

MD&A



Executive Summary

In Q216, postpaid segment continued to do well amid intense competition, adding another 191k subs during the quarter on the back of improving network, popular digital services, and value-for-money position. Correspondingly, postpaid revenues rose from the same period last year. The prepaid segment faced several challenges, including widespread handset subsidies, aggressive MNP campaigns, and ongoing trend of subscribers migrating to postpaid. The increase in postpaid revenues did not fully compensate for the decline in prepaid. There was a THB 164 million one-time accounting adjustment of prepaid revenue, resulting in lower service revenues excluding IC in Q216. Excluding the adjustment, service revenues excluding IC decreased 1.4%YoY, compared to 2.4%YoY decrease on reported basis. Data revenue remained the growth driver, but not fully offsetting the decline in voice revenue.

In Q216, dtac continued to enhance its 4G network and digital brand perception. We further deployed 5.3k additional 4G base stations on 2.1GHz and 1800MHz during Q216, resulting in the total of 15.6k 4G base stations nationwide. Network perception campaigns were continuously carried out during the quarter to strengthen consumers' confidence in dtac's network quality, strong spectrum portfolio and commitment to consumers. dtac highlighted its digital brand aspiration by launching the new "dtac prepaid" brand targeting data-driven prepaid users, and digital service "dtac Music Infinite" app attracting digital lifestyle users who listen to online streaming music.

EBITDA (before other incomes and other expenses) declined 1.8%YoY and 9.8%QoQ to THB 6,606 million, while EBITDA margin was 33.4%. The decline in EBITDA was mainly due to lower revenues and higher negative handset margin, partially offset by lower regulatory cost and savings from operation excellence programs. In Q216, we recorded a one-time restructuring cost of THB 394 million as part of transforming dtac into a digitally driven company, with an aspiration to become the no. 1 digital brand in Thailand. Consequently, net profit amounted to THB 141 million, decreasing 90%YoY and 89%QoQ, due to the lower EBITDA, the restructuring cost, and higher depreciation & amortization expenses, resulting from high CAPEX to expand network coverage and improve network quality.

FY16 guidance has been revised on service revenue and EBITDA margin to 'service revenues excluding IC slightly decline from the previous year', and 'EBITDA margin of 31-33%', respectively. Meanwhile, CAPEX guidance has been maintained at the same spending level as last year, approximately THB 20 billion. Digital brand perception and customers' Internet experience will be further improved as we continue strengthening our 4G network with 4G-2.1GHz footprint in every district throughout Thailand to ensure quality Internet experiences and sufficient capacity to serve growing mobile Internet usage. Moreover, we will continue introducing additional digital services regularly to serve consumers' digital lifestyles.

Operational Summary

In Q216, total subscriber was 25 million, decreasing by 524k from Q116 due to contraction in the prepaid segment. Postpaid subscriber base continued its positive momentum and recorded 191k additional subscribers due to attractive postpaid price plans affirming our value-for-money position, enhanced 4G network leading to better network perception, and campaigns encouraging prepaid to postpaid upgrade. Prepaid performance was impacted by competitors' aggressive subscriber acquisition activities through heavy handset subsidization and strong distribution channels. As a result, the prepaid segment posted 715k subscriber loss. dtac reintroduced prepaid handset subsidy and launched new "dtac prepaid" branded SIM targeting data-oriented user segments as measures to turn the situation around.

In Q216, the number of subscribers registered on the 2.1GHz licensed network increased to 23 million and represented

92% of our total subscriber base, increasing from 91% in Q116 and 87% in Q215. Data user penetration increased from 58% in Q116 to 60%, and smartphone penetration reached 65%, driven by consumers' awareness of 4G, attractive offers and improving Internet experience from the 4G network expansion. Our 4G user base reached 3.5 million in this quarter, up from 2.9 million in the previous quarter. We target to have 6 million 4G subscribers by end of this year.

Blended Average Revenue per User excluding IC (ARPU) was THB 211, an increase of 7%YoY, due to the lower prepaid subscriber base, mainly from the impact of prepaid registration last year. ARPU dropped 2.6% QoQ as growth in data could not fully compensate decline in voice. Blended Minutes of Use excluding IC (MOU) was 138 minutes, a decrease of 17%YoY and 9.9%QoQ, due to substitution effect from voice to data, including Voice over IP.

