1Q17 MD&A

Advanced Info Service Plc.

Executive Summary

AIS continued to build on leadership in mobile data through improved 4G quality and brand perception. In 1Q17, CAPEX of Bt11.5bn was spent to strengthen 4G network quality through 2- and 3-Carrier Aggregation (CA) technology. During the quarter, the competition focused on acquiring/maintaining quality customers in postpaid segment through handset campaigns and pricing strategy. Mobile revenue improved 2.6% YoY, mainly from postpaid segment. Average data usage increased to 4GB/sub/month, supported by growing 4G handset adoption (35%) and popularity of video streaming.

The fixed broadband business focused on quality of subscription and ARPU improvement. We witnessed a decent take up on network utilization in the key cities, supported by the active sale forces and promotions. In 1Q17, AIS Fibre recorded 373,900 subscribers, a net addition of 72,400, and represented 1.7% of service revenue. In addition, we sought to create differentiation through digital contents and enhance customer stickiness. New contents such as HBO, Warner, and Fox were offered on both fixed broadband and mobile platforms in end of March.

In 1Q17, service revenue (excluding IC) improved 4% YoY, in line with the full-year guidance, underpinned by improved 4G network and larger AIS Fibre coverage. QoQ, revenue slightly dropped by 0.8%. The handset campaigns were more selective, resulting in lower marketing expense (5.5% of revenue from 10.5% in 2016). Network OPEX was flat QoQ but increased 99% YoY mainly from 4G expansion and addition of TOT partnership payment. **EBITDA margin** improved to 44.6% from 36.4% in 4Q16 and 36.0% in 1Q16 following softer handset subsidies and one-time USO fee booked in 1Q16. **Net profit** was Bt7,693mn, improved 19% QoQ but dropped 4.7% YoY.

FY17 guidance is maintained (Please see detail on page 6). At the end of Mar-17, the new NBTC Act was approved by the National Legislative Assembly and is expected to be officially published on the Royal Gazette in due course. In addition, AIS has submitted the proposal of partnership model on 2300MHz to TOT, which is currently in the evaluation process of TOT.

Market Environment in 1Q17

On mobile business, the operators continued to promote 4G data consumption. The competition geared toward postpaid segment with selective handset campaigns while prepaid handset campaigns were tapering. Meanwhile, pricing environment remained competitive with the new unlimited data packages to attract high value customers and encourage prepaid to postpaid migration.

The fixed broadband market continued to expand through fibre technology. Competition focused on speed and/or technology upgrade offered at the same price points to retain existing base and also attracted new demand. The high-end packages with faster speed were also made more affordable to attract demand for better experience for internet and HD Video streaming.

Operational Summary

In 1Q17, AIS has focused on acquiring quality subscribers and lowered prepaid subsidy while maintaining competitive pricing. The trend of prepaid customers migrating to postpaid continued, supported by attractive postpaid offerings bundled with smartphones. These resulted in postpaid net addition of 231,800 while prepaid declined 615,200. The data consumption continued to accelerate with blended VOU rising to 4GB/data sub/month driven by 4G. HD video streaming has become popular while data plans were designed to be worry-free with larger data allowance. Blended ARPU slightly declined from Bt251 to Bt244.

In 1Q17, AIS Fibre recorded a net addition of 72,400 with a focus on the quality of subscription. With better customer awareness toward AIS Fibre, we became less aggressive in terms of discount campaigns. The strategy emphasized on responding to the customer needs e.g. customer can freely choose to subscribe package with or without AIS PLAYBOX (Video service). Fixed broadband ARPU continued to improve to Bt541 as existing subscription with aggressive discounts gradually expired.

Mobile Business	1Q16	2Q16	3Q16	4Q16	1Q17
Subscribers					
Postpaid	5,412,400	5,812,800	6,108,700	6,429,600	6,661,400
Prepaid	33,515,900	33,542,200	33,764,700	34,601,600	33,986,400
Total subscribers	**38,928,300**	**39,355,000**	**39,873,400**	**41,031,200**	**40,647,800**
Net additions					
Postpaid	-18,800	400,400	295,900	320,900	231,800
Prepaid	459,000	26,300	222,500	836,900	-615,200
Total net additions	**440,200**	**426,700**	**518,400**	**1,157,800**	**-383,400**
ARPU (Baht/sub/month)					
Postpaid	608	608	597	600	579
Prepaid	194	188	186	186	181
Blended	**251**	**248**	**248**	**251**	**244**
MOU (minute/sub/month)					
Postpaid	320	313	305	296	280
Prepaid	272	234	213	201	190
Blended	**279**	**246**	**226**	**215**	**205**
VOU (MB/data sub/month)					
Postpaid	2,680	3,430	4,090	4,970	5,720
Prepaid	2,030	2,380	2,670	3,200	3,490
Blended	**2,160**	**2,590**	**2,960**	**3,580**	**3,970**
Device Penetration					
4G-handset penetration	16%	19%	24%	29%	35%
Fixed Broadband Business					
FBB subscribers	72,000	115,000	195,000	301,500	373,900
FBB net addition	28,000	43,000	80,000	106,500	72,400
FBB ARPU (Baht/user/month)	583	520	498	510	541

