

MD&A



Executive Summary

FY16, Thai mobile industry continued to grow, driven by mobile Internet services. dtac expanded 4G networks nationwide to secure the leading 4G position, improved network perception and continued transferring subscribers to licensed networks. However, competition in the industry remained intense, particularly on handset subsidies to attract and retain subscribers. Moreover, data monetization was still an industry challenge as strong growth in data consumption outpaced data revenue development.

dtac affirmed a strong spectrum portfolio with bandwidth of 50MHz currently in use. With CAPEX spending of THB 20 billion in FY16, we increased the total number of 4G base stations to 21.8k, up from 6.3k last year, resulting in coverage of 4G services in every district throughout Thailand. Furthermore, in highly populated areas, we deployed 20MHz bandwidth of 1800MHz frequency for 4G services, called "Super 4G", to enhance customer experience. In addition to network development, we implemented many campaigns to strengthen network perception, value-for-money position, and digital brand image, including the launch of the new "dtac prepaid" brand. With the ambition to become no. 1 digital brand in Thailand by 2020, we delivered new digital experiences to customers throughout the year, including the "dtac MUSIC INFINITE" service and Voice-over-WiFi technology.

In FY16, our postpaid revenues grew 10.5%YoY while prepaid revenues decreased 9.5%YoY. The prepaid segment faced many challenges, including widespread handset subsidies, aggressive MNP campaigns, and subscribers

upgrading to postpaid. As the postpaid growth could fully not offset the prepaid contraction, service revenues excluding IC decreased 2.3%YoY to THB 64,693 million. Data services continued to be the growth driver, thanks to 4G network expansion, attractive smartphone deals, and popularity of social media and streaming services.

Despite lower service revenues and higher handset subsidies, FY16 EBITDA (before other income and other expenses) amounted to THB 27,915 million, relatively stable from last year, mainly supported by lower regulatory cost and implementation of operation excellence programs, such as IP Transit and IDD cost optimization. Our financial position remains flexible for future investment, with net debt to EBITDA of 1.1x, compared to 1.4x last year. However, net profit of FY16 decreased 65% to THB 2,086 million mainly due to an increase of depreciation and amortization (D&A) following the network expansion.

Aiming to be the no. 1 digital brand by 2020, dtac will strengthen its digital brand perception, deliver more digital services and build consumers' confidence in our mobile network. We plan to spend FY17 CAPEX in a range of THB 17-20 billion to densify network and enhance Internet experiences. As industry competition is likely to continue, our FY17 service revenue is expected to be about the same level as in FY16 supported by improving network perception and value-for-money offers. We expect FY17 EBITDA to be at least the same amount as in FY16, supported by financial discipline and operation efficiency initiatives.

Significant Event

Impairment of assets on the separate financial statements

In Q416, dtac performed impairment test of the deferred right to use of equipment and the equipment for supporting cellular telephone services (Concession Agreement) by comparing the carrying amount of the cash generating unit to its recoverable amount. As a result, we recognized non-cash loss from the asset impairment totaling THB 5,185 million in the separate financial statements. There was no impact on the consolidated financial statements. *(Please see notes in FY16 financial statement for more details)*

Operational Summary

At the end of FY16, total subscriber base was 24.5 million, decreasing from 25.3 million last year. The decrease was due to lower prepaid subscriber base as dtac was cautious in providing subsidies on prepaid handset amid massive amount of such subsidies being poured into the market by competitors. Meanwhile, postpaid subscriber base increased to 5.0 million from 4.3 million last year underpinned by successful prepaid-to-postpaid campaigns and value-for-money offers. In Q416, the total subscriber base decreased by 340k from Q316 as postpaid net addition of 207k was not sufficient to offset prepaid subscriber decrease of 548k.

During 2016, transition from concession to license regime continued. Subscribers registered on 2.1GHz licensed network increased to 95% of total subscriber base,

compared to 90% last year. Nationwide 4G network expansion, proliferation of streaming services, and more affordable devices drove smartphone penetration to 68%, compared to 61% last year. In addition, penetration of 4G users increased to 20% (5 million), while penetration of data users increased to 62% (15.2 million).