MANAGEMENT DISCUSSION AND ANALYSIS **SECOND QUARTER 2016**

Active subscribers (in thousand)	Q215	Q116	Q216	%QoQ	%YoY
Postpaid (under concession from CAT)	625	537	507	-5.5%	-19%
Prepaid (under concession from CAT)	2,861	1,808	1,420	-21%	-50%
Postpaid (under 2.1GHz license)	3,463	3,895	4,116	5.7%	19%
Prepaid (under 2.1GHz license)	19,994	19,237	18,910	-1.7%	-5.4%
Total	26,943	25,477	24,953	-2.1%	-7.4%
Net additional subscribers (in thousand)	Q215	Q116	Q216	%QoQ	%YoY
Postpaid	84	108	191	77%	129%
Prepaid	-1,567	117	-715	-710%	54%
Total	-1,484	225	-524	-333%	65%
MOU (minutes/sub/month)	Q215	Q116	Q216	%QoQ	%YoY
Postpaid	327	299	290	-3.1%	-11%
Prepaid	186	173	157	-9.5%	-16%
Blended	206	194	179	-7.4%	-13%
Postpaid excluding IC	236	216	205	-4.9%	-13%
Prepaid excluding IC	153	140	123	-12%	-20%
Blended excluding IC	165	153	138	-9.9%	-17%
ARPU (THB/sub/month)	Q215	Q116	Q216	%QoQ	%YoY
Postpaid	564	531	549	3.4%	-2.7%
Prepaid	162	176	160	-8.9%	-1.6%
Blended	218	234	227	-3.1%	4.1%
Postpaid excluding IC	537	512	517	1.0%	-3.7%
Prepaid excluding IC	143	159	148	-6.8%	3.2%
Blended excluding IC	198	217	211	-2.6%	7.0%

Financial Summary

Revenues

In Q216, total revenues amounted to THB 19,799 million, a decrease of 9.7%YoY and 8.7%QoQ, mainly driven by the decline in voice revenues and lower handset sales. Service revenues excluding IC amounted to THB 16,038 million, a decrease of 2.4%YoY and 2.4%QoQ, due to the decline in voice revenue partially offset by growth in data revenue. In this quarter, there was a one-time accounting adjustment, resulted in lower prepaid revenues by THB 164 million. Excluding the adjustment, service revenues excluding IC would be THB 16,202 million, a decrease of 1.4%YoY and 1.4%QoQ.

Voice revenues amounted to THB 5,831 million, a decrease of 20%YoY and 12%QoQ, due to the substitution effect from voice to data after subscribers adopting smartphones, and competitive data pricing.

Data revenues amounted to THB 8,685 million, an increase of 14%YoY and 5.7%QoQ, driven by higher smartphone penetration and data consumption, thanks to continued improvement in 4G/3G networks and growth of audio and video streaming services. Data revenues increased to 54.2% of service revenues excluding IC, compared to 50.0% in Q116 and 46.3% in Q215.

International Roaming (IR) revenues amounted to THB 321 million, decreasing 4.2%YoY due to competition. QoQ, the IR revenue dropped 18% due to lower inbound revenues during low season for tourism.

Other service revenues, mainly consisting of IDD revenues and other service fees, amounted to THB 1,200 million, an increase of 3.5%YoY, driven by the IDD revenues. QoQ, other service revenues decreased 1.4%.

Interconnection Charge (IC) revenues amounted to THB 1,157 million, a decrease of 28%YoY due to the change of IC rate to THB 0.34 from THB 0.45 per minute starting from July 1, 2015. QoQ, IC revenues decreased 2.3%. Net IC revenues were THB 65 million, compared to THB 63 million in Q116 and THB 82 million in Q215.

Handset and starter kit sales amounted to THB 2,331 million, a decrease of 39%YoY and 39%QoQ, due to more competitive handset subsidy campaigns and decline in number of iPhone units sold. The net loss in handset and starter kits sales in this quarter was THB 889 million, compared to a net loss of THB 754 million in Q215 and a net loss of THB 152 million in Q116 as a result of higher level of prepaid handset subsidies in this quarter to drive 2G-to-3G/4G migration and to respond to market competition.