1Q17 Financial Summary

Revenue

In 1Q17, **total revenue** was Bt38,858mn increasing 4.3% YoY from improved service revenue and handset sales, but decreasing 6% QoQ mainly from lower handset sales.

Service revenue (excluding IC) was Bt31,364mn increasing 4% YoY driven by growing postpaid segment, significantly improved 4G network and AIS Fibre coverage. QoQ, the revenue slightly dropped 0.8%.

- **Voice revenue** was Bt11,433mn, decreasing 16% YoY and 7.3% QoQ from data cannibalization.
- **Non-voice revenue** was Bt17,784mn, increasing 20% YoY and 3% QoQ, underpinned by better 4G network and device adoption. In 1Q17, mobile data revenue contributed 51% of service revenue, comparing to 43% in 1Q16.
- **Fixed broadband revenue** was Bt549mn, an increase of 442% YoY and 44% QoQ, driven by larger subscriber base. FBB represented 1.7% of service revenue.
- **International revenues and others** were Bt1,599mn decreasing 2.7% YoY and QoQ.

SIM & device sales were Bt6,407mn increasing 13% YoY from more handset units sold while decreasing 23% QoQ due to seasonality. SIM & device margin was -6.7% in 1Q17, compared to -0.3% in 1Q16 and -3.3% in 4Q16, due to promotional campaigns in selling handsets with discounts.

Net Interconnection charges (Net IC) was Bt34mn, decreasing from Bt94mn in 1Q16 and Bt55mn in 4Q16. Starting from 1Q17, the new interconnection rate was Bt0.27/minute, a change from the previous Bt0.34/minute.

Cost & Expense

Cost of service (excluding IC) was Bt15,203mn increasing 20% YoY from higher D&A and network OPEX, offset by lower regulatory fee. QoQ, it remained relatively flat.

- **Regulatory fee** was Bt1,815mn decreasing 60% YoY and 1% QoQ. The dropped YoY was mainly from one-time USO fee booked in 1Q16 and cost from operating under remedy period. AIS has fully operated on the license base from 3Q16 onward. Following that, regulatory fee to service revenue dropped from 7.9% (excluding one-time USO fee) in 1Q16 to 5.8% in 1Q17.
- **Depreciation and amortization** was Bt6,807mn increasing 71% YoY driven by investment in 4G network and the amortization of 900MHz license granted at end of Jun-16. QoQ, D&A slightly rose 1.3%.
- **Network OPEX** was Bt5,043mn increasing 99% YoY mainly from the Bt2,375mn payment for TOT partnership (a recurring quarterly run-rate since 4Q16). Excluding this, network OPEX to service revenue was maintained both YoY and QoQ.
- **Other costs of service** were Bt1,537mn decreasing 3.7% YoY and 0.1% QoQ.

SG&A expenses were Bt5,439mn decreasing 33% YoY and 32% QoQ mainly due to lower handset subsidies.

- **Marketing expenses**, which included both normal marketing expenses and handset subsidies, were Bt2,157mn, decreasing 58% YoY and 46% QoQ mainly from lower handset subsidies.
- **General admin expenses** were Bt2,648mn relatively flat YoY while declining 19% QoQ from lower staff cost.
- **Depreciation and amortization** was Bt110mn increasing 15% YoY mainly from shop expansion. QoQ, D&A decreased 0.9%.
- **Bad debt** was Bt525mn increasing 85% YoY but decreasing 10% QoQ, following growing postpaid segment and subsidy campaigns. In 1Q17, bad debt to postpaid revenue was 4.5%.

Finance cost was Bt1,293mn, inclusive of Bt523mn deferred interest from spectrum licenses. The finance cost increased 72% YoY due to an increase in borrowings to support spectrum acquisition and network investment. QoQ, finance cost declined 2.9% from a repayment during the quarter.

Net FX gain was Bt150mn compared to a net gain of Bt25mn in 1Q16 and Bt6mn in 4Q16. Expenses and borrowings denominated in foreign currencies are hedged to reduce currency risk.