Due to the higher proportion of relatively higher-ARPU postpaid subs, blended Average Revenue per User excluding IC (ARPU) increased 5.9% to THB 216 in FY16. In Q416, blended ARPU was THB 220, increasing 0.6%QoQ, and stable YoY. Blended Minutes of Use excluding IC (MOU) continued to decrease due to substitution effect from voice to data, including Voice over IP.

MANAGEMENT DISCUSSION AND ANALYSIS							FY 2016		
Active subscribers (in thousand)	Q415	Q316	Q416	%QoQ	%YoY	FY15	FY16	%YoY	
Postpaid (under concession from CAT)	561	456	412	-9.6%	-27%	561	412	-27%	
Prepaid (under concession from CAT)	2,089	1,074	815	-24%	-61%	2,089	815	-61%	
Postpaid (under 2.1GHz license)	3,763	4,362	4,613	5.8%	23%	3,763	4,613	23%	
Prepaid (under 2.1GHz license)	18,840	18,928	18,640	-1.5%	-1.1%	18,840	18,640	-1.1%	
Total	25,252	24,820	24,480	-1.4%	-3.1%	25,252	24,480	-3.1%	
Net additional subscribers (in thousand)	Q415	Q316	Q416	%QoQ	%YoY	FY15	FY16	%YoY	
Postpaid	208	195	207	6.0%	-0.4%	474	702	48%	
Prepaid	192	-328	-548	-67%	-385%	-3,231	-1,473	54%	
Total	400	-132	-340	-158%	-185%	-2,756	-772	72%	
MOU (minutes/sub/month)	Q415	Q316	Q416	%QoQ	%YoY	FY15	FY16	%YoY	
Postpaid	318	285	276	-3.0%	-13%	332	287	-14%	
Prepaid	192	146	138	-5.1%	-28%	190	154	-19%	
Blended	213	171	165	-3.7%	-23%	211	177	-16%	
Postpaid excluding IC	231	201	194	-3.4%	-16%	240	203	-15%	
Prepaid excluding IC	157	114	107	-6.1%	-32%	156	122	-22%	
Blended excluding IC	169	130	124	-4.7%	-27%	168	136	-19%	
ARPU (THB/sub/month)	Q415	Q316	Q416	%QoQ	%YoY	FY15	FY16	%YoY	
Postpaid	542	556	556	-0.1%	2.6%	556	551	-0.9%	
Prepaid	178	162	159	-1.9%	-11%	166	162	-2.2%	
Blended	238	234	235	0.5%	-1.2%	222	231	4.0%	
Postpaid excluding IC	519	524	524	0.1%	1.0%	530	519	-2.2%	
Prepaid excluding IC	162	151	148	-1.9%	-8.7%	149	151	1.4%	
Blended excluding IC	220	218	220	0.6%	-0.1%	204	216	5.9%	

Financial Summary

Revenues

In FY16, total revenues amounted to THB 82,478 million, decreasing 6%YoY due to lower service revenues and handset sales. Service revenues excluding IC amounted to THB 64,693 million, decreasing 2.3%YoY, mainly driven by the decline in voice revenue, partly offset by the growth in data revenue. In Q416, service revenue excluding IC amounted to THB 16,023 million, a decrease of 3.6%YoY and 1.1%QoQ, due in part to subdued macro environment and challenges in prepaid segment.

Voice revenues amounted to THB 22,953 million, decreasing by 22%YoY due to continuing voice to data substitution effect after subscribers adopting smartphones.

Data revenues amounted to THB 35,744 million, an increase of 16%YoY, driven by increasing data users and average data usage per subscriber following improvement in networks and growth of streaming services. However, data monetization challenge still remained due to intense market competition. Contribution of data revenues increased to 55.3% of service revenues excluding IC, up from 46.4% in FY15.

International Roaming (IR) revenues amounted to THB 1,168 million, decreasing by 13%YoY due to competition, alternative services, and one-time adjustment of inbound revenues.

Other service revenues amounted to THB 4,829 million and decreased 1.2%YoY. In Q416, other service revenues were stable QoQ but decreased 7%YoY due to lower IDD revenues.

