

MD&A



Executive Summary

In the first quarter of 2017, dtac strengthened the network perception with the “Smoothest” campaign, as well as its market position with the “Flip It” brand platform. We affirmed our value-for-money position with the launch of “Go No Limit”, an unlimited data offer with a variety of Internet speeds for customers to choose, and “Go Plearn” prepaid SIM, with free data at 64kbps speed. Moreover, the dtac Reward program has been vastly improved to build loyalty among our customer base. Furthermore, densification of the network has been progressing well. 2.5k additional 4G/3G nodes in the 2.1GHz network were installed in Q117. These developments and upcoming activities should pave the way for us to achieve our aim to become the no. 1 digital brand in Thailand in 2020 and improve our service revenue development going forward.

In Q117, dtac reported service revenues excluding IC of THB 16,224 million, increasing 1.3%QoQ because of strong growth in revenue from data services and postpaid segment, but declining 1.3%YoY mainly due to decline in revenue from voice service and prepaid segment. However, average daily service revenue was stable YoY, reflecting stabilization of service revenue trend. Postpaid revenue and subscriber growth momentum continued both YoY and QoQ, driven by attractive offers and prepaid-to-postpaid conversion, while dtac was cautious in prepaid spending, resulting in lower prepaid revenue and subscriber base.

EBITDA (before other items) was THB 6,893 million, declining 5.9%YoY due to lower service revenues and higher handset subsidies, network OPEX and provision for bad debt. However, EBITDA margin improved to 34.9%. The EBITDA increased 2.0%QoQ due to higher service revenues and ongoing cost control. Net profit amounted to THB 229 million, increasing 661%QoQ mainly due to higher EBITDA and the restructuring cost of THB 146 million in Q416, but declining 82%YoY due to higher depreciation and amortization expenses from network expansion. We generated healthy operating cash flow of THB 2,416 million, in line with EBITDA development. Financial position remained healthy and flexible for future business opportunities.

We maintain FY17 guidance and continue to strengthen perception of our brand and network, as well as ensure our value-for-money position in order to stabilize the service revenue trend. Ongoing operation excellence programs would help to support EBITDA target. Q117 CAPEX spending amounted to THB 4,477 million, in line with FY17 CAPEX guidance of THB 17-20 billion. In addition, we will focus on cash flow from operations to maintain financial flexibility and ensure that we are ready for new business opportunities. In late Q117, dtac Trinet (“DTN”), dtac’s fully owned subsidiary, submitted the proposal for the 2300 MHz spectrum partner selection by TOT Public Company Limited (“TOT”).

Operational Summary

In Q117, we launched the “Smoothest” campaign to further strengthen the perception of “dtac Super 4G” network, and the “Flip It” brand platform. Along with the new brand platform, we introduced new value-for-money price plans, “Go No Limit”, and “Go Plearn” prepaid SIM. The new price plans offer unlimited data usage at a variety of Internet speeds to suit various usage profiles. In addition, the dtac Reward program has been improved to provide better benefits and build loyalty among our customer base, as well as enhance dtac’s brand visibility in the market. At the end of Q117, total number of subscribers was 24.3 million, declining 170k from the previous quarter. The decrease was due to the 365k contraction of prepaid subscriber base, which was partly offset by the growth of postpaid subscriber base of 195k. Growth in postpaid subscriber base was mainly driven by attractive offers and prepaid-to-postpaid conversion.

In Q117, 23.3 million subscribers, or 96% of total subscriber base, were registered on 2.1GHz licensed network, up from 91% in Q116. Meanwhile, smartphone penetration reached 70% and data users increased to 63% of total subscriber base, as we continued to offer attractive tariffs, smartphone bundling campaigns in postpaid segment, and improved Internet experience. We increased the number of 4G users to 5.9 million, or 24% of our subscriber base.

Due to higher postpaid share of subscriber mix, blended Average Revenue per User excluding IC (ARPU) rose to THB 221, an increase of 1.7%YoY and 0.5%QoQ. Blended Minutes of Use excluding IC (MOU) was 118 minutes and continued to decline due to substitution effect from voice to data, including Voice over IP.

