

13. Financial Highlights

13.1 Financial Statement

13.1.1 Auditor's report

Auditor's Reports were stated that the consolidated and company financial statements presented fairly, in all material respects, the consolidated and company financial position as at 31 December 2016, 2015, and 2014, and the consolidated and company results of operations, and cash flows for the years then ended of Advanced Info Service Public Company Limited and its subsidiaries, and of Advanced Info Service Public Company Limited, respectively, in accordance with Thai Financial Reporting Standards.

13.1.2 The Consolidated Financial Position

Unit : Thousand Baht

	2014		2015		2016	
	Amount	%	Amount	%	Amount	%
ASSETS						
Current Assets						
Cash and cash equivalents	14,258,066	11.28	9,864,913	5.43	11,226,141	4.07
Specifically-used bank deposits	3,709,328	2.94	4,447,280	2.45	2,963,183	1.08
Current investments	1,542,449	1.22	304,674	0.17	-	-
Trade and other accounts receivable	14,545,609	11.51	16,388,529	9.01	14,116,309	5.12
Short-term loans to related parties	95,000	0.08	-	-	-	-
Inventories	2,519,497	1.99	5,059,252	2.78	3,085,252	1.12
Other current assets	1,288,943	1.02	1,942,221	1.07	508,454	0.18
Total Current Assets	37,958,892	30.04	38,006,869	20.91	31,899,339	11.57
Non-Current Assets						
Investments in associate	-	-	-	-	24,235	0.01
Investments in joint venture	-	-	-	-	14,662	0.01
Other long-term investments	58,399	0.05	58,399	0.03	59,399	0.02
Swap and forward contracts receivable	568,881	0.45	795,449	0.44	577,660	0.21
Property, plant and equipment	60,702,587	48.04	84,291,103	46.37	118,271,443	42.90
Assets under the Agreements for operations	8,738,039	6.92	-	-	-	-
Goodwill	34,931	0.03	34,931	0.02	34,931	0.01
Spectrum license	12,624,410	9.99	51,790,574	28.49	115,378,418	41.85
Intangible assets	2,504,683	1.98	3,192,332	1.76	4,099,208	1.49
Deferred tax assets	1,441,856	1.14	1,251,588	0.69	2,617,832	0.95
Other non-current assets	1,717,885	1.36	2,340,028	1.29	2,693,224	0.98
Total Non-Current Assets	88,391,671	69.96	143,754,404	79.09	243,771,012	88.43
Total Assets	126,350,563	100.00	181,761,273	100.00	275,670,351	100.00

Advanced Info Service Public Company Limited

Consolidated – Financial Position (continued)

As at 31 December

Unit : Thousand Baht

	2014		2015		2016	
	Amount	%	Amount	%	Amount	%
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current Liabilities						
Short-term loans from financial institution	-	-	8,500,000	4.68	9,200,000	3.34
Trade and other accounts payable	23,092,055	18.27	27,750,538	15.26	34,292,055	12.44
Current portion of long-term liabilities	2,571,631	2.04	4,355,627	2.40	2,484,704	0.90
Current portion of Spectrum license payable	3,656,250	2.89	-	-	10,017,157	3.63
Accrued revenue sharing expenses	5,130,157	4.06	5,364,085	2.95	5,360,787	1.95
Unearned income - mobile phone services	2,183,175	1.73	2,331,763	1.28	3,208,043	1.16
Advance receipt from customers	3,709,328	2.94	4,447,280	2.45	2,963,183	1.08
Income tax payable	2,195,546	1.74	4,761,208	2.62	1,756,301	0.63
Other current liabilities	367,976	0.29	22,792	0.01	45,799	0.02
Total Current Liabilities	42,906,118	33.96	57,533,293	31.65	69,328,029	25.15
Non-Current Liabilities						
Long-term liabilities	34,478,291	27.29	52,576,667	28.93	87,273,400	31.66
Employee benefit obligation	1,499,743	1.19	2,293,784	1.26	2,554,403	0.93
Spectrum license payable	-	-	19,902,471	10.95	72,180,038	26.18
Other non-current liabilities	601,656	0.47	962,076	0.53	1,626,147	0.59
Total Non-Current Liabilities	36,579,690	28.95	75,734,998	41.67	163,633,988	59.36
Total Liabilities	79,485,808	62.91	133,268,291	73.32	232,962,017	84.51
Shareholders' Equity						
Issued and fully paid-up share capital	2,973,095	2.35	2,973,095	1.64	2,973,095	1.08
Reserves :						
Premium on share capital	22,372,276	17.71	22,372,276	12.31	22,388,093	8.12
Retained earnings :						
Appropriated - Legal reserve	500,000	0.40	500,000	0.27	500,000	0.18
Unappropriated	20,710,295	16.39	22,313,204	12.28	16,471,015	5.97
Other components of equity	194,732	0.15	217,757	0.12	236,680	0.09
Total Equity attributable to equity holders of the Company	46,750,398	37.00	48,376,332	26.62	45,568,883	15.44
Non-controlling interests	114,357	0.09	116,650	0.06	139,451	0.05
Total Equity	46,864,755	37.09	48,492,982	26.68	42,708,334	15.49
Total Liabilities and Equity	126,350,563	100.00	181,761,273	100.00	275,670,351	100.00