Profit

In 1Q17, **EBITDA** was Bt17,347mn increasing 29% YoY and 15% QoQ from improving service revenue, lower regulatory fee and softened handset subsidies. **EBITDA margin** was at 44.6%, compared to 36.0% in 1Q16 and 36.4% in 4Q16. **Net profit** was Bt7,693mn declining 4.7% YoY but improving 19% QoQ. The Bt3,340mn remaining tax benefit from investments in 2016 will be realized quarterly from 1Q17 to 4Q20 (see more details on MD&A 4Q16).

Financial position

Comparing with 4Q16, as of 1Q17, AIS had total assets of Bt279,147mn slightly increasing 1.3% mainly from network equipment. Total liabilities were Bt241,491mn increasing 3.7%, partly due to a dividend payable of Bt12,755mn recognized to be paid on 26th April. Interest-bearing debt was Bt95bn, all of which was long term, lower from Bt98bn. Shareholders' equity was Bt37,656mn, declining 12% due to lower retained earnings. Current ratio stood at 0.43x, down from 0.46x in 4Q16. With improving EBITDA and lower interest-bearing debt, net debt to EBITDA stood at 1.2x, down from 1.4x while average interest cost was 3.1% p.a. Return on equity remained strong at 75%.

Cash Flow

In 1Q17, AIS generated Bt13,838mn of operating cash flow after tax, declining from Bt16,626mn in 1Q16. Cash CAPEX was Bt11,509mn against the full-year guidance of Bt40-45bn, resulting in a free cash flow of Bt2,329mn. Net repayment of borrowing was Bt3,200mn. Overall, cash decreased Bt1,144mn with an outstanding cash of Bt10,082mn

Income statement (Bt mn)	1Q16	4Q16	1Q17	%YoY	%QoQ
Voice revenue	13,572	12,329	11,433	-16%	-7.3%
Non-voice revenue	14,831	17,265	17,784	20%	3.0%
Fixed broadband revenue	101	380	549	442%	44%
IR & others	1,643	1,643	1,599	-2.7%	-2.7%
Service revenue (excluding IC)	**30,148**	**31,617**	**31,364**	**4.0%**	**-0.8%**
IC revenue	1,441	1,387	1,087	-25%	-22%
SIM and handset sales	5,663	8,315	6,407	13%	-23%
Total revenues	**37,252**	**41,319**	**38,858**	**4.3%**	**-6.0%**
Regulatory fee	(4,589)	(1,834)	(1,815)	-60%	-1.0%
Depreciation & Amortization	(3,978)	(6,717)	(6,807)	71%	1.3%
Network operating expense	(2,531)	(5,065)	(5,043)	99%	-0.4%
Other cost of services	(1,596)	(1,539)	(1,537)	-3.7%	-0.1%
Cost of service (excluding IC)	**(12,693)**	**(15,155)**	**(15,203)**	**20%**	**0.3%**
IC cost	(1,347)	(1,332)	(1,053)	-22%	-21%
Cost of SIM and handset sales	(5,680)	(8,592)	(6,836)	20%	-20%
Total costs	**(19,721)**	**(25,079)**	**(23,091)**	**17%**	**-7.9%**
Gross profit	**17,532**	**16,240**	**15,767**	**-10%**	**-2.9%**
SG&A	**(8,095)**	**(7,961)**	**(5,439)**	**-33%**	**-32%**
Marketing Expense	(5,076)	(3,988)	(2,157)	-58%	-46%
General administrative & staff cost	(2,640)	(3,278)	(2,648)	0.3%	-19%
Bad debt provision	(284)	(584)	(525)	85%	-10%
Depreciation	(96)	(111)	(110)	15%	-0.9%
Operating profit	**9,436**	**8,279**	**10,327**	**9.4%**	**25%**
Net foreign exchange gain (loss)	25	6	150	496%	2395%
Other income (expense)	117	114	176	51%	54%
Finance cost	(751)	(1,331)	(1,293)	72%	-2.9%
Income tax	(754)	(594)	(1,668)	121%	181%
Non-controlling interest	0	(6)	0	-18%	-103%
Net profit for the period	**8,073**	**6,468**	**7,693**	**-4.7%**	**19%**

Normalized net profit (Bt mn)	1Q16	4Q16	1Q17	%YoY	%QoQ
Net profit for the period	**8,073**	**6,468**	**7,693**	**-4.7%**	**19%**
Recognition of USO fee (after tax)	1,767	-	-	-	-
Recognition of deferred tax assets	(919)	-	-	-	-
Recognition of tax incentive	-	(835)	(209)	-	-75%
Normalized net profit for the period	**8,921**	**5,633**	**7,484**	**-16%**	**33%**

