

MD&A



Executive Summary

Following “Internet for All” strategy, in Q214, dtac achieved 2.1GHz network rollout covering more than 80% of population, introduced the new 4G service to support demand for faster internet connection, and launched marketing campaigns to encourage internet adoption. Despite seasonality and soften consumer sentiment from political uncertainties in this quarter, dtac recorded a stable service revenue excluding IC QoQ, thanks to mobile data growth. Excluding one-time reversal of prepaid bonus accrual of THB 248 million in Q213, service revenue excluding IC would drop 0.7%YoY.

With efficient operation, dtac reported 6.9%YoY EBITDA growth and 6pp. improvement of EBITDA margin compared to last year, due to lower regulatory cost, offset by higher selling and marketing expenses for stimulating smartphone adoption and staying competitive in current business environment. Net Profit was stable compared to last year, as a result of higher depreciation and amortization as we were expanding 2.1GHz network.

Mobile data continued to be the key revenue growth driver, while voice continued to decline as smartphone adoption had been affecting consumers’ behavior. To capture the growth segment and attract subscribers to use TriNet network, dtac increased smart devices users

to 10.7 million by introducing attractive and value-for-money smartphone bundling packages. As a result, VAS revenue increased 28%YoY. DTN, a dtac subsidiary who operated 2.1GHz spectrum on licensing scheme, registered subscribers of 19.1 million, or 68% of total dtac subscriber.

Toward the end of this year, we expect economic condition and consumer sentiment to improve. However, intense market competition is expected to continue as mobile operators are likely to encourage subscribers porting to 2.1GHz network and grow smartphone penetration, by introducing more competitive smartphone bundling packages and handset campaigns. Due to the volatility of handset business, we decide to change our 2014 guidance to be based on service revenue excluding IC instead of total revenue. As a result, we expect service revenue excluding IC in 2014 to be flattish from last year. Although aggressive marketing activities are expected to continue in the second half of the year, EBITDA margin guidance remains in 35-37% range because regulatory cost continues to develop positively from higher smartphone penetration. We plan to continue to optimize our network coverage and capacity by utilizing the advantages of the TriNet network to serve customers. Hence, we maintain our guidance on minimum THB 13 billion CAPEX investment in 2014.

Operational Summary

In Q214, subscribers of DTN increased to 19.1 million, representing 68% of total subscriber base, compared to 56% in Q114, thanks to our “Internet for All”, which encourages subscribers to use internet. With higher focus on quality of subscribers, total dtac subscriber base maintained at 28 million with postpaid subscribers growing due to attractive devices bundling with packages.

Blended Average Revenue per User (ARPU) was THB 224 and stable 0.3%QoQ. YoY, ARPU decreased 14%, mainly due to IC rate reduction last year. Postpaid ARPU was stable from Q114, partly due to some high-valued prepaid subscribers moved to postpaid as customers

purchased smartphone bundling package. Blended Minutes of Use (MOU) (excluding IC) continued a declining trend as consumer’s behavioral shift from voice to data usage and negative consumer sentiment. Hence, MOU decreased 6.6%QoQ and 11%YoY to 194 minutes.

In Q214, smart device users increased to 10.4 million, representing 37% of total subscriber base, compared to 34% in Q114, while data users increased 14%YoY to 9.2 million, representing 33% of total subscriber base, driven by marketing activities, such as new 4G service and varieties of smartphone packages.

MANAGEMENT DISCUSSION AND ANALYSIS			SECOND QUARTER 2014		
Total active subscribers (in thousand)	Q213	Q114	Q214	%QoQ	%YoY
Postpaid	3,222	3,600	3,659	1.6%	14%
Prepaid	24,009	24,626	24,380	-1.0%	1.5%
Total	27,231	28,226	28,039	-0.7%	3.0%
Net additional subscribers (in thousand)	Q213	Q114	Q214	%QoQ	%YoY
Postpaid	201	98	58	-41%	-71%
Prepaid	422	186	-245	-232%	-158%
Total	623	284	-187	-166%	-130%
MOU (minutes/sub/month)	Q213	Q114	Q214	%QoQ	%YoY
Postpaid	415	372	361	-2.8%	-13%
Prepaid	243	233	218	-6.2%	-10%
Blended	262	250	236	-5.5%	-9.9%
Postpaid excluding IC	312	278	269	-3.1%	-14%
Prepaid excluding IC	205	197	183	-7.4%	-11%
Blended excluding IC	217	207	194	-6.6%	-11%
ARPU (THB/sub/month)	Q213	Q114	Q214	%QoQ	%YoY
Postpaid	710	640	639	-0.2%	10%
Prepaid	202	167	165	-1.0%	-19%
Blended	259	224	224	-0.3%	-14%
Postpaid excluding IC	605	600	596	-0.7%	-1.4%
Prepaid excluding IC	164	154	147	-4.3%	-11%
Blended excluding IC	214	208	203	-2.6%	-5.2%