Handset and starter kit sales amounted to THB 12,181 million, decreasing by 21%YoY mainly due to lower number of iPhone units sold and higher handset subsidy in response

to industry competition. As a result, the net loss in handset and starter kits sales of FY16 was THB 2,505 million, increasing from the net loss of THB 1,961 million in FY15. In Q416, handset and starter kit sales decreased 23%YoY to THB 4,064 million due to the lower number of iPhone units sold and campaigns supporting prepaid-to-postpaid upgrade. However, handset and starter kit sales in Q416 increased 108%QoQ due to the launch of new iPhone models. The net loss in handset and starter kits in Q416 was THB 835 million, increasing from a net loss of THB 629 million in Q316 and a net loss of THB 54 million in Q415 due to handset campaigns such as iPhone offers and the "dtac best deal".

Cost of Services

Cost of services excluding IC amounted to THB 41,850 million and increased 6.5%YoY, driven by higher depreciation & amortization and network operating expenses, partly offset by lower regulatory cost.

Regulatory costs amounted to THB 10,472 million and decreased 14%YoY due to larger proportion of 2.1GHz subscribers in the total base, higher 2.1GHz handset penetration, and DR rate adjustment. As a result, regulatory cost to service revenues excluding IC decreased to 16.2% from 18.3% last year. In Q416, regulatory cost amounted to THB 2,574 million, increasing 1.8%QoQ due to higher data usage roaming on concession networks.

Network OPEX amounted to THB 5,900 million, an increase of 12%YoY, mainly due to 4G network expansion. The total number of 4G nodes (both 1800MHz and 2.1GHz) increased by 244%YoY to 21.8k by end of FY16. As a result, our 4G services were available in every district throughout Thailand.

In Q416, network OPEX was stable QoQ and increased 12%YoY.

Other operating costs of services amounted to THB 3,333 million, decreasing 23%YoY mainly due to lower IP transit cost and IDD cost.

Depreciation and Amortization (D&A) of costs of services amounted to THB 22,145 million, increasing 26%YoY due to network expansion on both the 2.1GHz licensed network and the 1800MHz/850MHz concession networks.

Selling, General and Administrative Expenses (SG&A)

SG&A expenses amounted to THB 17,796 million, increasing 5.5%YoY mainly driven by restructuring cost and higher S&M expenses to respond to market competition.

Selling and Marketing (S&M) expenses amounted to THB 7,192 million, increasing 4.2%YoY to support selling activities, strengthen brand perception and customer relationship programs, including “Blue Member” and “dtac rewards”. As a result, S&M expenses, as a percentage of total revenues, increased to 8.7%, compared to 7.9% last year. In Q416, S&M expenses decreased 14%YoY mainly due to lower media spending, but increased 5.5%QoQ due to seasonality.

General administrative expenses amounted to THB 8,887 million, increasing 14%YoY. Normalized, the general administrative expenses excluding restructuring costs increased 7.7%YoY due to channel expansion, IT expenses and impairment of assets.

Provision for bad debt amounted to THB 725 million, decreasing 25%YoY mainly due to provision made following the expiration of prepaid registration in last year.

EBITDA and Net Profit

EBITDA (before other income and other expenses) amounted to THB 27,915 million, being stable from FY15 level as higher handset subsidy and lower service revenues were offset by lower regulatory cost and cost efficiency programs. EBITDA margin was 33.8%, improving from 31.8% last year. The increase in EBITDA margin was mainly driven by lower regulatory cost and other operating costs of services. Excluding handsets and starter kits, the EBITDA margin was 43.3%, improving from 41.3% last year.

Net profit amounted to THB 2,086 million, decreasing 65%YoY largely due to higher depreciation and amortization and restructuring cost, partly offset by the stable EBITDA. In Q416, we reported a net profit of THB 30 million, a decrease of 97%YoY and 95%QoQ, mainly due to the higher depreciation and amortization and handset subsidy. We also recorded restructuring cost of THB 146 million in Q416.

Balance Sheet and Key Financial Information

At the end of FY16, total assets amounted to THB 115,369 million and increased from THB 111,044 million last year due to higher cash and PPE. Cash and cash equivalent amounted to THB 18,293 million and increased from THB 10,121 million last year mainly due to lower amount of dividend payment. Interest-bearing debt amounted to THB 49,165 million and increased from THB 48,000 million last year. Net debt to EBITDA was lower to 1.1x from 1.4x last year due to higher cash on hand.

