

# MCOT Public Company Limited



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Ref: MCOT/ 6138/717

February 27, 2018

The Stock Exchange of Thailand

Attn: The President

Re: Management's Discussion and Analysis (MD&A) on the Company's operating results for the year 2017 ended December 31, 2017 and the year 2016 ended December 31, 2016

Dear Madam,

On February 27, 2018, the Board of Directors' Meeting No. 2/2018 has resolved to approve the Company's 2017 financial statements ended December 31, 2017, which were reviewed by the Office of the Auditor General of Thailand and the Audit Committee of MCOT Plc., the details of which are as follows:

## **Management's Discussion and Analysis (MD&A) on the Company's operating results for the year 2017 ended December 31, 2017 and the year 2016 ended December 31, 2016**

In 2017, MCOT recorded an impairment of assets which resulted in an imbalance between revenue and expenses. As a consequence, the Company experienced a deficit of Baht 2,543 million, a 236% which over 20% increase from last year. The management of MCOT, therefore, clarifies such increase, operations during the aforementioned periods and measures to enhance its competitiveness, as follows:

	Unit: Million Baht (Reviewed)		
	2017	2016	% YOY
<b>Total Revenue</b>	<b>2,736</b>	<b>2,891</b>	<b>-5</b>
Television	1,002	1,142	-12
Radio	747	806	-7
New Media	59	137	-57
Broadcast Network Operation Service	363	194	87
Joint Operations	469	421	9
Additional income from agreements	46	47	-
Others	60	144	-58
<b>Total Expenses</b>	<b>5,549*</b>	<b>3,762</b>	<b>48</b>
<b>Net Profit (loss)</b>	<b>(2,543)</b>	<b>(758)</b>	<b>-236</b>
EPS (loss)	(3.70)	(1.07)	-246
<b>Parent Company Profit (loss)</b>	<b>(2,542)</b>	<b>(735)</b>	<b>-246</b>
Net Profit of Minority Interest (loss)	(1)	(23)	96

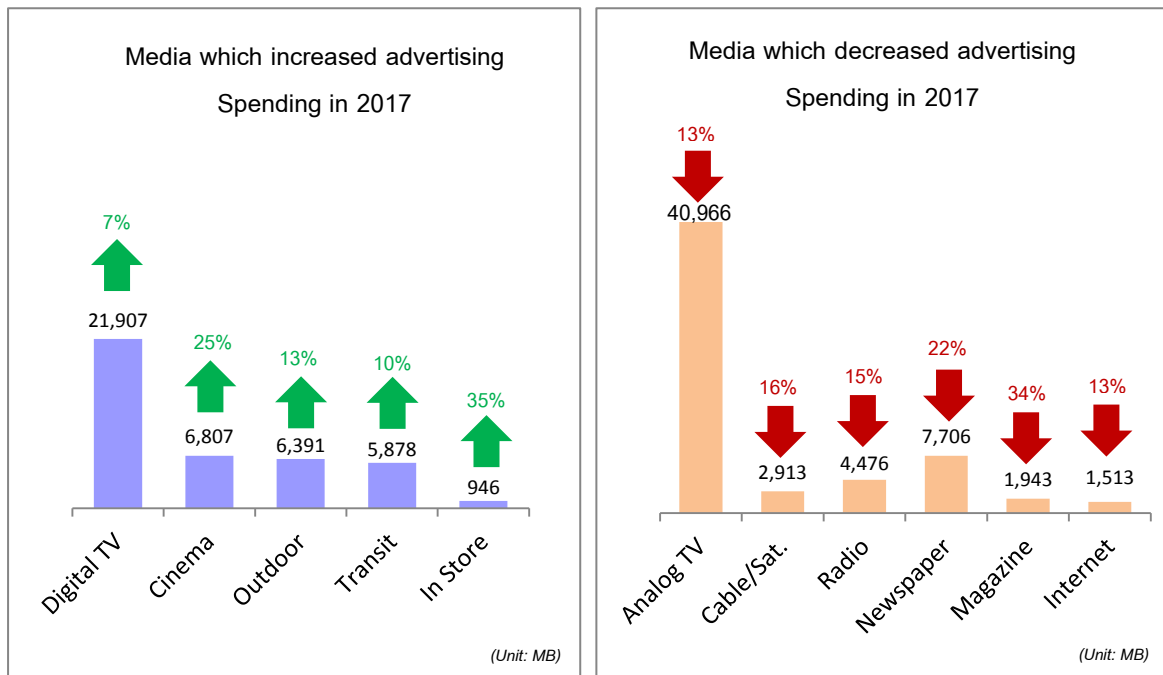
At MCOT, we all work together towards a common goal of promoting transparency and anti-corruption to achieve sustainable development.

