

# MD&A



## Executive Summary

In FY17, we achieved strong EBITDA growth of 9.1%YoY and stabilized service revenue (excluding IC) development YoY, in line with the guidance. Our CAPEX was THB 16,534 million, a lower side of the guidance, due to delay in 2300MHz approval process. We reported net profit of THB 2,115 million, an increase of 1.4%YoY, driven by EBITDA growth and tax benefit from investment incentives.

Market competition remained intense but operators were more prudent in spending. We continued to strengthen network perception and densify 2.1GHz network in preparation for the end of concession in September 2018. In addition, we emphasized our value-for-money position with the “Go No Limit”, an unlimited data offer with a variety of speed for customers to choose.

Postpaid revenue surpassed prepaid in this year as postpaid momentum continued. Our postpaid subscriber base increased to 25% of total base, from 21% last year. However, situation in prepaid market remained challenging due to impact from prepaid handset subsidy in the market and stimulation of prepaid-to-postpaid upgrade to increase ARPU level and customer stickiness.

Digital transformation is the priority at dtac. In FY17, We launched many digital initiatives including “dtac App” for consumers and “dtac One” app for retailers, increasing efficiency and simplifying processes in delivering services to users. In Q317, “Line Mobile”, the purely digital mobile service, was launched to deliver full digital experience with simplification and value-for-money.

In FY18, dtac will continue strengthening its digital perception and digitize our operation which would allow dtac to be more efficient and provides more relevant offers to our customers. We expect EBITDA (excluding payment related to 2300MHz deal to TOT) amount to be around the level last year. CAPEX of THB 15-18 billion is expected to be spent in FY18. Service revenue (excluding IC) is expected to be around the same level as the previous year due to competition in the market.

## Significant Event

### Impairment of assets on the separate financial statements

In Q417, 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 3,452 million in the separate financial statements. (Please see notes in FY17 financial statement for more details)

## Operational Summary

At the end of FY17, total subscriber base was 22.7 million, decreasing from 24.5 million last year due to challenges in prepaid segment while postpaid continued its positive momentum. Postpaid subscriber base increased to 5.6 million, a net addition of 0.6 million from last year driven by prepaid-to-postpaid conversion and value-for-money offers. Meanwhile, prepaid subscriber base decreased to 17.0 million due to market competition and the prepaid-to-postpaid migration. As postpaid subscriber base expanded, postpaid subscriber mix increased to 25% of total subscriber base and Average Revenue per User excluding IC (ARPU) of FY17 increased 6.4%YoY to THB 230 per month.

In FY17, we increased subscribers registered on 2.1GHz licensed network to 98% of total subscriber base, up from 95% last year, and drove smartphone penetration to 73%. With more affordable 4G handsets, the number of 4G users grew to 7.9 million (or 35% of total subscriber base) and the number of 4G devices increased to 11.4 million (or 50% of total subscriber base).