Cost of Services

Cost of services excluding IC amounted to THB 10,160 million and increased 3.9%YoY, mainly due to higher depreciation & amortization from network investments. Cost of services excluding IC were stable QoQ, as the decline in regulatory cost and other operating costs were able to compensate the increase in depreciation & amortization and network OPEX.

Regulatory costs amounted to THB 2,456 million, a decrease of 20%YoY and 16%QoQ, due to larger proportion of 2.1GHz subscribers in the total base and higher 2.1GHz handset penetration, and DR rate adjustment. Regulatory costs to service revenues excluding IC was 15.3%, compared to 17.7% in Q116 and 18.8% in Q215.

Network OPEX amounted to THB 1,496 million, an increase of 3.9%YoY and 16%QoQ. The increases were in line with network expansion as we added 5.3k 4G base stations in Q216. As a result, the total number of 4G base stations reached 15.6k, increasing from 10.3k in Q116 and 3.4k in Q215. We plan to increase 4G footprint to cover every district throughout Thailand by the end of Q316 to strengthen our network perception and enhance customers' experience.

Other operating costs of services amounted to THB 850 million, a decrease of 18%YoY and 11%QoQ. The decreases were due to lower IP transit costs and lower IDD costs.

Depreciation and Amortization (D&A) of costs of services amounted to THB 5,358 million, an increase of 27%YoY and 6.6%QoQ, mainly due to 4G network investments.

Selling, General and Administrative Expenses (SG&A)

SG&A expenses amounted to THB 4,803 million, an increase of 21%YoY and 6.5%QoQ. The increases were mainly due to the one-time restructuring costs of THB 394 million in this quarter and higher S&M expenses to compete in the market. The restructuring cost was part of transforming dtac to become a digital organization as we aspire to become the no.1 digital brand in Thailand. Excluding the restructuring costs, SG&A expenses decreased 2.3%QoQ.

Selling and Marketing (S&M) expenses amounted to THB 1,914 million, an increase of 9.0%YoY and 4.9%QoQ. The increase was to support selling activities, strengthen brand perception and promote new brand and digital services, including the new "dtac prepaid" SIM and "dtac Music Infinite" app, launched in Q216. S&M expenses as a percentage of total revenues were 9.7%, compared to 8.4% in Q116 and 8.0% in Q215.

General administrative expenses amounted to THB 2,441 million, an increase of 44%YoY and 9.7%QoQ. The YoY increase was mainly due to the one-time restructuring cost of THB 394 million and the reversal of accrued bonus in Q215, while the QoQ increase came from the one-time restructuring costs. Excluding the restructuring costs of THB 394 million, general administrative expenses decreased 8% QoQ.

Provision for bad debt amounted to THB 198 million, decreasing 8.5%YoY after prepaid registration in Q315. QoQ, provision of bad debt increased 3.5% due to the revamped "Jai Dee Emergency Refill". The "Jaidee Emergency Refill" is a service that prepaid subscribers can borrow emergency credit with service fee.

EBITDA and Net Profit

EBITDA (before other incomes and other expenses) amounted to THB 6,606 million, a decrease of 1.8%YoY and 9.8%QoQ. The decreases mainly came from lower service revenues, higher negative handset margin, and higher network and S&M expenses, partially offset by lower regulatory cost and savings from operation excellence programs. Excluding the prepaid revenue adjustment of THB 164 million, EBITDA would be THB 6,770 million, increasing 0.6%YoY and decreasing 7.6%QoQ. The EBITDA margin was 33.4%, decreasing from 33.8% in Q116 mainly due to higher handset subsidies, partly offset by lower regulatory cost, while EBITDA margin improved from 30.7% in Q215. Excluding the handsets and starter kits, the EBITDA margin was 42.9%, compared to 41.9% in Q116 and 41.3% in Q215.

Net profit amounted to THB 141 million, declining 90%YoY and 89%QoQ. The decreases were mainly due to higher depreciation & amortization as a result of CAPEX to expand network, lower EBITDA and the one-time restructuring cost of THB 394 million.