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**Note:** \*A special item (a record of an impairment of licenses to operate digital TV channel BNO equipment and facilities) was included in operating expenses, which are further detailed in notes to financial statements, article 5: Expense by nature

### **Overall Industry**

The media industry continued to drop from last year. According to Nielsen Thailand, advertising spending in the industry in 2017 totaled Baht 101,445 million, a 6% decrease compared to the last year. Printed media including newspapers and magazines were the least in advertising spending. Advertising on main media such as TV and radio decreased as well. Likewise, spending on analog TV totaled Baht 40,966 million, which dropped 13.1% from last year. Meanwhile, spending on digital TV totaled Baht 21,907 million, which increased 7.4%. Radio advertising totaled Baht 4,476 million, which decreased 14.9%, compared to the same period of last year.



### **Total revenue**

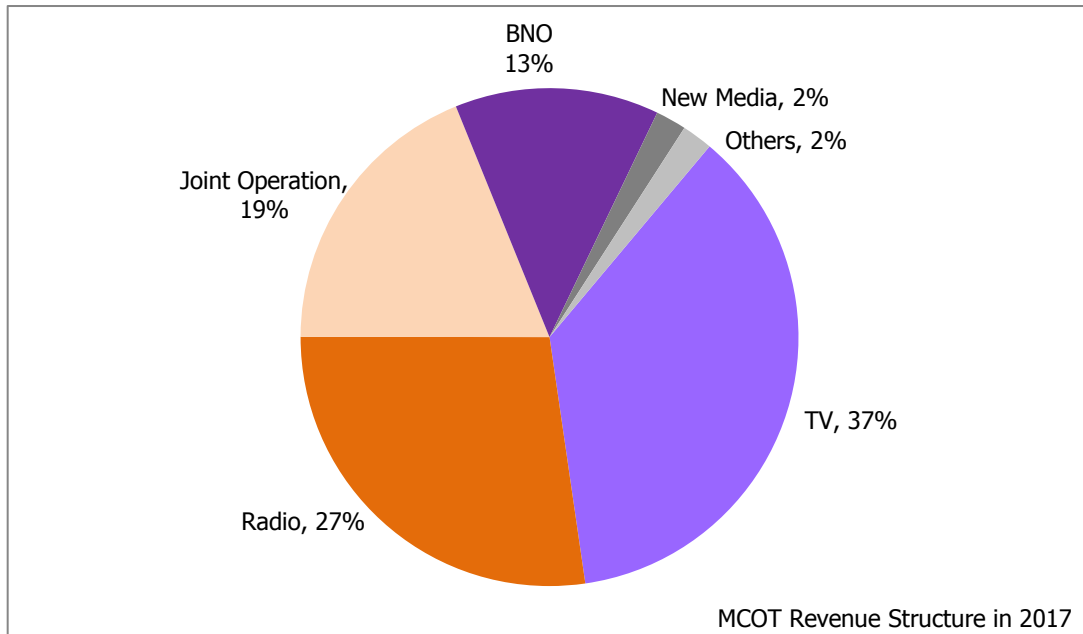
The decrease in advertising spending on traditional media especially TV and radio considerably affected MCOT's operations. This is because TV and radio are the main businesses of MCOT which generated more than 64% of the total revenue.

In 2017, MCOT's total revenue was Baht 2,736 million, a 5% decrease compared to the same period of last year. Details of revenue structure are as follows:

- TV (37%)
- Radio (27%)
- Joint Operations (19%)
- New Media (2%)
- Broadcast Network Operation Service (13%)
- New media (online media and MCOT satellite network) (2%)
- Others (2%)

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Despite the significant drop in revenue from main businesses, MCOT sought new opportunities to generate additional revenue and leveraged its existing assets. Meanwhile, new measures were implemented to enhance the Company's competitiveness, the details of which were as follows:

### **Television revenue**

In 2017, TV revenue amounted to Baht 1,002 million, a 12% drop compared to last year, but outperformed the overall market (Nielsen reported that advertising spending on analog TV dropped 13% from last year.) MCOT's TV revenue in 2017 comprised:

- Advertising (44%)
- Time-rental (10%)
- Special projects in collaboration with government and state enterprises (41%)
- Other operations (5%)

Despite a decrease in advertising time sold to agencies which was in accordance with the industry trend, MCOT was able to generate 14% of revenue from public relations projects, compared to the last year. In 2017, many government agencies allocated budget for special to create awareness and better understanding of Thai people towards the government. With an extensive range of media offerings, MCOT was able to meet the needs of those government agencies, which differentiated MCOT from other operators.