Advanced Info Service Public Company Limited
Consolidated - Statement of Income
For the years ended 31 December

Unit : Thousand Baht

	2014		2015		2016	
	Amount	%	Amount	%	Amount	%
Revenues						
Revenues from services & equipment rentals	125,396,923	83.97	127,414,763	82.06	128,226,137	84.28
Revenues from sale of goods	23,331,862	15.63	27,798,086	17.90	23,923,730	15.72
Construction income from the Agreements for operation	600,262	0.40	63,591	0.04	-	-
Total revenue	149,329,047	100.00	155,276,440	100.00	152,149,867	100.00
Cost						
Cost of services & equipment rentals	45,206,190	30.28	50,020,302	32.21	58,069,918	38.17
Revenue sharing expense	14,593,802	9.77	6,716,228	4.33	3,989	-
Cost of sale of goods	23,148,016	15.50	28,018,892	18.04	24,917,977	16.38
Construction cost from the Agreements for operation	600,262	0.40	63,591	0.04	-	-
Total cost	83,548,270	55.95	84,819,013	54.62	82,991,884	54.55
Gross profit	65,780,777	44.05	70,457,427	45.38	69,157,983	45.45
Selling expenses	6,219,706	4.17	6,900,983	4.44	16,012,373	10.52
Administrative expenses	12,640,674	8.46	13,190,402	8.50	13,763,455	9.05
Total selling & administrative expenses	18,860,380	12.63	20,091,385	12.94	29,775,828	19.57
Profit from sales, services and equipment rentals	46,920,397	31.42	50,366,042	32.44	39,382,155	25.88
Investment income	370,107	0.25	291,108	0.19	203,951	0.13
Other operating income	329,786	0.22	447,705	0.29	364,176	0.24
Share of (gain) loss of associate and joint venture	(3,625)	-	(10,875)	-0.01	23,897	0.02
Impairment loss of assets	(11,973)	-0.01	-	-	-	-
Net foreign exchange gain (loss)	188,934	0.13	228,780	0.15	277,161	0.18
Management benefit expenses	(183,866)	-0.13	(209,178)	-0.14	(150,257)	-0.10
Finance costs	(1,526,870)	-1.02	(1,959,563)	-1.26	(4,236,139)	-2.78
Profit before income tax expense	46,082,890	30.86	49,154,019	31.66	35,864,944	23.57
Income tax	(10,079,717)	-6.75	(9,999,167)	-6.44	(5,175,300)	-3.40
Profit for the year	36,003,173	24.11	39,154,852	25.22	30,689,644	20.17
Attributable to :						
Equity holders of the Company	36,033,165	24.13	39,152,410	25.21	30,666,538	20.15
Minority interests	(29,992)	-0.02	2,442	0.01	23,106	0.02
Profit for the year	36,003,173	24.11	39,154,852	25.22	30,689,644	20.17
Basic earnings per share (Bath)	12.12		13.17		10.31	
Diluted earnings per share (Bath)	12.12		13.17		10.31	

Advanced Info Service Public Company Limited
Consolidated - Statement of Cash Flows
For the years ended 31 December

Unit : Thousand Baht

Consolidated - Cash flow	2014	2015	2016
Cash flows from operating activities:			
Net profit	36,003,173	39,154,852	30,689,644
Adjusted by:			
Depreciation	6,224,631	10,153,064	15,464,345
Amortization of intangible assets	12,697,121	10,342,114	6,202,968
Impairment loss of assets	11,973	-	-
Investment income	(370,107)	(291,108)	(203,951)
Finance costs	1,526,870	1,959,563	4,236,139
Doubtful accounts and bad debts expenses	1,240,097	1,315,294	1,537,700
Share-based payment transaction	18,922	30,661	34,741
Allowance for obsolete, decline in value and write-off inventories	60,997	206,635	301,549
Loss on disposals and write off assets	864,997	302,482	23,070
Allowance for unused equipment	-	-	135,773
Unrealised (gain) loss on foreign exchange rate	19,719	25,736	(29,634)
Share of (gain) loss of associate and joint venture	3,625	10,875	(23,897)
Income tax expense	10,079,717	9,999,167	5,175,300
Cash provided by operation before changes in operating assets & liabilities	68,381,735	73,209,335	63,543,747
Changes in operating assets and liabilities			
Specifically-used bank deposit	71,813	(737,952)	1,484,097
Trade and other accounts receivable	(1,403,349)	(2,046,091)	731,904
Inventories	284,438	(2,714,490)	1,672,451
Other current assets	(156,062)	(146,712)	1,022,641
Other non-current assets	(568,973)	(622,142)	2,601
Trade and other accounts payable	2,411,269	2,018,695	3,289,463
Accrued revenue sharing expenses	1,595,407	233,928	(3,298)
Unearned income-mobile phone service	583,511	148,588	876,280
Advance received from customers	723,400	737,952	(1,484,097)
Swap and forward contracts (receivable) payable	(24,199)	90,217	102,801
Other current liabilities	190,895	(344,346)	23,006
Other non-current liabilities	84,478	97,008	276,108
Cash generated from operating activities	72,174,363	69,923,990	71,537,704
Income tax paid	(9,353,965)	(8,294,588)	(9,902,247)
Net cash from operating activities	62,820,398	61,629,402	61,635,457