Balance Sheet and Key Financial Information

At the end of Q216, total assets amounted to THB 113,476 million and increased 2.3% from the end of FY15 mainly due to higher cash. Cash and cash equivalent amounted to THB 17,584 million and up from THB 10,121 million at end of FY15, while Interest-Bearing Debt stood at THB 49,000 million and was stable from the last quarter. Net debt to EBITDA was 1.1x, compared to 1.1x in Q116 and 1.0x in Q215.

Operating Cash Flow (defined as EBITDA - CAPEX) amounted to 2,313 million, a decrease of 35%YoY and 12%QoQ. The YoY decrease was mainly from higher CAPEX, while the QoQ decrease was due to lower EBITDA. CAPEX in Q216 amounted to THB 4,293 million, representing 22% of total revenue.

Statement of financial position (THB million)	Q415	Q216
Cash and cash equivalent	10,121	17,584
Other current assets	16,074	12,714
Non-current assets	84,771	83,178
Total assets	110,965	113,476
Current liabilities	49,843	41,154
Non-current liabilities	33,899	44,933
Total liabilities	83,742	86,087
Total shareholders' equity	27,224	27,389
Total liabilities and shareholders' equity	110,965	113,476

Cash flows statement (THB million)	1H15	1H16
Cash flows from operating activities	18,003	17,593
Cash paid for interest expenses and tax	(1,617)	(2,224)
Net cash flows from operating activities	16,386	15,369
Net cash flows from investing activities	(8,554)	(7,675)
Net cash receipt/(Repayment) - loan & debenture	2,336	1,000
Dividend paid	(7,644)	(1,231)
Net cash flows from financing activities	(5,308)	(231)
Net change in cash & cash equivalent	2,524	7,463
Increase/(decrease)		
Beginning cash & cash equivalent	5,823	10,121
Ending cash & cash equivalent	8,347	17,584

MANAGEMENT DISCUSSION AND ANALYSIS
SECOND QUARTER 2016

Income statement (THB million)	Q215	Q116	Q216	%QoQ	%YoY
Voice	7,328	6,612	5,831	-12%	-20%
Data	7,607	8,216	8,685	5.7%	14%
IR	335	392	321	-18%	-4.2%
Others	1,159	1,216	1,200	-1.4%	3.5%
Service revenues ex. IC	16,429	16,437	16,038	-2.4%	-2.4%
IC revenues	1,598	1,185	1,157	-2.3%	-28%
Service revenues	18,027	17,621	17,195	-2.4%	-4.6%
Handsets and starter kits sales	3,804	3,836	2,331	-39%	-39%
Other operating income	93	218	273	25%	192%
Total revenues	21,924	21,676	19,799	-8.7%	-9.7%
Cost of services	(11,297)	(11,314)	(11,253)	-0.5%	-0.4%
<i>Regulatory</i>	<i>(3,088)</i>	<i>(2,916)</i>	<i>(2,456)</i>	<i>-16%</i>	<i>-20%</i>
<i>Network</i>	<i>(1,440)</i>	<i>(1,292)</i>	<i>(1,496)</i>	<i>16%</i>	<i>3.9%</i>
<i>IC</i>	<i>(1,515)</i>	<i>(1,121)</i>	<i>(1,092)</i>	<i>-2.6%</i>	<i>-28%</i>
<i>Others</i>	<i>(1,033)</i>	<i>(958)</i>	<i>(850)</i>	<i>-11%</i>	<i>-18%</i>
<i>Depreciation and Amortization</i>	<i>(4,221)</i>	<i>(5,027)</i>	<i>(5,358)</i>	<i>6.6%</i>	<i>27%</i>
Cost of handsets and starter kits	(4,558)	(3,989)	(3,221)	-19%	-29%
Total cost	(15,855)	(15,303)	(14,473)	-5.4%	-8.7%
Gross profit	6,069	6,373	5,326	-16%	-12%
SG&A	(3,954)	(4,511)	(4,803)	6.5%	21%
<i>Selling & Marketing expenses</i>	<i>(1,756)</i>	<i>(1,825)</i>	<i>(1,914)</i>	<i>4.9%</i>	<i>9.0%</i>
<i>General administrative expenses</i>	<i>(1,699)</i>	<i>(2,226)</i>	<i>(2,441)</i>	<i>9.7%</i>	<i>44%</i>
<i>Provision for bad debt</i>	<i>(217)</i>	<i>(191)</i>	<i>(198)</i>	<i>3.5%</i>	<i>-8.5%</i>
<i>Depreciation and Amortization</i>	<i>(282)</i>	<i>(269)</i>	<i>(250)</i>	<i>-7.2%</i>	<i>-12%</i>
Gain/(Loss) on foreign exchange	(196)	73	(3)	-105%	98%
Interest income	15	34	38	12%	158%
Other income & share of profit from investment in associated company	19	20	14	-31%	-27%
EBIT	1,953	1,989	572	-71%	-71%
Finance cost	(318)	(404)	(403)	-0.4%	27%
Income tax expenses	(263)	(329)	(28)	-92%	-89%
Net profit attributable to equity holder	1,375	1,256	141	-89%	-90%