MANAGEMENT DISCUSSION AND ANALYSIS								FY 2017
<b>Active subscribers (in thousand)</b>	<b>Q416</b>	<b>Q317</b>	<b>Q417</b>	<b>%QoQ</b>	<b>%YoY</b>	<b>FY2016</b>	<b>FY2017</b>	<b>%YoY</b>
Postpaid (under concession from CAT)	412	325	297	-8.7%	-28%	412	297	-28%
Prepaid (under concession from CAT)	815	413	221	-46%	-73%	815	221	-73%
Postpaid (under 2.1GHz license )	4,613	5,196	5,340	2.8%	16%	4,613	5,340	16%
Prepaid (under 2.1GHz license )	18,640	17,162	16,794	-2.1%	-9.9%	18,640	16,794	-9.9%
<b>Total</b>	<b>24,480</b>	<b>23,097</b>	<b>22,652</b>	<b>-1.9%</b>	<b>-7.5%</b>	<b>24,480</b>	<b>22,652</b>	<b>-7.5%</b>
<b>Net additional subscribers (in thousand)</b>	<b>Q416</b>	<b>Q317</b>	<b>Q417</b>	<b>%QoQ</b>	<b>%YoY</b>	<b>FY2016</b>	<b>FY2017</b>	<b>%YoY</b>
Postpaid	207	134	115	-14%	-44%	702	612	-13%
Prepaid	-548	-642	-560	13%	-2.2%	-1,473	-2,440	-66%
<b>Total</b>	<b>-340</b>	<b>-508</b>	<b>-445</b>	<b>13%</b>	<b>-31%</b>	<b>-772</b>	<b>-1,828</b>	<b>-137%</b>
<b>MOU (minutes/sub/month)</b>	<b>Q416</b>	<b>Q317</b>	<b>Q417</b>	<b>%QoQ</b>	<b>%YoY</b>	<b>FY2016</b>	<b>FY2017</b>	<b>%YoY</b>
Postpaid	276	265	260	-1.7%	-5.7%	287	263	-8.5%
Prepaid	138	120	116	-3.5%	-16%	154	123	-20%
<b>Blended</b>	<b>165</b>	<b>152</b>	<b>149</b>	<b>-1.8%</b>	<b>-9.2%</b>	<b>177</b>	<b>153</b>	<b>-14%</b>
Postpaid excluding IC	194	187	185	-1.4%	-4.6%	203	186	-8.8%
Prepaid excluding IC	107	93	90	-3.6%	-16%	122	96	-22%
<b>Blended excluding IC</b>	<b>124</b>	<b>114</b>	<b>112</b>	<b>-1.9%</b>	<b>-9.8%</b>	<b>136</b>	<b>115</b>	<b>-16%</b>
<b>ARPU (THB/sub/month)</b>	<b>Q416</b>	<b>Q317</b>	<b>Q417</b>	<b>%QoQ</b>	<b>%YoY</b>	<b>FY2016</b>	<b>FY2017</b>	<b>%YoY</b>
Postpaid	556	564	578	2.4%	3.9%	551	567	3.0%
Prepaid	159	153	152	-0.9%	-4.4%	162	154	-5.1%
<b>Blended</b>	<b>235</b>	<b>244</b>	<b>250</b>	<b>2.6%</b>	<b>6.4%</b>	<b>231</b>	<b>242</b>	<b>4.7%</b>
Postpaid excluding IC	524	538	551	2.5%	5.2%	519	541	4.2%
Prepaid excluding IC	148	145	144	-0.9%	-2.8%	151	145	-3.4%
<b>Blended excluding IC</b>	<b>220</b>	<b>231</b>	<b>237</b>	<b>2.7%</b>	<b>8.1%</b>	<b>216</b>	<b>230</b>	<b>6.4%</b>

## Financial Summary

### Revenues

In FY17, total revenues decreased 5.1%YoY to THB 78,275 million due to lower IC revenues and handset sales. Growths of data service and postpaid segment were offset by challenging prepaid and contraction of voice service, resulted in service revenues excluding IC of THB 64,821 million, stable 0.2%YoY, in line with the guidance 2017. Postpaid revenue surpassed prepaid revenue level for the first time. In Q417, service revenues excluding IC improved 1.3%YoY and 1.7%QoQ to THB 16,234 million, driven by postpaid service and seasonality.

Voice revenue amounted to THB 15,539 million, decreasing 32%YoY from voice-to-data substitution. In Q417, voice revenue decreased 23%YoY but increased 10%QoQ due to change in allocation between voice and data revenues in bundled packages.

Data revenue amounted to THB 43,581 million, increasing 22%YoY driven by strong Internet consumption among Thai consumers and increasing 4G adoption. As a result, contribution from data revenue increased to 67.2% of service revenues excluding IC, compared to 55.3% last year. In Q417, data revenue increased 16%YoY but decreased 1.3%QoQ as a result of change in allocation between voice and data revenues in bundled packages.