Advanced Info Service Public Company Limited
Consolidated - Statement of Cash Flows (Continued)
For the years ended 31 December

Unit : Thousand Baht

Consolidated - Cash flow	2014	2015	2016
Cash flows from investing activities:			
Interest received	372,803	282,277	215,750
Purchase of property, plant and equipment and computer software	(31,731,849)	(32,107,980)	(47,554,102)
Sales of property and equipment	27,410	22,120	17,398
Purchase of intangible assets under the agreement for operations	(830,273)	(146,548)	-
Payment of spectrum license	(3,656,250)	(24,159,783)	(8,069,267)
Net increase in short-term loans to subsidiaries and associate	(95,000)	95,000	-
Net (increase) decrease in other investments	82,882	1,230,043	303,674
Additional investment in subsidiaries, associate and joint venture	(3,625)	(10,875)	(15,000)
Dividend received	10,000	40,000	-
Net cash used in investing activities	(35,823,902)	(54,755,746)	(55,101,547)
Cash flows from financing activities:			
Interest paid	(1,229,812)	(1,612,269)	(2,568,103)
Other finance costs paid	(124,186)	(178,230)	(201,233)
Financial lease principal payment	(35,511)	(42,625)	(47,304)
Net increase (decrease) in short-term loans from financial institutions	(4,000,000)	8,500,000	700,000
Proceed of long-term liabilities	21,600,400	21,500,000	41,153,738
Repayment of long-term liabilities	(5,370,463)	(2,392,023)	(7,699,136)
Acquisition of non-controlling interests	(2)	-	-
Dividend paid	(35,052,353)	(37,042,102)	(36,508,870)
Net cash used in financing activities	(24,211,927)	(11,267,249)	(5,170,909)
Net increase (decrease) in cash and cash equivalents	2,784,569	(4,393,593)	1,363,001
Cash and cash equivalents at 1 January	11,473,121	14,258,066	9,864,913
Effect of exchange rate changes on balances held in foreign currencies	376	440	(1,773)
Cash and cash equivalents at 31 December	14,258,066	9,864,913	11,226,141

13.1.3 Financial ratio

Advanced Info Service Public Company Limited

Consolidated - Financial ratio

For the years ended 31 December

Consolidated financial statements	2014	2015	2016
Liquidity Ratio			
Current Ratio (time)	0.88	0.66	0.46
Quick Ratio (time)	0.61	0.37	0.33
Operating cash flow to current liability (time)	1.46	1.07	0.89
A/R turnover (time)	13.26	13.23	13.79
Collection period (day)	27	27	26
Inventory turnover (time)	8.60	7.39	6.12
Day sales period (day)	42	49	59
A/P turnover (time)	5.79	5.94	5.17
Payment period (day)	62	61	70
Cash Cycle (day)	7	15	15
Profitability Ratio			
Gross profit margin ratio (%)	44.05%	45.38%	45.45%
Operation income ratio (%)	31.42%	32.44%	25.88%
Other operating income ratio (%)	0.47%	0.48%	0.37%
Free cash flow to EBIT (%)	57.54%	13.65%	16.59%
Net profit margin (%)	24.13%	25.21%	20.16%
Return to Equity (%) Average	77.69%	82.12%	67.25%
Return to Equity (%) As at end	76.89%	80.74%	71.80%
Efficiency Ratio			
Return on total assets (%)	30.23%	25.41%	13.41%
Return on fixed assets (%)	55.20%	49.12%	29.23%
Total assets turnover (time)	1.25	1.01	0.67
Financial Policy Ratio			
Debt to equity ratio (time)	1.70	2.75	5.45
Interest coverage ratio (time)	32.79	28.27	9.71
Debt service ratio (IR Basis) (time)	13.28	3.87	3.09
Dividend payout ratio (%)	99.01%	98.64%	97.72%
Data on per Share Capital			
Net book value per share (Baht)	15.76	16.31	14.36
Net Profit per share (Baht)	12.12	13.17	10.31
Dividend per share (Baht)	12.00	12.99	10.08
Percentage Growth on			
Total Assets (%)	12.79%	43.85%	51.67%
Total Liabilities (%)	20.19%	67.66%	74.81%
Revenue from services & sales (%)	(0.83%)	3.98%	(2.01%)
Selling & admin. expenses (%)	26.78%	6.53%	48.20%
Net Profit (%)	(0.66%)	8.66%	(21.67%)

14. Management discussion and analysis

Executive Summary

Marked 98% of 4G coverage in one year: 2016 was the year that AIS focused on expanding 4G network and fixed broadband expansion with a total CAPEX of Bt48bn. We launched 4G services on 1800x15MHz in Jan-16 and continued to enhance network capacity and quality: 1) securing 900x10MHz spectrum license, 2) deploying Carrier Aggregation (CA) technology in key cities, and 3) entering to partnership agreement with TOT for the use of additional 2100x15MHz spectrum. During the year, competition has been focusing on handset subsidy to attract new customers as well as to retain the existing base. Through intense competition, mobile revenue improved 1%, driven by improved 4G coverage and higher smartphone adoption.