Financial Summary

Revenues

In Q214, service revenue excluding IC was THB 17,346 million and stable -0.3%QoQ, thanks to VAS revenue growth, offset by dropped voice and international roaming revenue. YoY, service revenue excluding IC decreased 2.1%, and 0.7% if it is normalized the one-time prepaid bonus of THB 248 million. The decrease was mainly due to weaker consumer sentiment following political uncertainties and market competition in first half of this year. Total revenue dropped 11%YoY to THB 21,868 million, as a result of the IC rate reduction last year, market competition and weaker economic condition. QoQ, total revenue dropped 2.6%, mainly due to softer handset sales.

Voice Revenue was THB 9,226 million and decreased 16%YoY, reflecting poor macro environment and voice-data substitution in certain customers' segments. Excluding reversal of prepaid bonus accruals of THB 248 million in Q213, voice revenue would have declined 14%YoY. QoQ, voice revenue dropped 1.9%, due to seasonality, weaker economic condition and market competition.

Value-Added Service (VAS) revenue was THB 6,869 million and increased 28%YoY and 4.5%QoQ, from higher smartphone and data users. Mobile data revenue, which is a majority of VAS revenue, grew 39% YoY and 5.5%QoQ. VAS revenue contributed 40% of

service revenue excluding IC, comparing to 30% in Q213 and 38% in Q114.

International Roaming (IR) Revenue was THB 329 million and decreased 37%YoY and 29%QoQ, due to the political uncertainties, offset by outbound data roaming revenue growth.

Other Service Revenue, mainly consisting of IDD revenue and other service fees, was THB 922 million and decreased 3.5%QoQ, due to the political uncertainties and market competition. YoY, other service revenue increased 6.2%.

Interconnection Charge (IC) revenue was THB 1,690 million and decreased 52%YoY, due to the IC rate reduction last year, but increased 0.9%QoQ. In Q214, dtac recorded net IC gain of THB 141 million, compared to net IC gain of THB 133 million in Q114.

Sales of Handsets and Starter Kits Revenue was THB 2,765 million, a decrease of 16%YoY and 16%QoQ, due to higher mix of low-end OEM handsets and handset campaigns to boost smartphone adoption, despite handset units sold increased. Sales margin was negative in this quarter due to aggressive handset campaigns in the market.

Cost of Services

Cost of Service Excluding IC was THB 9,653 million, a decrease of 11%YoY and 1.8%QoQ, mainly from lower regulatory cost, offset by higher expenses related to 2.1GHz network expansion.

Regulatory Costs (comprising of revenue sharing, numbering fee, and USO fee) was THB 3,911 million and decreased 31%YoY and 12%QoQ, as service revenue gradually shifted to DTN, which is subjected to lower regulatory costs than concession. Regulatory costs, as a percentage to service revenue excluding IC, were 23% in Q214, compared to 26% in Q114 and 32% in Q213.

Network OPEX was THB 1,182 million and increased 20%YoY and 7%QoQ, due to 2.1GHz network expansion. In Q214, dtac aggressively expand our 2.1GHz coverage and launched 4G service to support demand for faster internet connection, resulted in more than 80% population coverage on 2.1GHz network. Excluding receive of flood insurance claim of THB 76 million, network OPEX would have increased 11%YoY. Toward end of this year, we will continue to expand network coverage and capacity to support growing data demand and improve customers' experience.

Other Operating Costs of Services, including IR and IDD costs, were THB 1,012 million and decreased 9.9%YoY but increased 20%QoQ, in line with revenue development.

Depreciation and Amortization (D&A) of Cost of Services was THB 3,549 million and increased 17%YoY and 3.6% QoQ. The YoY increase was due to higher depreciation of 2.1GHz network expansion and amortization of 2.1 GHz license costs, while the QoQ increase was due to 2.1GHz network expansion.