Operating cash flow (defined as EBITDA - CAPEX) amounted to THB 7,605 million, decreasing by 1.5%YoY. We spent CAPEX of THB 20,310 million, in line with FY16 guidance.

Statement of financial position (THB million)	End of FY2015	End of FY2016
Cash and cash equivalent	10,121	18,293
Other current assets	16,153	13,608
Non-current assets	84,771	83,467
Total assets	111,044	115,369
Current liabilities	49,922	38,222
Non-current liabilities	33,899	50,002
Total liabilities	83,821	88,224
Total shareholders' equity	27,224	27,145
Total liabilities and shareholders' equity	111,044	115,369

Cash flows statement (THB million)	FY2015	FY2016
Cash flows from operating activities	28,100	30,706
Cash paid for interest expenses and tax	(3,324)	(4,080)
Net cash flows from operating activities	24,776	26,626
Net cash flows from investing activities	(23,572)	(17,392)
Net cash receipt/(Repayment) - loan & debenture	14,336	1,165
Dividend paid	(11,242)	(2,226)
Net cash flows from financing activities	3,094	(1,061)
Net change in cash & cash equivalent	4,297	8,173
Increase/(decrease)	4,297	8,173
Beginning cash & cash equivalent	5,823	10,121
Ending cash & cash equivalent	10,121	18,293

MANAGEMENT DISCUSSION AND ANALYSIS
FY 2016

Income statement (THB million)	Q415	Q316	Q416	%QoQ	%YoY	FY15	FY16	%YoY
Voice	7,084	5,463	5,046	-7.6%	-29%	29,252	22,953	-22%
Data	7,899	9,340	9,502	1.7%	20%	30,746	35,744	16%
IR	347	184	270	47%	-22%	1,336	1,168	-13%
Others	1,296	1,208	1,205	-0.3%	-7.0%	4,887	4,829	-1.2%
Service revenues ex. IC	16,627	16,196	16,023	-1.1%	-3.6%	66,222	64,693	-2.3%
IC revenues	1,206	1,124	1,093	-2.7%	-9.4%	5,637	4,559	-19%
Service revenues	17,834	17,320	17,116	-1.2%	-4.0%	71,858	69,252	-3.6%
Handsets and starter kits sales	5,280	1,949	4,064	108%	-23%	15,411	12,181	-21%
Other operating income	134	268	285	6.2%	112%	483	1,044	116%
Total revenues	23,249	19,537	21,465	9.9%	-7.7%	87,753	82,478	-6.0%
Cost of services	(11,475)	(11,671)	(11,922)	2.1%	3.9%	(44,692)	(46,160)	3.3%
<i>Regulatory</i>	<i>(2,897)</i>	<i>(2,527)</i>	<i>(2,574)</i>	<i>1.8%</i>	<i>-11%</i>	<i>(12,112)</i>	<i>(10,472)</i>	<i>-14%</i>
<i>Network</i>	<i>(1,391)</i>	<i>(1,556)</i>	<i>(1,556)</i>	<i>0.0%</i>	<i>12%</i>	<i>(5,277)</i>	<i>(5,900)</i>	<i>12%</i>
<i>IC</i>	<i>(1,170)</i>	<i>(1,055)</i>	<i>(1,041)</i>	<i>-1.3%</i>	<i>-11%</i>	<i>(5,386)</i>	<i>(4,310)</i>	<i>-20%</i>
<i>Others</i>	<i>(1,157)</i>	<i>(774)</i>	<i>(751)</i>	<i>-3.0%</i>	<i>-35%</i>	<i>(4,312)</i>	<i>(3,333)</i>	<i>-23%</i>
<i>Depreciation and Amortization</i>	<i>(4,861)</i>	<i>(5,759)</i>	<i>(6,001)</i>	<i>4.2%</i>	<i>23%</i>	<i>(17,605)</i>	<i>(22,145)</i>	<i>26%</i>
Cost of handsets and starter kits	(5,335)	(2,579)	(4,898)	90%	-8.2%	(17,372)	(14,686)	-15%
Total cost	(16,810)	(14,249)	(16,820)	18%	0.1%	(62,063)	(60,846)	-2.0%
Gross profit	6,439	5,288	4,645	-12%	-28%	25,689	21,632	-16%
SG&A	(4,926)	(4,114)	(4,368)	6.2%	-11%	(16,866)	(17,796)	5.5%
<i>Selling & Marketing expenses</i>	<i>(2,072)</i>	<i>(1,680)</i>	<i>(1,773)</i>	<i>5.5%</i>	<i>-14%</i>	<i>(6,905)</i>	<i>(7,192)</i>	<i>4.2%</i>
<i>General administrative expenses</i>	<i>(2,274)</i>	<i>(1,986)</i>	<i>(2,234)</i>	<i>12%</i>	<i>-1.8%</i>	<i>(7,825)</i>	<i>(8,887)</i>	<i>14%</i>
<i>Provision for bad debt</i>	<i>(303)</i>	<i>(206)</i>	<i>(130)</i>	<i>-37%</i>	<i>-57%</i>	<i>(968)</i>	<i>(725)</i>	<i>-25%</i>
<i>Depreciation and Amortization</i>	<i>(276)</i>	<i>(242)</i>	<i>(232)</i>	<i>-4.1%</i>	<i>-16%</i>	<i>(1,169)</i>	<i>(992)</i>	<i>-15%</i>
Gain/(Loss) on foreign exchange	58	7	7	7.0%	-87%	(295)	84	128%
Interest income	55	45	53	18%	-3.1%	136	170	25%
Other income & share of profit from investment in associated company	26	16	19	19%	-28%	165	68	-59%
EBIT	1,653	1,241	356	-71%	-78%	8,829	4,158	-53%
Finance cost	(372)	(383)	(376)	-1.9%	1.2%	(1,384)	(1,567)	13%
Income tax expenses	(283)	(199)	50	-125%	-118%	(1,557)	(506)	-68%
Net profit attributable to equity holder	998	659	30	-95%	-97%	5,893	2,086	-65%