Build up fixed broadband business as new revenue stream: Within this second year of operation, AIS Fibre recorded 301,500 subscribers and covered 28 cities at the end of 2016. The competition on fixed-broadband market has increased. The offerings with short-period discount and better speed at the same price were introduced to attract new demand as well as those seeking upgrade. During the year, we streamlined working process, increased sales force and channels. As a result, AIS Fibre contributed 1.2% of revenue in 4Q16 and achieved 35,000 of subscribers acquisition run rate per month, a level comparable to incumbent players.

Improved revenue momentum in 2H amidst intense competition: In 2016, service revenue (excluding IC) grew 1.6%, in line with the full year guidance. However, marketing expense jumped to 10.5% of revenue mainly from handset campaigns (including subsidy for 2G to 3G migration) of Bt10bn in 2016. Network OPEX increased mainly from network expansion and payment of Bt3.8bn to TOT for the use of 2100MHz spectrum, towers, and equipment. **EBITDA margin** was 39.9% and slightly better than guided mainly due to the delay of TOT partnership while **net profit** dropped 22% to Bt30,667mn from lower EBITDA and higher license amortization.

Enhance profitability and maintain financial flexibility for future competitiveness: In 2017, **service revenue** (excluding IC) is expected to grow in a range of 4-5% supported by extensive 3G/4G networks. **EBITDA margin** is likely to be in a range of 42-44%. **CAPEX** of Bt40-45bn will be spent mainly on 4G network and selective fixed broadband expansion. **New dividend policy** is to pay minimum of 70% of net profit from 2017 onwards to preserve financial health and flexibility for future growth. (see the full guidance for FY17 on page 6)

Significant events

1. In 4Q16, we started to make a payment to TOT for the commercial trial deal on 2100MHz spectrum amounting to Bt975mn per quarter, in addition to the payments for the use of towers and network equipment amounting to Bt1,400mn per quarter. In 2017, the payment to TOT will be made monthly, totaling Bt2,375mn per quarter, until the final contracts are signed.
2. According to the Royal Decree No. 604 dated 18 April 2016, investment in certain assets during the period from 3 November 2015 to 31 December 2016 can qualify for double depreciation tax benefits. The qualified assets are machinery, equipment, tools, computers software, vehicles, and buildings (excluding land and buildings for residential purposes). These benefits will be recognized over 5-years period starting from 2016. The tax benefit in 2016 is Bt835mn, with an approximately similar amount for the next four years.

Market Environment in 4Q16

In 4Q16, the operators continued to expand 4G network to claim leadership in mobile data while using handset subsidies as a mean to preserve and expand subscriber base. The high-end handset subsidy was pronounced after the launch of iPhone 7 causing a continued high level of industry marketing spending. Although data consumption grew along with the higher smartphone penetration, the monetization of data usage was pressured by the offering of non-stop packages with large data allowance. Meanwhile the AIS 1-2-call and 7-11 incident posted limited revenue impact to AIS as customers gradually changed their behavior to top-up at other channels such as automatic KIOSKs, other modern trades, and via mPAY application.

The fixed broadband market continued to expand competitively both in terms of coverage expansion and pricing strategy. Fibre service continued to receive positive perception and good demand from consumers. The competition focused on improving speed and more attractive offering in high-end package.

Operational Summary

In 4Q16, AIS had net addition of 1.2mn subscribers giving the total subscribers of 41mn. Postpaid subscribers were 6.4mn, a net addition of 320,900, and prepaid subscribers were 34.6mn, a net addition of 836,900. The high growth of subscribers was driven mainly by the 4G services and supported by a variety of handset campaigns. In 2H16, we started to focus more on medium- to high-end smartphones; this, consequently, drove the smartphone adoption to 69%. Blended ARPU increased from Bt248 to Bt251 due to higher

number of data subscribers which now represented 57% of total subscriber. As a result, blended VOU grew from 3.0 GB/data sub/month to 3.6 GB. Voice usage continued to decline reflected in blended MOU of 215 minutes from 226 minutes.

In 4Q16, AIS Fibre had net addition of 106,500 subscribers, compared to 80,000 and 18,000 in 3Q16 and 4Q15, respectively. As a result, AIS Fibre had total subscribers of 301,500, a net addition of 257,500 in 2016. ARPU was Bt510, improving from Bt498 in the previous quarter.