International Roaming (IR) revenues amounted to THB 1,162 million, decreasing 0.5%YoY due to competition and alternative services in the market. In Q417, IR revenues increased 38%QoQ due to seasonality, and increased 6.4%YoY from inbound revenues.

Other service revenues amounted to THB 4,539 million, decreasing 6.0%YoY due to lower IDD revenues. In Q417, other service revenues amounted to THB 1,070 million, a decrease of 11%YoY and 1.0%QoQ, mainly due to lower IDD revenues.

Handset and starter kit sales amounted to THB 9,374 million, decreasing 23%YoY due to the accounting adjustment since Q117 and controlled handset subsidy. On normalized basis, margin of handset and starter kit sales improved. In Q417, handset and starter kit sales amounted to THB 3,039 million, increasing 66%QoQ due to seasonality and the launch of new iPhone models, but decreasing 25%YoY.

### Cost of Services

Cost of services excluding IC amounted to THB 44,105 million, increasing 5.4%YoY due to higher depreciation and amortization (D&A) and network OPEX, partially offset by reduction in regulatory cost. In Q417, cost of services excluding IC amounted to THB 11,089 million, an increase of 1.9%YoY and 1.0%QoQ.

Regulatory costs amounted to THB 8,670 million, decreasing 17%YoY from lower USO and license fee. In addition, increasing 2.1GHz subscribers, from 95% to 98% of total base, also helped reducing the regulatory cost. As a result, regulatory cost to service revenues excluding IC dropped to 13.4% from 16.2% last year. Regulatory cost in Q417 dropped 32%YoY and 19%QoQ mainly due to lower new license fee rate announced in Q417.

Network OPEX amounted to THB 6,856 million, increasing 16%YoY due to 2.1GHz network densification throughout the year. In Q417, network OPEX was THB 1,945 million, an increase of 25%YoY and 15%QoQ. The number of 2.1GHz base stations increased to 40.4k from 30.5k at the end of FY16 to prepare for the end of concession in September 2018.

Other operating costs of services amounted to THB 2,986 million, decreasing 10%YoY mainly due to lower cost of IDD services and IP transit.

Depreciation and Amortization (D&A) of costs of services amounted to THB 25,594 million, increasing 16%YoY from investment to densify the network. In Q417, D&A in cost of service was THB 6,696 million, an increase of 12%YoY and 3.2%QoQ.

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

SG&A expenses amounted to THB 15,308 million, decreasing 14%YoY due to improvement in efficiency in selling & marketing spending and lower administrative expenses, partly offset by higher provision for bad debt.

Selling and Marketing (S&M) expenses amounted to THB 4,868 million, decreasing 32%YoY due to optimization of S&M spending with increasing customers' interactions through digital channels, and the accounting reclassification since Q117. We implemented network perception campaign and strengthened value-for-money position via attractive offers including "Go No Limit" price plans and "dtac reward" privileges. In Q317, we delivered full-digital experience to customers with "LINE Mobile" service. In Q417, S&M expenses amounted to THB 1,293 million and increased 8.7%QoQ due to higher advertisement spending but decreased 27%YoY.

General administrative expenses amounted to THB 8,011 million, decreasing 9.9%YoY. The decrease was mainly due to ongoing cost control and digitization of our operation, as well as the restructuring costs and impairment of assets in FY16. In Q417, administrative expenses increased 21%QoQ, due in large part to a one-time impact from THB 178 million of actuarial

valuation of employee retirement benefit.

Provision for bad debt amounted to THB 1,525 million, increasing 110%YoY from higher postpaid subscriber base.

Depreciation and Amortization (D&A) of SG&A expenses amounted to THB 905 million, decreasing 8.8%YoY.