MANAGEMENT DISCUSSION AND ANALYSIS				FIRST QUARTER 2017	
Active subscribers (in thousand)	Q116	Q416	Q117	%QoQ	%YoY
Postpaid (<i>under concession from CAT</i>)	537	412	379	-7.9%	-29%
Prepaid (<i>under concession from CAT</i>)	1,808	815	647	-21%	-64%
Postpaid (<i>under 2.1GHz license</i>)	3,895	4,613	4,841	4.9%	24%
Prepaid (<i>under 2.1GHz license</i>)	19,237	18,640	18,443	-1.1%	-4.1%
Total	25,477	24,480	24,310	-0.7%	-4.6%
Net additional subscribers (in thousand)	Q116	Q416	Q117	%QoQ	%YoY
Postpaid	108	207	195	-5.9%	81%
Prepaid	117	-548	-365	33%	-411%
Total	225	-340	-170	50%	-175%
MOU (minutes/sub/month)	Q116	Q416	Q117	%QoQ	%YoY
Postpaid	299	276	264	-4.4%	-12%
Prepaid	173	138	130	-5.8%	-25%
Blended	194	165	157	-4.9%	-19%
Postpaid excluding IC	216	194	185	-4.3%	-14%
Prepaid excluding IC	140	107	101	-5.6%	-28%
Blended excluding IC	153	124	118	-4.8%	-23%
ARPU (THB/sub/month)	Q116	Q416	Q117	%QoQ	%YoY
Postpaid	531	556	559	0.6%	5.4%
Prepaid	176	159	153	-3.6%	-13%
Blended	234	235	233	-0.6%	-0.3%
Postpaid excluding IC	512	524	533	1.6%	4.0%
Prepaid excluding IC	159	148	144	-2.5%	-9.2%
Blended excluding IC	217	220	221	0.5%	1.7%

Financial Summary

Revenues

In Q117, total revenues amounted to THB 19,748 million, a decrease of 8.9%YoY and 8.0%QoQ due mainly to lower handset sales. Service revenues excluding IC amounted to THB 16,224 million, declining 1.3% YoY due in large part to lower voice revenues, which was partly offset by higher data revenues. However, service revenues excluding IC increased 1.3% QoQ due to improvement in data and IR revenues and effectiveness of the campaigns implemented during the quarter.

Voice revenues amounted to THB 4,338 million, a decrease of 34%YoY and 14%QoQ, due to continuing voice to data substitution effect.

Data revenues amounted to THB 10,377 million, an increase of 26%YoY and 9.2%QoQ. Total number of data users and average Internet usage per data user continued to increase thanks to attractive price plans, handset bundling offers and improving 4G network quality. As a result, data revenues increased to 64.0% of service revenues excluding IC, compared to 59.3% in Q416 and 50.0% in Q116.

International Roaming (IR) revenues amounted to THB 357 million and decreased 8.7%YoY due to lower inbound revenues. QoQ, the IR revenue grew by 32% mainly due to increased inbound revenues.

Other service revenues amounted to THB 1,151 million, a decrease of 5.3%YoY and 4.4%QoQ, mainly due to lower IDD revenues.

Handset and starter kit sales amounted to THB 2,446 million, a decrease of 36%YoY and 40%QoQ, mainly due to lower number of iPhone units sold and accounting adjustment. As a result, the net loss in handset and starter kits sales in this quarter increased to THB 958 million, comparing to the net loss of THB 835 million in Q416 and THB 152 million in Q116. Excluding the adjustment, the net loss in handset and starter kits sales in Q117 decreased from Q416.

Cost of Services

Cost of services excluding IC amounted to THB 11,086 million, an increase of 8.8%YoY and 1.9%QoQ. The increase was mainly due to network expansion which drove up depreciation & amortization and network OPEX.

Regulatory costs amounted to THB 2,571 million, decreasing 12%YoY due to larger 2.1GHz subscriber base, higher 2.1GHz handset penetration and DR rate adjustment. QoQ, regulatory cost was stable. Regulatory costs to service revenues excluding IC were 15.8%, compared to 16.1% in Q416 and 17.7% in Q116.

Network OPEX amounted to THB 1,604 million, an increase of 24%YoY and 3.1%QoQ, following the higher number of 3G and 4G base stations. At end of Q117, the total number of 4G nodes increased to 23.2k, compared to 21.8k in Q416 and 10.3k in Q116.

Other operating costs of services amounted to THB 821 million, decreasing 14%YoY mainly due to lower IP transit costs from operation efficiency program and lower IDD costs in line with IDD revenue development. QoQ, other operating costs of services increased 9.3% due to higher commission and roaming cost.

Depreciation and Amortization (D&A) of costs of services amounted to THB 6,090 million, an increase of 21%YoY and 1.5%QoQ, due to network investments.