Mobile Business	4Q15	1Q16	2Q16	3Q16	4Q16
Subscribers					
Postpaid	5,431,200	5,412,400	5,812,800	6,108,700	6,429,600
Prepaid	33,056,900	33,515,900	33,542,200	33,764,700	34,601,600
Total subscribers	38,488,100	38,928,300	39,355,000	39,873,400	41,031,200
Net additions					
Postpaid	68,000	-18,800	400,400	295,900	320,900
Prepaid	609,400	459,000	26,300	222,500	836,900
Total net additions	677,400	440,200	426,700	518,400	1,157,800
ARPU (Baht/sub/month)					
Postpaid	612	608	608	597	600
Prepaid	195	194	188	186	186
Blended	254	251	248	248	251
MOU (minute/sub/month)					
Postpaid	330	320	313	305	296
Prepaid	286	272	234	213	201
Blended	292	279	246	226	215
VOU (MB/data sub/month)					
Postpaid	2,360	2,680	3,430	4,090	4,970
Prepaid	1,910	2,030	2,380	2,670	3,200
Blended	2,000	2,160	2,590	2,960	3,580
Device Penetration					
4G-handset penetration	N/A	16%	19%	24%	29%
Fixed Broadband Business					
FBB subscribers	44,000	72,000	115,000	195,000	301,500
FBB net addition	18,000	28,000	43,000	80,000	106,500
FBB ARPU (Baht/user/month)	615	583	520	498	510

4Q16 Snapshot

Revenue momentum in 4Q16 has shown an improvement while intense handset subsidy continued in the market. Total revenue was Bt41,319mn, an increase of 3.9% YoY and 11% QoQ driven by 4G subscription and handset campaigns. Sales margin was -3.3%, improved from -16% in 3Q16 due to higher margins from newly-launched smartphones in 4Q16 despite some discounts. Service revenue (excluding IC) was Bt31,617mn, a growth of 5.8% YoY and 3.2% QoQ underpinned by the trend of heavy data consumption, which rose to 3.6GB/data sub/month, together with the revenue growth of fixed broadband business, +64% QoQ, following higher subscriber acquisition and ARPU.

Overall cost increased QoQ following the start of TOT 2100MHz commercial trial agreement in Oct-16 which cost Bt975mn/quarter and accounted under network OPEX. Excluding this, network OPEX remained flat QoQ. Regulatory fee remained at 5.8% to service revenue (excluding IC), same as in 3Q16. SG&A increased 9.6% QoQ due to continued high level of handset subsidies and higher bad debt provision. YoY cost increased due to network expansion, handset subsidies, TOT's partnership cost and new spectrum. As a result, EBITDA dropped by 12% YoY and 1.3% QoQ to Bt15,058mn and EBITDA margin stood at 36.4%. Net profit was Bt6,468mn, a decrease of 40% YoY and 0.9% QoQ.

FY16 Financial Summary

Revenue

In FY16, **total revenue** (excluding construction) was Bt152,150mn declining 2% YoY from lower handset sales offset by higher service revenue.

SIM & device sales were Bt23,924mn, decreasing 14% YoY due to discounts and subsidizes. Hence, handset margin was -4.2% compared to -0.8% in FY15.

Service revenue (excluding IC) was Bt122,561mn, increasing 1.6% YoY in line with our guidance. Revenue in 1H was dampened by uncertainty around 900MHz and improved in 2H following the extensive and fast rollout of 4G network.

- **Voice revenue** was Bt51,250mn decreasing 15% YoY as voice usage continued to be substituted by the use of mobile data.
- **Non-voice revenue** was Bt63,857mn increasing 20% YoY following higher penetration of smartphone. The mobile data consumption grew from 2 GB/data sub/month last year to the current usage of 3.6 GB while 4G-handset users increased to 12mn. Mobile data revenue in FY16 represented 46% of service revenue (excluding IC), increasing from 37% in FY15.
- **Fixed broadband revenue** was Bt860mn increasing 616% YoY from Bt120mn in FY15 and represented 1.2% of service revenue in 4Q16. The growth came from both the larger subscriber base and the improved ARPU.
- **International revenues and others** were Bt6,594mn decreasing 2.5% mainly due to the declining IDD revenue offset with higher IR revenue from the improved tourism sentiment in 2016.

Net Interconnection charges (Net IC) was Bt285mn decreasing from Bt681mn in FY15. The interconnection revenue and cost in 2016 were lower than those in 2015 due to the adjustment of interconnection rate in July-15 from Bt0.45/minute to Bt0.34/minute. Starting January 2017, the new interconnection rate will be Bt0.27/minute.

Cost & Expense

Total cost (excluding construction) was Bt82,992mn decreasing 2.1% YoY from lower regulatory fee offset by higher D&A, network OPEX and cost of handset subsidies.

- **Regulatory fee** was Bt10,414mn decreasing 26% YoY as the high concession fee ended in 2Q16. Since 3Q16, the percentage of regulatory fee to service revenue (excluding IC) started to become in line with the license fee regulated by the NBTC. In FY16, the percentage was 8.5% compared to 11.7% in FY15.
- **Depreciation and amortization** was Bt21,253mn, an increase of 5.5% YoY with addition of 900MHz and 1800MHz spectrum amortization offset by fully amortized 2G assets since 3Q15. The amortization of 2100/1800/900MHz licenses was Bt5.5bn in FY16 while the network D&A continued to increase from investments in 4G network.
- **Network OPEX** was Bt14,810mn increasing 54% YoY mainly due to the payments to TOT and 4G network rollout. This year AIS started to make payments of Bt3,775mn to TOT for the deals on 2100MHz spectrum, towers, and network equipment and facilities. The payment to TOT in 2017 will be a full-year of Bt9,500mn.