Interconnection (IC) Cost was THB 1,548 million and decrease 54% YoY due to the IC rate reduction last year. QoQ, IC cost was stable 0.4%.

Cost of Handsets and Starter Kits was THB 2,900 million and decreased 9.8%YoY and 13%QoQ, in line with lower handset sales.

Selling, General and Administrative Expenses (SG&A)

SG&A Expense was THB 3,766 million and increased 26%YoY and 9.9%QoQ, mainly due to higher S&M expenses and the reversal of THB 186 million NEO (New Order Management System) write-off in Q213. Excluding the reversal of THB 186 million, SG&A expense would have increased 19%YoY.

Selling and Marketing (S&M) Expense was THB 1,508 million, an increase of 50%YoY and 19%QoQ, as a result of 4G commercial launch and marketing activities to support 3G 2.1GHz transition and smartphone adoption. In Q214, S&M expenses, as a percentage to total revenue, was 6.9% and increased from 5.7% in Q114 and 4.1% in Q213, to stay competitive in current market condition.

General Administrative Expense was THB 1,647 million and increased 20%YoY, mainly due to reversal of NEO write-off of THB 186 million in Q213. Excluding the effect of the reversal, the general administrative expense would increase 5.7%YoY. QoQ, general administrative expense increased 4.7%. The increase was mainly due to supporting 2.1GHz porting.

Provision for Bad Debt was THB 218 million, an increase of 21%YoY and 23%QoQ, due to impact from the NEO incident in Q113. By normalized, provision for bad debt would have increased 17%YoY and 11%QoQ.

EBITDA and Net Profit

Despite soft service revenue, lower handset margin and higher operating expenses, EBITDA in Q214 increased 6.9%YoY to THB 7,985 million and EBITDA margin improved to 36.4% from 30.4% in Q213, thanks to lower regulatory cost. Excluding one-time items of THB 510 million in Q213, EBITDA would have increase 15%YoY. EBITDA margin slightly dropped 0.2pp QoQ due to lower handset margin and increased S&M expenses.

Net Income was THB 2,951 million and stable 0.5%YoY, mainly due to higher EBITDA, offset by the higher depreciation and amortization. QoQ, net income decreased 11%, from the lower EBITDA, the higher depreciation and amortization. Net profit margin was 13.5%, and improved from 12.0% in Q213.

Balance Sheet and Key Financial Information

Total Assets was THB 106,872 million and stable from Q114, while cash and cash equivalent was 10,506 million and increased 12%QoQ.

Interest-Bearing Debt stood at THB 27,312 million and decreased 7.3%QoQ due to debt repayment in Q214. Net debt to equity was 0.9x and improved from level of 1.1x in Q114, due to higher cash and the debt repayment.

Operating Cash Flow (defined as EBITDA - CAPEX) was 3,340 million in Q214, a decrease of 27%YoY, due to higher CAPEX offset by the EBITDA growth. Total CAPEX stood at THB 4,645 million and increased 59%YoY from 2.1GHz network expansion.