#### EBITDA and Net Profit

EBITDA (before other items) amounted to THB 30,446 million and grew 9.1%YoY, in line with the FY17 guidance. The EBITDA growth was driven by lower regulatory cost, controlled handset subsidy and various efficiency measures. As a result, EBITDA margin improved to 38.9% compared to 33.8% last year. Excluding handsets and starter kits, the EBITDA margin was 48.3%, improving from 43.3% last year.

Net profit amounted to THB 2,115 million, increasing 1.4%YoY. The net profit growth was driven by stabilized service revenue (excluding IC), regulatory cost saving and efficiency programs, partly offset by higher costs associated with network expansion. In addition, the growth of net profit was also support by tax benefit from investment incentives.

#### Balance Sheet and Key Financial Information

At the end of FY17, total asset amounted to THB 114,501 million and decreased from THB 115,379 million last year due to lower non-current asset. However, cash and cash equivalent increased to THB 26,048 million, compared to THB 18,293 million last year. Interest-bearing debt was THB 49,015 million and stable from last year. As a result, net debt to EBITDA decreased to 0.8x from 1.1x last year.

In FY17, operating cash flow (defined by EBITDA-CAPEX) amounted to THB 13,912 million, increasing 83%YoY, due to higher EBITDA and lower CAPEX. Due to delay in 2300MHz approval process, we spent CAPEX of THB 16,534 million, a lower side of the FY17 guidance, compared to CAPEX of THB 20,310 million in FY16.

Statement of financial position (THB million)	End of FY2016	End of FY2017
Cash and cash equivalent	18,293	26,048
Other current assets	13,618	13,167
Non-current assets	83,467	75,286
<b>Total assets</b>	<b>115,379</b>	<b>114,501</b>
Current liabilities	38,232	36,438
Non-current liabilities	50,002	48,827
<b>Total liabilities</b>	<b>88,234</b>	<b>85,266</b>
<b>Total shareholders' equity</b>	<b>27,145</b>	<b>29,235</b>
<b>Total liabilities and shareholders' equity</b>	<b>115,379</b>	<b>114,501</b>

Cash flows statement (THB million)	FY2016	FY2017
Cash flows from operating activities	30,706	30,306
Cash paid for interest expenses and tax	(4,080)	(2,977)
<b>Net cash flows from operating activities</b>	<b>26,626</b>	<b>27,330</b>
<b>Net cash flows from investing activities</b>	<b>(17,392)</b>	<b>(19,575)</b>
Net cash receipt/(Repayment) - loan & debenture	1,165	-
Dividend paid	(2,226)	(0)
<b>Net cash flows from financing activities</b>	<b>(1,061)</b>	<b>(0)</b>
<b>Net change in cash &amp; cash equivalent</b>	<b>8,173</b>	<b>7,754</b>
<b>Increase/(decrease)</b>	<b>8,173</b>	<b>7,754</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>10,121</b>	<b>18,293</b>
<b>Ending cash &amp; cash equivalent</b>	<b>18,293</b>	<b>26,048</b>