- **Other costs of service** were Bt6,216mn decreasing 7.8% YoY mainly due to the change in accounting of cost of fixed broadband from expensing to capitalizing since 1Q16.

SG&A expenses were Bt29,776mn, an increase of 48% YoY mainly due to higher marketing expenses.

- **Marketing expenses** were Bt16,012mn increasing 132% YoY mainly from handset subsidies. Marketing expenses to total revenue became 10.5% in FY16 compared to 4.4% in FY15. Excluding the handset subsidy, marketing expenses to total revenue was in the range of 4-4.5%.
- **General admin expenses** were Bt11,812mn slightly increasing 2.5% YoY.
- **Depreciation and amortization** was Bt414mn, an increase of 19% YoY mainly from shop expansion.
- **Bad debt** was Bt1,538mn increasing 17% YoY. Bad debt to postpaid revenue was 3.7% in FY16 compared to 3.4% in FY15 due to the larger postpaid subscriber base.

Finance cost were Bt4,236mn increasing 116% YoY from higher debt to fund spectrum payment and CAPEX. The finance costs also included the deferred interest of Bt1.2bn in FY16 for the 1800/900MHz licenses.

Net FX gain was Bt277mn increasing from the net gain of Bt229mn in FY15. Most of the gain was a realized gain from payables for network investment. Foreign-currency loans are fully-hedged.

Profit

In FY16, **EBITDA** was Bt60,741mn declining 14% YoY mainly due to the payments to TOT and higher marketing expenses for handset subsidies. **Consolidated EBITDA margin** was at 39.9%, slightly better than the guidance but declining from 45.6% in FY15. The higher D&A and finance costs offset by the lower income tax expense (see significant events on page 1) caused the net profit to be Bt30,667mn, declining 22% YoY. Normalizing the one-time recognitions of USO fee and deferred tax asset in 1Q16 and the tax benefit in 4Q16, normalized net profit would be Bt30,680mn, a decline of 22% YoY. Net profit margin stood at 20.2% compared to 25.2% in FY15.

Income statement (Bt mn)	4Q15	3Q16	4Q16	%YoY	%QoQ	2015	2016	%YoY
Voice revenue	14,085	12,494	12,329	-13%	-1.4%	60,547	51,250	-15%
Non-voice revenue	14,174	16,242	17,265	22%	6.4%	53,193	63,857	20%
Fixed Broadband	65	232	380	485%	64%	120	860	616%
Others (IR, IDD, other fees)	1,563	1,659	1,643	5.1%	-0.9%	6,760	6,594	-2.5%
Service revenue (excluding IC)	29,887	30,626	31,617	5.8%	3.2%	120,621	122,561	1.6%
IC revenue	1,475	1,405	1,387	-6.0%	-1.3%	6,794	5,665	-17%
Sales revenue	8,422	5,064	8,315	-1.3%	64%	27,798	23,924	-14%
Total revenues (excluding construction)	39,784	37,096	41,319	3.9%	11%	155,213	152,150	-2.0%
Regulatory fee	(2,662)	(1,769)	(1,834)	-31%	3.7%	(14,116)	(10,414)	-26%
Depreciation & Amortization	(3,495)	(6,156)	(6,717)	92%	9.1%	(20,146)	(21,253)	5.5%
Network Operation	(2,672)	(4,094)	(5,065)	90%	24%	(9,620)	(14,810)	54%
Other cost of service	(1,749)	(1,518)	(1,539)	-12%	1.3%	(6,742)	(6,216)	-7.8%
Cost of service (excluding IC)	(10,578)	(13,537)	(15,155)	43%	12%	(50,624)	(52,694)	4.1%
IC cost	(1,349)	(1,354)	(1,332)	-1.2%	-1.6%	(6,113)	(5,380)	-12%
Cost of sale of goods	(8,485)	(5,878)	(8,592)	1.3%	46%	(28,019)	(24,918)	-11%
Total cost (excluding construction)	(20,412)	(20,769)	(25,079)	23%	21%	(84,755)	(82,992)	-2.1%
Gross profit	19,372	16,327	16,240	-16%	-0.5%	70,457	69,158	-1.8%
Total SG&A	(5,643)	(7,260)	(7,961)	41%	9.6%	(20,091)	(29,776)	48%
Marketing expenses	(2,209)	(3,828)	(3,988)	81%	4.2%	(6,901)	(16,012)	132%
Administrative expenses	(3,020)	(2,976)	(3,278)	8.5%	10%	(11,526)	(11,812)	2.5%
Bad debt expenses	(321)	(350)	(584)	82%	67%	(1,315)	(1,538)	17%
Depreciation	(93)	(106)	(111)	19%	4.4%	(349)	(414)	19%
Operating profit	13,730	9,067	8,279	-40%	-8.7%	50,366	39,382	-22%
Net foreign exchange gain (loss)	196	67	6	-97%	-91%	229	277	21%
Other income (expense)	68	94	114	69%	21%	518	442	-15%
Finance costs (interest expense & deferred interest)	(597)	(1,311)	(1,331)	123%	1.6%	(1,960)	(4,236)	116%
Total Income tax	(2,598)	(1,371)	(594)	-77%	-57%	(9,999)	(5,175)	-48%
Non-controlling interests	(7)	(17)	(6)	-16%	-65%	(2)	(23)	847%
Net profit for the period	10,791	6,529	6,468	-40%	-0.9%	39,152	30,667	-22%
EBITDA (Bt mn)	4Q15	3Q16	4Q16	%YoY	%QoQ	2015	2016	%YoY
Operating Profit	13,730	9,067	8,279	-40%	-8.7%	50,366	39,382	-22%
Depreciation & amortization	3,588	6,262	6,828	90%	9.0%	20,495	21,667	5.7%
(Gain) loss on disposals of PPE	1	-	23	2,784%	N/A	303	23	-92%
Management benefit expense	(74)	(39)	(41)	-45%	4.1%	(209)	(150)	-28%
Other financial cost	(41)	(33)	(32)	-21%	-2.3%	(178)	(181)	1.5%
EBITDA	17,204	15,257	15,058	-12%	-1.3%	70,776	60,741	-14%
Recognition of USO fee (pre-tax)	-	-	-	-	-	-	2,208	-
Normalized EBITDA	17,204	15,257	15,058	-	-	70,776	62,949	-11%
EBITDA margin (%)	43.2%	41.1%	36.4%			45.6%	39.9%	
Normalized EBITDA margin (%)	43.2%	41.1%	36.4%			45.6%	41.4%	
Normalized net profit (Bt mn)	4Q15	3Q16	4Q16	%YoY	%QoQ	2015	2016	%YoY
Net profit for the period	10,791	6,529	6,468	-40%	-0.9%	39,152	30,667	-22%
Recognition of USO fee after tax	-	-	-	-	-	-	1,767	-
Recognition of deferred tax assets	-	-	-	-	-	-	(919)	-
Recognition of tax incentive	-	-	(835)	-	-	-	(835)	-
Normalized net profit for the period	10,791	6,529	5,633	-48%	-14%	39,152	30,680	-22%