EBITDA (Bt mn)	1Q16	4Q16	1Q17	%YoY	%QoQ
Operating Profit	9,436	8,279	10,327	9.4%	25%
Depreciation & amortization	4,073	6,828	6,917	70%	1.3%
(Gain) loss on disposals of PPE	0	23	160	NA	594%
Management benefit expense	(36)	(41)	(34)	-3.9%	-15%
Other financial cost	(59)	(32)	(23)	-62%	-31%
EBITDA	**13,415**	**15,058**	**17,347**	**29%**	**15%**
Recognition of USO fee (pre-tax)	2,208	-	-	-	-
Normalized EBITDA	**15,623**	**15,058**	**17,347**	**11%**	**15%**
EBITDA margin (%)	**36.0%**	**36.4%**	**44.6%**		
Normalized EBITDA margin (%)	**41.9%**	**36.4%**	**44.6%**		

Financial Position (Bt mn/% to total asset)	4Q16		1Q17	
Cash & cash equivalent	11,226	4.1%	10,082	3.6%
Bank dep. & ST investment	2,963	1.1%	2,768	1.0%
Trade receivable	11,377	4.1%	11,466	4.1%
Inventories	3,085	1.1%	4,442	1.6%
Others	3,248	1.2%	3,230	1.2%
Current Assets	**31,899**	**12%**	**31,987**	**11%**
Spectrum license	115,378	42%	113,442	41%
Network and PPE	118,271	43%	124,190	44%
Intangible asset	4,099	1.5%	4,192	1.5%
Defer tax asset	2,618	0.9%	2,604	0.9%
Others	3,404	1.2%	2,732	1.0%
Total Assets	**275,670**	**100%**	**279,147**	**100%**
Trade payable	17,737	6.4%	15,973	5.7%
ST loan & CP of LT loans	11,685	4.2%	4,613	1.7%
Accrued R/S expense	5,361	1.9%	5,361	1.9%
Others	34,546	13%	47,753	17%
Current Liabilities	**69,328**	**25%**	**73,700**	**26%**
Debenture & LT loans	87,130	32%	90,671	32%
Others	76,504	28%	77,120	28%
Total Liabilities	**232,962**	**85%**	**241,491**	**87%**
Retained earnings	16,971	6.2%	11,909	4.3%
Others	25,737	9.3%	25,747	9.2%
Total Equity	**42,708**	**15%**	**37,656**	**13%**

Key Financial Ratio	1Q16	4Q16	1Q17
Interest-bearing debt to equity (times)	1.65	2.30	2.52
Net debt to equity (times)	1.23	1.97	2.17
Net debt to EBITDA (times)	0.85	1.38	1.18
Current Ratio (times)	0.50	0.46	0.43
Interest Coverage (times)	17	14	14
Debt Service Coverage Ratio (times)	3.3	3.4	7.3
Return on Equity	83%	67%	75%

Figures from P&L are annualized YTD.

Debt repayment schedule			License payment schedule	
Bt mn	**Debenture**	**Loan**	**1800MHz**	**900MHz**
2Q17-4Q17	397	1,147	10,247	-
2018	-	2,799	10,247	4,020
2019	7,789	3,364	-	4,020
2020	-	24,829	-	59,574
2021	1,776	12,079	-	-
2022	-	12,636	-	-
2023	7,820	6,400	-	-
2024	6,638	-	-	-
2025	-	-	-	-
2026	7,180	-	-	-

Source and use of fund : 1Q17 (Bt mn)

Source of Fund		Use of Fund	
Operating cash flow	14,167	CAPEX & Fixed asset	11,509
Proceed of LT borrowing	6,654	Repayment of ST borrowings	9,200
Interest received	42	Repayment of LT borrowings	654
Sale of property	4	Income tax paid	329
Cash decrease	1,144	Finance cost & Financial lease paid	265
		Investment in joint venture	45
		Effect of exchange rate on cash balance	9
Total	**22,011**	**Total**	**22,011**

2017 MANAGEMENT OUTLOOK & STRATEGY (maintained)

Service revenue (excluding IC)	• increase 4-5% YoY
Handset sales	• increase with near-zero margin
Consolidated EBITDA margin	• 42-44%
CAPEX	• Bt40-45bn
Dividend payout	• 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 in 28 cities and serves 373,900 subscribers. Striving to become a significant player in the next three years, we continue to expand our business and build stronger operational foundation. 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.

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