Selling, General and Administrative Expenses (SG&A)

SG&A expenses amounted to THB 3,889 million, a decrease of 14%YoY and 11%QoQ. The decrease was due to lower selling & marketing expenses and general administrative expenses.

Selling and Marketing (S&M) expenses amounted to THB 1,357 million, a decrease of 26%YoY and 23%QoQ. The decrease was due to cost control and accounting adjustment by reclassification of handset related expense to better reflect nature of expense. Normalized S&M expenses also declined despite the launch of the "Smoothest" network campaign and the "Flip It" brand platform in this quarter, reflecting efficiency in marketing spending.

General administrative expenses amounted to THB 1,983 million, a decrease of 11%YoY and 11%QoQ. The YoY decrease was mainly due to cost control and impairment of assets last year, while the QoQ decrease was largely due to restructuring costs and write-offs in Q416.

Provision for bad debt amounted to THB 322 million, an increase of 68%YoY and 148%QoQ, as a result of higher postpaid acquisition.

EBITDA and Net Profit

EBITDA (before other items) was THB 6,893 million and decreased 5.9%YoY, mainly due to lower service revenue, higher handset subsidies, network OPEX and provision for bad debt, which was partly offset by lower regulatory cost and S&M expenses. QoQ, EBITDA increased 2.0% because of higher service revenues, ongoing cost control and write-offs in Q416. EBITDA margin in Q117 increased to 34.9% from 33.8% in Q116 and 31.5% in Q416. Excluding the handset and starter kits, EBITDA margin was 45.4%, compared to 41.9% in Q116 and 43.6% in Q416.

Net profit in Q117 was THB 229 million and increased 661%QoQ mainly due to higher EBITDA and the restructuring cost of THB 146 million in the previous quarter. However, net profit decreased 82%YoY due mainly to higher depreciation and amortization from network expansion.

Balance Sheet and Key Financial Information

At the end of Q117, total assets amounted to THB 113,433 million, decreasing from THB 115,379 million at the end of last year because of declining concessionary assets. Cash and cash equivalent amounted to THB 18,063 million, decreasing from THB 18,293 million at end of FY16 mainly due to payment of network equipment. Interest-bearing debt was stable at THB 49,165 million. Net debt to EBITDA was stable at 1.1x.

Operating cash flow (defined as EBITDA - CAPEX) amounted to THB 2,416 million, decreasing 8.1%YoY due to lower EBITDA, but increasing 204%QoQ due to higher EBITDA and lower CAPEX. In Q117, CAPEX spending amounted to THB 4,477 million, comparing to FY17 guidance of THB 17,000-20,000 million.

Statement of financial position (THB million)	Q416	Q117
Cash and cash equivalent	18,293	18,063
Other current assets	13,618	13,056
Non-current assets	83,467	82,315
Total assets	115,379	113,433
Current liabilities	38,232	36,067
Non-current liabilities	50,002	49,996
Total liabilities	88,234	86,062
Total shareholders' equity	27,145	27,371
Total liabilities and shareholders' equity	115,379	113,433

Cash flows statement (THB million)	3M16	3M17
Cash flows from operating activities	10,638	5,884
Cash paid for interest expenses and tax	(790)	(709)
Net cash flows from operating activities	9,848	5,175
Net cash flows from investing activities	(3,924)	(5,405)
Net cash receipt/(Repayment) - loan & debenture	1,000	-
Dividend paid	-	-
Net cash flows from financing activities	1,000	-
Net change in cash & cash equivalent	6,924	(231)
Increase/(decrease)	6,924	(231)
Beginning cash & cash equivalent	10,121	18,293
Ending cash & cash equivalent	17,045	18,063