EBITDA (THB million)	Q415	Q316	Q416	%QoQ	%YoY	FY15	FY16	%YoY
Net profit for the period	998	659	30	-95%	-97%	5,888	2,086	-65%
Finance costs	372	383	376	-1.9%	1.2%	1,384	1,567	13%
Income tax expenses	283	199	(50)	-125%	-118%	1,557	506	-68%
Depreciation & Amortization	5,137	6,000	6,232	3.9%	21%	18,774	23,137	23%
Other items	(50)	(16)	168	-1,160%	-437%	339	620	83%
EBITDA	6,740	7,226	6,757	-6.5%	0.3%	27,941	27,915	-0.1%
EBITDA margin	29.0%	37.0%	31.5%			31.8%	33.8%	
EBITDA margin-excluding handsets and starter kits	37.8%	44.7%	43.6%			41.3%	43.3%	

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)	Loan	Debenture
at end of FY16		
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	FY15	FY16
Return on Equity (%)	20%	8%
Return on Asset (%)	5%	2%
Interest Coverage Ratio (times)	7x	3x
Net debt to EBITDA (times)	1.4x	1.1x
CAPEX to Total Revenue (%)	23%	25%

Outlook 2017

The growth of mobile industry is expected to continue, driven by Internet services. Subscribers are expected to increase data usage on of social media and streaming services, while businesses have placed greater importance on digital channels for their sales and marketing activities. Number of smartphone and data users is expected to further increase through device campaigns and attractive price plans. In addition, the revised Mobile Number Portability (MNP) process, commenced in January 2017, is expected to impact competitive dynamic in the industry.

With an aim to become the no. 1 digital brand in Thailand by 2020, dtac will strengthen its digital brand perception by delivering more and better digital experiences and build consumers' confidence in our mobile network. After massive 4G network rollout in the past few years, we plan to spend CAPEX in a range of THB 17-20 billion in FY17 to densify the network and enhance customer Internet experience. Furthermore, as competition in the market is likely to continue at a high level, we expect FY17 service revenues (excluding IC) to be at the same level as the previous year, underpinned by improving network perception and value-for-money offers. We expect handset subsidies to continue for postpaid segment to support acquisition and prepaid-to-postpaid upgrade.

In FY17, EBITDA is anticipated to be at least the same amount as in FY16, supported by financial discipline and operation efficiency initiatives. Amidst the high competition, continuously improving our operation efficiency will be key. Moreover, we have to maintain our financial discipline in order to ensure that we will be ready for new business opportunities, including future spectrum allocations.

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 aims 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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