT	572	634	1,375	117%	141%
Finance cost	(403)	(367)	(417)	14%	3.7%
Income tax expenses	(28)	(38)	(215)	469%	676%
Net profit attributable to equity holder	141	229	743	224%	426%

EBITDA (THB million)	Q216	Q117	Q217	%QoQ	%YoY
Net profit for the period	141	229	743	224%	426%
Finance costs	403	367	417	14%	3.7%
Income tax expenses	28	38	215	469%	676%
Depreciation & Amortization	5,608	6,317	6,541	3.5%	17%
Other items	426	(59)	60	202%	-86%
EBITDA	6,606	6,893	7,976	16%	21%
EBITDA margin	33.4%	34.9%	41.0%		
EBITDA margin-excluding handsets and starter kits	42.9%	45.4%	50.1%		

EBITDA herein is EBITDA before other incomes and other expenses. Please see more details in the note of the financial statement.

Long-term debt repayment schedule (THB million) at end of Q217	Loan	Debenture
In 2017	-	-
In 2018	-	2,000
In 2019	10,875	1,500
In 2020	10,875	4,000
In 2021-2027	1,750	18,000

Key Financial Ratio	Q216	Q117	Q217
Return on Equity (%)	13%	4%	6%
Return on Asset (%)	3%	1%	1%
Interest Coverage Ratio (times)	4x	2x	3x
Net debt to EBITDA (times)	1.1x	1.1x	0.9x
CAPEX to Total Revenue (%)	22%	23%	21%

Outlook 2017

Market competition is expected to remain intense. Attractive handset offerings continue to be employed to attract high value customers, and prepaid handset subsidies are expected to persist in the market although on a less aggressive level. Data services remain a growth driver thanks to higher demand from the growth of streaming services and superior 4G experience.

Perception of dtac's brand and network is expected to continue improving, particularly after the announcement of the potential deal with TOT on 2300MHz wireless service. We aim to gain consumers' confidence with improving data network, digital services, and value for money position, and become no. 1 digital brand in Thailand by 2020.

We maintain the full year guidance of service revenues excluding IC at the same level as the previous year. CAPEX guidance is maintained in the range of THB 17-20 billion. EBITDA guidance is also maintained at "at least the same level as the previous year". Moreover, we focus on generating cash flow from operation and maintaining financial flexibility before end of concession.

2017 Guidance:

- **Service revenues excluding IC:** same level as the previous year.
- **EBITDA:** at least same level as the previous year.
- **CAPEX:** THB 17-20 billion.

We maintain our dividend policy which is to pay out dividend not less than 50% of the Company's net profits, depending on financial position and future business plans, and aim to pay dividend semi-annually. For the first half of 2017, no interim dividend has been considered as dtac would like to preserve its financial strength in order to support the long term strategic ambition.

CONTACT US:

TOTAL ACCESS
COMMUNICATION PLC.

319 Chamchuri Square,
Phayathai Road, Pathumwan,
Bangkok 10330

Investor Relations

Tel: +662 202 8882

E-mail: IR@dtac.co.th

Website: www.dtac.co.th

Disclaimer

Some statements made in this material are forward-looking statements with the relevant assumptions, which are subject to various risks and uncertainties. These include statements with respect to our corporate plans, strategies and beliefs and other statements that are not historical facts. These statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "anticipate", "intend", "estimate", "continue" "plan" or other similar words.

The statements are based on our management's assumptions and beliefs in light of the information currently available to us. These assumptions involve risks and uncertainties which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Please note that the company and executives/staff do not control and cannot guarantee the relevance, timeliness, or accuracy of these statements.