MANAGEMENT DISCUSSION AND ANALYSIS
FIRST QUARTER 2017

Income statement (THB million)	Q116	Q416	Q117	%QoQ	%YoY
Voice	6,612	5,046	4,338	-14%	-34%
Data	8,216	9,502	10,377	9.2%	26%
IR	392	270	357	32%	-8.7%
Others	1,216	1,205	1,151	-4.4%	-5.3%
Service revenues ex. IC	16,437	16,023	16,224	1.3%	-1.3%
IC revenues	1,185	1,093	848	-22%	-28%
Service revenues	17,621	17,116	17,071	-0.3%	-3.1%
Handsets and starter kits sales	3,836	4,064	2,446	-40%	-36%
Other operating income	218	285	230	-19%	5.5%
Total revenues	21,676	21,465	19,748	-8.0%	-8.9%
Cost of services	(11,314)	(11,922)	(11,893)	-0.2%	5.1%
<i>Regulatory</i>	<i>(2,916)</i>	<i>(2,574)</i>	<i>(2,571)</i>	<i>-0.1%</i>	<i>-12%</i>
<i>Network</i>	<i>(1,292)</i>	<i>(1,556)</i>	<i>(1,604)</i>	<i>3.1%</i>	<i>24%</i>
<i>IC</i>	<i>(1,121)</i>	<i>(1,041)</i>	<i>(807)</i>	<i>-23%</i>	<i>-28%</i>
<i>Others</i>	<i>(958)</i>	<i>(751)</i>	<i>(821)</i>	<i>9.3%</i>	<i>-14%</i>
<i>Depreciation and Amortization</i>	<i>(5,027)</i>	<i>(6,001)</i>	<i>(6,090)</i>	<i>1.5%</i>	<i>21%</i>
Cost of handsets and starter kits	(3,989)	(4,898)	(3,405)	-30%	-15%
Total cost	(15,303)	(16,820)	(15,297)	-9.1%	0.0%
Gross profit	6,373	4,645	4,451	-4.2%	-30%
SG&A	(4,511)	(4,368)	(3,889)	-11%	-14%
<i>Selling & Marketing expenses</i>	<i>(1,825)</i>	<i>(1,773)</i>	<i>(1,357)</i>	<i>-23%</i>	<i>-26%</i>
<i>General administrative expenses</i>	<i>(2,226)</i>	<i>(2,234)</i>	<i>(1,983)</i>	<i>-11%</i>	<i>-11%</i>
<i>Provision for bad debt</i>	<i>(191)</i>	<i>(130)</i>	<i>(322)</i>	<i>148%</i>	<i>68%</i>
<i>Depreciation and Amortization</i>	<i>(269)</i>	<i>(232)</i>	<i>(227)</i>	<i>-1.9%</i>	<i>-15%</i>
Gain/(Loss) on foreign exchange	73	7	16	124%	-78%
Interest income	34	53	43	-18%	27%
Other income & share of profit from investment in associated company	20	19	13	-33%	-37%
EBIT	1,989	356	634	78%	-68%
Finance cost	(404)	(376)	(367)	-2.4%	-9.2%
Income tax expenses	(329)	50	(38)	176%	-89%
Net profit attributable to equity holder	1,256	30	229	661%	-82%

EBITDA (THB million)	Q116	Q416	Q117	%QoQ	%YoY
Net profit for the period	1,256	30	229	660%	-82%
Finance costs	404	376	367	-2.4%	-9.2%
Income tax expenses	329	(50)	38	176%	-89%
Depreciation & Amortization	5,296	6,232	6,317	1.4%	19%
Other items	42	168	(59)	-135%	-239%
EBITDA	7,327	6,757	6,893	2.0%	-5.9%
EBITDA margin	33.8%	31.5%	34.9%		
EBITDA margin-excluding handsets and starter kits	41.9%	43.6%	45.4%		

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 Q117	Loan	Debenture
In 2017	-	-
In 2018	-	2,000
In 2019	12,600	1,500
In 2020	12,600	4,000
In 2021-2027	3,800	12,500

Key Financial Ratio	Q116	Q416	Q117
Return on Equity (%)	18%	8%	4%
Return on Asset (%)	4%	2%	1%
Interest Coverage Ratio (times)	6X	3X	2X
Net debt to EBITDA (times)	1.1X	1.1x	1.1X
CAPEX to Total Revenue (%)	22%	28%	23%

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 than the previous year. 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 continues to improve to pave the way to be the no. 1 digital brand in Thailand. We aim to gain consumers' confidence with improving data network, digital services, and value for money position.

We maintain the full year guidance of service revenues excluding IC of the same level as the previous year, supported by improving network perception and solid value-for-money position in the market. CAPEX guidance is maintained in a range of THB 17-20 billion in FY17 to densify the network and enhance customer Internet experience.

EBITDA guidance is also maintained as at least the same amount as in FY16, driven by operation efficiency initiatives, despite the persistence of handset subsidies, particularly in the postpaid segment. Moreover, we maintain financial flexibility and focus on cash flow from operation in order to ensure that we are ready for new business opportunities, including future spectrum acquisition.

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.

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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