MANAGEMENT DISCUSSION AND ANALYSIS			SECOND QUARTER 2014		
Income statement (THB million)	Q213	Q114	Q214	%QoQ	%YoY
Voice	10,956	9,400	9,226	-1.9%	-16%
VAS	5,374	6,576	6,869	4.5%	28%
IR	520	460	329	-29%	-37%
Others	868	956	922	-3.5%	6.2%
Service revenues ex. IC	17,718	17,392	17,346	-0.3%	-2.1%
IC revenue	3,509	1,674	1,690	0.9%	-52%
Service revenues	21,227	19,066	19,036	-0.2%	-10%
Handsets and starter kits sales	3,282	3,288	2,765	-16%	-16%
Other operating income	40	87	67	-23%	69%
Total revenues	24,549	22,442	21,868	-2.6%	-11%
Cost of services	(14,192)	(11,371)	(11,202)	-1.5%	-21%
<i>Regulatory</i>	<i>(5,696)</i>	<i>(4,455)</i>	<i>(3,911)</i>	<i>-12%</i>	<i>-31%</i>
<i>Network</i>	<i>(986)</i>	<i>(1,104)</i>	<i>(1,182)</i>	<i>7.0%</i>	<i>20%</i>
<i>IC</i>	<i>(3,359)</i>	<i>(1,542)</i>	<i>(1,548)</i>	<i>0.4%</i>	<i>-54%</i>
<i>Others</i>	<i>(1,123)</i>	<i>(844)</i>	<i>(1,012)</i>	<i>20%</i>	<i>-9.9%</i>
<i>Depreciation and Amortization</i>	<i>(3,029)</i>	<i>(3,425)</i>	<i>(3,549)</i>	<i>3.6%</i>	<i>17%</i>
Cost of handsets and starter kits	(3,215)	(3,314)	(2,900)	-13%	-9.8%
Total costs	(17,408)	(14,685)	(14,102)	-4.0%	-19%
Gross profit	7,141	7,757	7,766	0.1%	8.7%
SG&A	(2,990)	(3,426)	(3,766)	9.9%	26%
<i>Selling & Marketing expenses</i>	<i>(1,006)</i>	<i>(1,272)</i>	<i>(1,508)</i>	<i>19%</i>	<i>50%</i>
<i>General administrative expenses</i>	<i>(1,372)</i>	<i>(1,573)</i>	<i>(1,647)</i>	<i>4.7%</i>	<i>20%</i>
<i>Provision for bad debt</i>	<i>(181)</i>	<i>(177)</i>	<i>(218)</i>	<i>23%</i>	<i>21%</i>
<i>Depreciation and Amortization</i>	<i>(431)</i>	<i>(404)</i>	<i>(394)</i>	<i>-2.5%</i>	<i>-8.7%</i>
Gain/Loss on foreign exchange	(135)	36	(53)	-246%	-139%
Interest income	54	32	49	51%	-9.9%
Other income & share of profit from investment in associated company in	53	91	43	-53%	-19%
EBIT	4,124	4,490	4,038	-10%	-2.1%
Financial cost	(342)	(353)	(356)	0.8%	4.1%
Corporate income tax	(846)	(834)	(732)	-12%	-13%
Non-controlling interest	1	1	1	20%	56%
Net profit attributable to equity holder	2,937	3,305	2,951	-11%	0.5%

EBITDA (THB million)	Q213	Q114	Q214	%QoQ	%YoY
Net profit for the period	2,936	3,304	2,950	-11%	0.5%
Financial costs	342	353	356	0.8%	4.1%
Corporate income tax	846	834	732	-12%	-13%
Depreciation & Amortization	3,460	3,829	3,943	3.0%	14%
Interest income	(54)	(32)	(49)	51%	-9.9%
Gain/Loss on foreign exchange	135	(36)	53	-246%	-61%
Loss on disposal of fixed assets and write-off other tangible assets	(197)	4	(1)	-113%	-100%
EBITDA	7,467	8,255	7,985	-3.3%	6.9%
EBITDA margin	30.4%	36.6%	36.4%		
EBITDA margin excluding handset	34.6%	42.8%	42.2%		

Statement of financial position (THB million)	Q114	Q214
Cash and cash equivalent	9,402	10,506
Other current assets	13,204	12,220
Non-current assets	83,773	84,147
Total assets	106,378	106,872
Current liabilities	43,116	46,151
Non-current liabilities	27,238	25,099
Total liabilities	70,355	71,250
Shareholders' equity	36,024	35,622
Total liabilities and shareholders' equity	106,378	106,872

Outlook 2014

We expect economic condition and consumer sentiment to improve in second half of this year. However, intense market competition is expected to continue as mobile operators are likely to encourage subscribers porting to 2.1GHz network and grow smartphone penetration, by introducing more competitive smartphone bundling packages and handset campaigns. Due to the volatility of handset business, we decide to change outlook 2014 to service revenue excluding IC instead of total revenue. As a result, we expect service revenue excluding IC in 2014 to be flattish from last year. Although marketing activities are expected to continue in the second half of the year, EBITDA margin guidance remains in 35-37% range because regulatory cost continues to develop positively from higher smartphone users on dtac TriNet. We also maintain the CAPEX guidance of minimum THB 13 billion in this year as we continue to optimize our network coverage and capacity and utilizing the advantages of the TriNet network to serve customers. The outlook 2014 is changed as follow;

2014 Guidance:

- Service revenue excluding IC: flattish growth YoY (Changed)
- EBITDA margin: 35-37% (Maintained)
- CAPEX: minimum of THB 13 billion (Maintained)

Our dividend policy remains at to pay out dividends at no less than 80% of the company's net profit depending on the company's financial position and future business plans with an aim to pay dividend quarterly.

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.

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