Financial Position (Bt mn/% to total asset)	4Q15		4Q16	
Cash & cash equivalent	9,865	5.4%	11,226	4.1%
Bank dep. & ST investment	4,752	2.6%	2,963	1.1%
Trade receivable	11,030	6.1%	11,377	3.9%
Inventories	5,059	2.8%	3,085	1.1%
Others	7,301	4.0%	3,248	1.2%
Current Assets	38,007	21%	31,899	12%
Spectrum license	51,791	28%	115,378	42%
Network and PPE	84,291	46%	118,271	43%
Intangible asset	3,192	1.8%	4,099	1.5%
Deferred tax asset	1,252	0.7%	2,618	0.9%
Others	3,229	1.8%	3,404	0.7%
Total Assets	181,761	100%	275,670	100%
Trade payable	14,358	7.9%	17,737	6.4%
ST loan & CP of LT loans	12,856	7.1%	11,685	4.2%
Accrued R/S expense	5,364	3.0%	5,361	1.9%
Others	24,956	14%	34,545	13%
Current Liabilities	57,533	32%	69,328	25%
Debenture & LT loans	52,416	29%	87,130	32%
Others	23,319	13%	76,504	28%
Total Liabilities	133,268	73%	232,962	85%
Retained earnings	22,813	12%	16,971	6.2%
Others	25,680	14%	25,737	9.3%
Total Equity	48,493	27%	42,708	15%

Key Financial Ratio	4Q15	3Q16	4Q16
Interest-bearing debt to equity (times)	1.32	2.94	2.30
Net debt to equity (times)	1.02	2.57	1.97
Net debt to EBITDA (times)	0.70	1.53	1.38
Current Ratio (times)	0.66	0.49	0.46
Interest Coverage (times)	30	16	14
Debt Service Coverage Ratio (times)	3.9	1.7	3.4
Return on Equity	82%	90%	67%

Figures from P&L are annualized YTD.