A program reshuffle of 9 MCOT HD (Channel 30) in late July reduced a proportion of programs produced by outsourcing companies and time-rental programs resulting in a drop in time-rental revenue. The Channel replaced Asian series and wildlife documentaries on the blocks where time-rental and outsourced programs had previously been scheduled. The new program schedule enabled 9 MCOT HD to gain higher ratings, moving from the 13<sup>th</sup> place up to the 10<sup>th</sup> place in September. The Channel aimed at achieving the 8<sup>th</sup> place in the near future.

MCOT Family 14 was rebranded to create a cheerful perception of the viewers through changing its new logo and adding more family and home shopping programs aiming at creating a new source of revenue. The rebranded MCOT Family 14 saw a positive direction and its ratings increased gradually.

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### **Radio revenue**

Despite the change in radio-listening behavior following different platforms arisen from new technology, MCOT radio network is able to maintain its listener base. To enable the listeners to have access to radio content anytime anywhere, MCOT created new ways for accessing live content through online platform, applications and facebook.

MCOT started to recognize revenue of Mellow 97.5 Mhz., the newly launched station in replacement of SEED MCOT, in July 2017 After SEED MCOT had terminated its broadcast at the beginning of 2017. MCOT's Radio revenue amounted to Baht 747 million, a 7% drop, compared to the same period of last year. Despite the decrease, MCOT's radio outperformed the market that declined 14.9%.

MCOT's radio revenue comprised:

- Central radio stations 71.2%
- Regional radio stations 28.7%
- Special projects 0.1%

F.M. 95 MHz was the highest revenue generating station, followed by F.M. 96.5 MHz, F.M. 100.5 and 107 MHz.

The radio network leveraged its business through broadcast of new contents on social media, for example; "Talk Together", easy talks with the special guest in spotlight, interviewed by our famous radio host, broadcasted on facebook

### **New Media**

Revenue from new media comprised satellite rental and online media businesses. In the 2017, new media revenue amounted to Baht 59 million, a 57% drop from the last year due to termination of contracts on Ku-Band satellite rental between MCOT and satellite TV operators in July 2017. An increased in revenue from C-Band satellite was found due to increased number of clients. In addition, revenue from online services increased after broadcast of own contents on online platform, for example; Youtube and websites.

### **Joint Operations**

MCOT's Joint operations revenue in 2017 amounted to Baht 459 million, a 9% increase, compared to the same period of last year due to a record of additional assets transferred from True Visions Plc.

### **Broadcasting Network Operation Service (BNO)**

In 2017, MCOT's revenue from BNO amounted to Baht 362 million, an 87% increase compared to the last year, partly due to a sponsorship for satellite transmission fee from the National Broadcasting and Telecommunication Commission (the NBTC) and increased service fee for broadcast facilities. Currently, the BNO service was able to cover 95% of the households nationwide, in accordance with the timeframe set by the NBTC.

### **Total expenses**

In 2017, total expenses amounted to Baht 5,549 million, a 48% increase from last year, due to the impairment of the licenses to operate 2 digital TV channels and broadcast network services, which was valued at Baht 2,087 million and was included in the Company's TV and radio operating expenses. As a result, the Company's operating expenses were amounted to Baht 4,473 million or an 81% of the total expenses. Regarding other expenses, the Company was able to reduce sales and management expenses 26% and 13%, respectively, compared to the same period of last year.

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Regardless of the impairment, the total expenses of MCOT would be Baht 3,462 million, which signified the Company's ability to control management expenses reducing the expenses 8%, compared to last year.

The impairment was in accordance with the 36<sup>th</sup> Accounting Standard on Impairment of Assets, in order to be able to present the actual values of the Company's existing assets. It was conducted with fair based on experiences, information and hypothesis of the management. Projected revenue, expenses, growth rate and future cash flow that reflected operations under the current digital TV situation were also studied. MCOT management would review key factors and indicators of such impairment on a yearly basis.

### **Net Loss**

Despite the revenue decrease and the impairment of assets resulting in a deficit of Baht 2,543 million or a 236% increase from last year, MCOT would, regardless of the impairment, experience a deficit before tax of Baht 726 million, which reduced 17% from last year, due to the Company's abilities to effectively control and manage expenses.

### **Assets, Liabilities and Shareholder's Equity**

	Unit: Million Baht (Reviewed)	
	December 31, 2017	December 31, 2016
Assets	6,958	10,199
Liabilities	2,945	3,633
Shareholder's Equity	4,013	6,566

As of December 31, 2017 the Company had total assets of Baht 6,958 million, total liabilities of Baht 2,945 million and shareholder's equity of 4,013 million. Despite the impairment of assets resulting the significant increase in operating results, MCOT has cash, short-term investment funding and savings totaled Baht 1,167 million presented in its financial statements, representing the Company's financial strength

Sincerely yours,



(Mr. Nanthasit Leksrisakul)  
Executive Vice President and Chief Strategy and Finance Officer (CFO)  
MCOT Public Company Limited  
Authorized to sign on behalf of the company

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