**MANAGEMENT DISCUSSION AND ANALYSIS**
**FY 2017**

Income statement (THB million)	Q416	Q317	Q417	%QoQ	%YoY	FY2016	FY2017	%YoY
Voice	5,046	3,520	3,871	10%	-23%	22,953	15,539	-32%
Data	9,502	11,147	11,005	-1.3%	16%	35,744	43,581	22%
IR	270	209	288	38%	6.4%	1,168	1,162	-0.5%
Others	1,205	1,081	1,070	-1.0%	-11%	4,829	4,539	-6.0%
<b>Service revenues ex. IC</b>	<b>16,023</b>	<b>15,957</b>	<b>16,234</b>	<b>1.7%</b>	<b>1.3%</b>	<b>64,693</b>	<b>64,821</b>	<b>0.2%</b>
IC revenues	1,093	807	788	-2.3%	-28%	4,559	3,262	-28%
<b>Service revenues</b>	<b>17,116</b>	<b>16,764</b>	<b>17,021</b>	<b>1.5%</b>	<b>-0.6%</b>	<b>69,252</b>	<b>68,083</b>	<b>-1.7%</b>
Handsets and starter kits sales	4,064	1,833	3,039	66%	-25%	12,181	9,374	-23%
Other operating income	285	213	214	0.7%	-25%	1,044	818	-22%
<b>Total revenues</b>	<b>21,465</b>	<b>18,809</b>	<b>20,274</b>	<b>7.8%</b>	<b>-5.5%</b>	<b>82,478</b>	<b>78,275</b>	<b>-5.1%</b>
Cost of services	(11,922)	(11,760)	(11,889)	1.1%	-0.3%	(46,160)	(47,296)	2.5%
<i>Regulatory</i>	<i>(2,574)</i>	<i>(2,165)</i>	<i>(1,746)</i>	<i>-19%</i>	<i>-32%</i>	<i>(10,472)</i>	<i>(8,670)</i>	<i>-17%</i>
<i>Network</i>	<i>(1,556)</i>	<i>(1,697)</i>	<i>(1,945)</i>	<i>15%</i>	<i>25%</i>	<i>(5,900)</i>	<i>(6,856)</i>	<i>16%</i>
<i>IC</i>	<i>(1,041)</i>	<i>(785)</i>	<i>(800)</i>	<i>1.9%</i>	<i>-23%</i>	<i>(4,310)</i>	<i>(3,191)</i>	<i>-26%</i>
<i>Others</i>	<i>(751)</i>	<i>(624)</i>	<i>(702)</i>	<i>13%</i>	<i>-6.5%</i>	<i>(3,333)</i>	<i>(2,986)</i>	<i>-10%</i>
<i>Depreciation and Amortization</i>	<i>(6,001)</i>	<i>(6,489)</i>	<i>(6,696)</i>	<i>3.2%</i>	<i>12%</i>	<i>(22,145)</i>	<i>(25,594)</i>	<i>16%</i>
Cost of handsets and starter kits	(4,898)	(2,455)	(3,577)	46%	-27%	(14,686)	(12,233)	-17%
<b>Total cost</b>	<b>(16,820)</b>	<b>(14,215)</b>	<b>(15,466)</b>	<b>8.8%</b>	<b>-8.1%</b>	<b>(60,846)</b>	<b>(59,529)</b>	<b>-2.2%</b>
<b>Gross profit</b>	<b>4,645</b>	<b>4,595</b>	<b>4,808</b>	<b>4.6%</b>	<b>3.5%</b>	<b>21,632</b>	<b>18,746</b>	<b>-13%</b>
SG&A	(4,368)	(3,666)	(4,172)	14%	-4.5%	(17,796)	(15,308)	-14%
<i>Selling &amp; Marketing expenses</i>	<i>(1,773)</i>	<i>(1,189)</i>	<i>(1,293)</i>	<i>8.7%</i>	<i>-27%</i>	<i>(7,192)</i>	<i>(4,868)</i>	<i>-32%</i>
<i>General administrative expenses</i>	<i>(2,234)</i>	<i>(1,855)</i>	<i>(2,239)</i>	<i>21%</i>	<i>0.2%</i>	<i>(8,887)</i>	<i>(8,011)</i>	<i>-9.9%</i>
<i>Provision for bad debt</i>	<i>(130)</i>	<i>(392)</i>	<i>(416)</i>	<i>6.1%</i>	<i>221%</i>	<i>(725)</i>	<i>(1,525)</i>	<i>110%</i>
<i>Depreciation and Amortization</i>	<i>(232)</i>	<i>(230)</i>	<i>(225)</i>	<i>-2.1%</i>	<i>-3.0%</i>	<i>(992)</i>	<i>(905)</i>	<i>-8.8%</i>
Loss from assets impairment	-	-	(6)	n/a	n/a	-	(6)	n/a
Gain/(Loss) on foreign exchange	7	(4)	(16)	-273%	-318%	84	0	-100%
Interest income	53	57	63	12%	19%	170	217	28%
Other income & share of profit from investment in associated company	19	167	57	-66%	202%	68	242	254%
<b>EBIT</b>	<b>356</b>	<b>1,148</b>	<b>733</b>	<b>-36%</b>	<b>106%</b>	<b>4,158</b>	<b>3,890</b>	<b>-6.4%</b>
Finance cost	(376)	(401)	(371)	-7.5%	-1.3%	(1,567)	(1,557)	-0.6%
Income tax expenses	50	(146)	180	-224%	-260%	(506)	(218)	-57%
<b>Net profit (loss) attributable to equity holder</b>	<b>30</b>	<b>601</b>	<b>542</b>	<b>-9.7%</b>	<b>1,702%</b>	<b>2,086</b>	<b>2,115</b>	<b>1.4%</b>