EBITDA (THB million)	Q215	Q116	Q216	%QoQ	%YoY
Net profit for the period	1,373	1,256	141	-89%	-90%
Finance costs	318	404	403	-0.4%	27%
Income tax expenses	263	329	28	-92%	-89%
Depreciation & Amortization	4,502	5,296	5,608	5.9%	25%
Other items	273	42	426	911%	56%
EBITDA	6,728	7,327	6,606	-9.8%	-1.8%
EBITDA margin	30.7%	33.8%	33.4%		
EBITDA margin-excluding handsets and starter kits	41.3%	41.9%	42.9%		

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

Debt repayment schedule (THB million) at end of Q216	Loan	Debenture
During July 2016 — December 2016	-	5,000
In 2017	-	-
In 2018	-	2,000
In 2019	12,600	-
In 2020	12,600	4,000
In 2021-2027	3,800	9,000
Interest bearing debt at end of Q216	29,000	20,000

Key Financial Ratio	Q215	Q116	Q216
Return on Equity (%)	28%	18%	13%
Return on Asset (%)	8%	4%	3%
Interest Coverage Ratio (times)	9x	6x	4x
Net debt to EBITDA (times)	1.0x	1.1x	1.1x
CAPEX to Total Revenue (%)	14%	22%	22%



Outlook 2016

Intense market competition is likely to continue in the second half of this year. Operators are expected to use attractive handset offering to attract customers and prepaid handset subsidies are expected to remain in the market for some time. Data services remain a growth driver thanks to competitive handset offerings and higher Internet consumption from growth of streaming services and superior 4G experience. Data pricing has stabilized after the new 4G tariffs, which give a large monthly data allowance, were launched early this year. The declining voice revenue trend is expected to continue.

Perception of dtac's brand and network continues to strengthen further to pave the way to be the no. 1 digital brand in Thailand. We aim to gain consumers' confidence with our improving data network and digital services. We will affirm our value for money position and continue improving the Internet experience with digital services, including "dtac Music Infinite" and new digital services, to be launched on a regular basis. Postpaid handset offerings will be continued to increase the number of data users, customer stickiness, and prepaid to postpaid upgrade, while prepaid handset subsidy campaigns will be pursued if necessary, depending on market situation.

After turning on 4G network in every province in the first half of this year and deploying full bandwidth of 20MHz on 4G-1800MHz in Bangkok and Metropolitan Area, our 4G network will be further strengthened with the expansion of 4G-2.1GHz footprint in every district throughout Thailand by Q316. This will ensure seamless Internet experience and sufficient capacity to serve growing mobile Internet usage. We aim to have 6 million 4G subscribers by end of this year.

We adjust 2016 guidance for service revenues excluding IC to be slight decline from the previous year to reflect the first half results and expected market situation in the second half of FY16. EBITDA guidance is revised to 31%-33% with handset subsidy level as a swing factor. This year CAPEX guidance is maintained at about the same level as last year, which was about THB 20 billion.

2016 Guidance:

- Service revenues excluding IC: expect to slightly decline from the previous year *(Updated)*
- EBITDA margin: in the range of 31-33% *(Updated)*
- CAPEX: the same level as the previous year *(Maintained)*

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 aims to pay dividend semi-annually. In the first 6 months of FY16, the Company pays the interim dividend at the rate of THB 0.42 per share.

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.

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