Debt repayment schedule			License payment schedule	
Bt mn	Debenture	Loan	1800MHz	900MHz
2017	397	11,001	10,247	-
2018	-	2,799	10,247	4,020
2019	7,789	3,364	-	4,020
2020	-	23,929	-	59,574
2021	1,776	10,129	-	-
2022	-	9,882	-	-
2023	7,820	5,350	-	-
2024	6,638	-	-	-
2025	-	-	-	-
2026	7,180	-	-	-

Source and use of fund : FY16

Source of Fund		Use of Fund	
Operating cash flow	71,538	CAPEX & Fixed asset	47,554
Proceed of LT borrowings	41,154	Dividend paid	36,509
Net Proceed of ST borrowings	700	Payment of spectrum license	8,069
Net change in investments	303	Repayment of LT borrowings	7,699
Interest received	215	Income tax paid	9,902
Sale of property	17	Finance cost & Financial lease paid	2,818
		Investment in joint venture	15
		Cash increase	1,361
Total	113,927	Total	113,927

Credit Rating

Fitch	National rating: AA+ (THA), Outlook: Stable
S&P	BBB+, Outlook: Negative

Financial position

As at Dec-16, AIS had Bt275,670mn of total assets, of which the values of PPE and licenses contributed around 85%. Total assets increased 52% YoY due to the acquisition of the 900MHz spectrum license in June 2016 and the network investments on 4G. The current assets were Bt31,899mn dropping 16% YoY mainly from the lower handset inventory while trade account receivables increased 3.1% YoY. Total liabilities were Bt232,962mn increasing 75% YoY mainly from the the 900MHz spectrum license and higher debt. Interest-bearing debt increased from Bt64bn in 2015 to Bt98bn in 2016 to support spectrum payments and network investments. Total equity was Bt42,708mn declining 12% YoY from lower retained earnings, following a decline in net profit. Overall, the company's ability to service debt remained healthy with net debt to EBITDA ratio of 1.38x and interest coverage ratio of 14x. Our credit rating was maintained at BBB+ from S&P, in the range of investment grade. Meanwhile liquidity remained fair with current ratio of 0.46x, mainly weighted by payable on network investment.

Cash Flow

Despite softer earnings, AIS' operating cash flow (after tax) was stable at Bt61,635mn. CAPEX was Bt47,554mn in 2016, compared to Bt32,108mn in 2015, following the nationwide 4G coverage and 3G enhancement. CAPEX to service revenue (excluding IC) was 39%, up from 27% in 2015. Also, AIS paid Bt8,069mn for the 1st installment of the 900MHz spectrum license to the NBTC in Jun-16. This resulted in a free cash flow of Bt6,012mn. AIS had a net borrowing of Bt34,155mn and paid dividend for the performance of 2H15-1H16 totaling Bt36,509mn. In summary, AIS had a net cash increase of Bt1,361mn resulting in an outstanding cash of Bt11,226mn as of Dec-16.

2017 MANAGEMENT OUTLOOK & STRATEGY

Service revenue (excluding IC)	<ul style="list-style-type: none"> increase 4-5% YoY
Handset sales	<ul style="list-style-type: none"> increase with near-zero margin
Consolidated EBITDA margin	<ul style="list-style-type: none"> 42-44%
CAPEX	<ul style="list-style-type: none"> Bt40-45bn
Dividend payout	<ul style="list-style-type: none"> minimum 70% of net profit

Build strong leadership in mobile data

In 2016, after acquiring 1800MHz, AIS has quickly built a nationwide 4G network covering 98% population in response to the accelerating demand for quality mobile data. We expect that the demand for faster speed will continue strongly, and will be more efficiently served by 4G network. To build on our leadership in mobile data, the investment in 2017 will focus on 4G capacity including the expanded deployment of 2-carrier and 3-carrier aggregation in key cities. Also, we will continue to encourage further smartphone adoption and migrating 2G users through targeted handset subsidies.

Selectively expand new fixed broadband coverage and uplift utilization

Since the launch in April 2015, AIS Fibre has achieved coverage of about 5.2mn home pass in 28 cities and serves 301,500 subscribers with Bt10bn cumulative CAPEX. Striving to become a significant player in the next three years, we continue to expand our business and build stronger operational foundation. Starting the third year of operation in 2017, we will pursue selective expansion of new service areas with due consideration to demand and return on investment. At the same time, we will also put focus on increasing capacity utilization in the existing coverage areas through more effective sales and distribution channels, while remaining competitive in fibre pricing. We expect investment in fixed broadband of around Bt5bn this year.

Continue to grow with improvement in revenue and EBITDA

In summary, we expect the consolidated service revenue (excluding IC) to improve 4-5% YoY. With our focus on acquiring quality subscribers, we expect an improvement of handset sales with a near-zero margin contribution. This will partially be offset with a full-year recognition of payments to TOT for the use of spectrum, towers, and equipment. Overall, we expect the consolidated EBITDA margin to improve and stay in the range of 42-44%. The total cash CAPEX (excluding spectrum payment) is expected to be in the range of Bt40-45bn for both mobile and fixed broadband.

New dividend policy: a minimum payout of 70%

AIS is committed to driving long term growth while delivering return to shareholders. We place importance in maintaining strong financial health and flexibility to pursue future growth. The dividend policy is thus revised to a minimum 70% payout of net profit from 2017 onwards. By preserving cash flow, we ensure that we have the financial flexibility to lead, compete, and pursue growth prospect in any changing circumstances.

The dividend payment shall still be made twice a year and is based on consolidated earnings and subjected to the availability of retained earnings on the separate financial statements. In all cases, dividend payment shall depend on cash flow, investment plan including any other future obligations of the Company and/or subsidiaries. Such dividend shall not adversely affect the Company and subsidiaries ongoing operations

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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