EBITDA (THB million)	Q416	Q317	Q417	%QoQ	%YoY	FY2016	FY2017	%YoY
Net profit for the period	30	601	542	-9.7%	1,700%	2,086	2,115	1.4%
Finance costs	376	401	371	-7.5%	-1.3%	1,567	1,557	-0.6%
Income tax expenses	(50)	146	(180)	-224%	-260%	506	218	-57%
Depreciation & Amortization	6,232	6,719	6,921	3.0%	11%	23,137	26,498	15%
Other items	168	(123)	179	-246%	6.4%	620	57	-91%
<b>EBITDA</b>	<b>6,757</b>	<b>7,744</b>	<b>7,833</b>	<b>1.2%</b>	<b>16%</b>	<b>27,915</b>	<b>30,446</b>	<b>9.1%</b>
<b>EBITDA margin</b>	<b>31.5%</b>	<b>41.2%</b>	<b>38.6%</b>			<b>33.8%</b>	<b>38.9%</b>	
<b>EBITDA margin-excluding handsets and starter kits</b>	<b>43.6%</b>	<b>49.3%</b>	<b>48.6%</b>			<b>43.3%</b>	<b>48.3%</b>	

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 FY17	Loan		Debenture	
	In 2018	-	2,000	
In 2019	7,875	1,500		
In 2020	7,875	4,000		
From 2021	1,750	24,000		

Key Financial Ratio	FY2016	FY2017
Return on Equity (%)	8%	8%
Return on Asset (%)	2%	2%
Interest Coverage Ratio (times)	3.0x	2.7x
Net debt to EBITDA (times)	1.1x	0.8x
CAPEX to Total Revenue (%)	25%	21%

## Outlook 2018

Thailand's telecom industry continues to grow, driven by the increase in data usage. However, the industry is also competitive. Lower revenue for voice services and overpriced spectrum licenses have put pressure on financial return. Nevertheless, the industry remains a growing, profitable market and several revenue opportunities can be seized.

In FY18, dtac will continue strengthening its digital perception, aiming to be the no. 1 digital brand in Thailand by 2020. We will digitize our operation which would allow dtac to be more efficient and provide more customized and relevant offers to our customers while realizing cost savings from reduced physical channels. We expect customers to increase adoption of digital services and channels.

As concession expiration approaching, dtac has strong intention to secure more spectrum to strengthen our network capacity to offer the best digital services to the consumers. CAPEX of THB 15 - 18 billion is expected to be spent in FY18.

In FY18, service revenue (excluding IC) and EBITDA (excluding payment related to 2300MHz deal to TOT) are expected to be around the same level as the previous year. We focus on generating cash flow from operation and maintaining financial flexibility before end of concession.

### 2018 Guidance:

- Service revenues excluding IC: around the same level as the previous year.
- EBITDA (excluding payment related to 2300MHz deal to TOT): around the same level as the previous year.
- CAPEX: THB 15-18 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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