FY13 MD&A: Advanced Info Service Plc.

Executive Summary

In 2013, AIS had officially launched 3G-2.1GHz service in May, by the year end we achieved 80% population coverage with 13,200 base stations in all 77 provinces on the CAPEX of Bt28bn. After 8 months of 3G launch, AIS registered 16mn subscribers which accounted for 40% of the total subscribers while revenue contribution on 3G 2.1GHz license also increased to 43% in 4Q13. This resulted in significant reduce in regulatory fee as the business model is shifting from Build-Transfer-Operate (BTO) with revenue sharing of 25-30% to license with a license fee of 5.25%. Accordingly, in 2013, EBITDA increased 3.7% YoY to Bt63,691mn despite higher operating expense on 3G network expansion while net profit improved 4% to Bt36,274mn.

Revenue driver remained upon non-voice service which grew 24% YoY to Bt32,376mn, the largest portion was data which contributed 19% of service revenue, excluding IC. Demand for smartphones continued increasing with more affordable prices and variety resulted in sales revenue rose 7.3% YoY.

However, voice usage has dropped on weak consumer sentiment and new NBTC's regulation to extend prepaid validity, leading to 4% YoY decline in voice revenue to Bt71,941mn.

Competition outlook in 2014 is expected to be driven by operators' push for smartphone adoption and 3G subscriptions, leading to price pressure, zero handset margin and increased marketing spending. On a positive side, rising 3G adoption will bring in lower regulatory cost and help offsetting cost pressure. We expect our service EBITDA margin to improve by 300bps but consolidated EBITDA margin to be flat given the handset adoption strategy. Revenue growth is expected to accelerate to 6-8% upon improving network and product competitiveness. To regain customer perception toward AIS 3G network, we plan to spend Bt40bn this year to further ramp up coverage to 95% of population and accelerate investment for quality including fiber optics and small cells.

Significant Events: Impairment loss of investment in DPC in the separate financial statement

Resulted from NBTC's one year remedy after the expiration of 1800MHz Build-Transfer-Operate (BTO) contract on Sep 15, 2013, the Company reviewed the carrying amount of investment in DPC, a subsidiary operating mobile service on GSM 1800MHz, assuming that DPC continue operation after the expiration of the BTO contract for one year. As a result, the company recorded a non-cash loss from impairment of Bt216mn, which impacted the net income on the separate financial statements. The recoverable amount of investment in DPC remains at Bt4,263mn (Note 12 of the Financial Statement 2013).

Operational Summary

In 2013, AIS **registered 41mn subscribers** with a net addition of 5.1mn mainly from prepaid segment. The subscriber growth reflected growing smartphone users and to a larger extent an impact from the new NBTC's regulation to extend prepaid validity, which resulted in lower prepaid churn and subsequently high net additions. After 8 months of the official launch of 3G 2.1GHz in May-13, AIS had 16.4mn 3G subscribers which accounted for 40% of the total subscribers. Subscription on 2G-900/1800MHz continued to decline to 24.5mn.

Prepaid average revenue per user (ARPU) decreased slightly 2.7% QoQ and 13% YoY to Bt182 due to weak consumer sentiment and the impact of larger subscriber base from longer validity regulation. **Postpaid ARPU and minute of use (MOU)** dropped YoY and QoQ, as new subscribers were mid-end which generated lower ARPU and the political situation in Thailand lead to the weak consumer spending.

Subscribers	4Q12	1Q13	2Q13	3Q13	4Q13
2G[1)]	35,743,700	37,118,900	33,720,100	28,653,700	24,494,400
3G[2)]	-	-	3,946,300	10,471,400	16,366,500
Postpaid	3,683,300	3,825,800	3,947,000	4,053,700	4,266,900
Prepaid	32,060,400	33,293,100	33,719,400	35,071,400	36,594,000
Total subscribers	**35,743,700**	**37,118,900**	**37,666,400**	**39,125,100**	**40,860,900**
Net additions					
2G[1)]	419,800	1,375,200	-3,398,800	-5,066,400	-4,159,300
3G[2)]	-	-	3,946,300	6,525,100	5,895,100
Postpaid	137,000	142,500	121,200	106,700	213,200
Prepaid	282,800	1,232,700	426,300	1,352,000	1,522,600
Total net additions	**419,800**	**1,375,200**	**547,500**	**1,458,700**	**1,735,800**
ARPU (Baht/subs/month)					
2G[1)]	258	254	236	208	194
3G[2)]	-	-	396	360	289
Postpaid	683	683	686	698	658
Prepaid	210	204	195	187	182
Blended	**258**	**254**	**244**	**236**	**226**

[1)] 2G refers to 900 & 1800MHz operation under Build-Transfer-Operate contract
[2)] 3G refers to 2100MHz operation under license issued by the NBTC

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MOU (minute/sub/month)	4Q12	1Q13	2Q13	3Q13	4Q13
2G[1]	340	339	320	305	291
3G[2]	-	-	362	366	342
Postpaid	483	470	450	444	429
Prepaid	324	323	308	302	294
Blended	**340**	**339**	**322**	**317**	**308**

4Q13 Snapshot

In 4Q13, 3G adoption continued to grow as 3G subscribers increased to 16.4mn from 10.5mn in 3Q13. Hence, 3G revenue increased to Bt11,437mn, representing 43% of revenue compared to 29% in 3Q13, while 2G revenue dropped. From the political situation and economic slowdown, 4Q service revenue, excluding IC, flat QoQ at Bt28,030mn but dropped 0.7% YoY. Regulatory fee was Bt5,497mn, a decrease of 12% QoQ, from the change in cost structure from BTO (Build-Transfer-Operate) to license scheme. With the increasing demand on iPhone, sales revenue rose 61% QoQ. Sales margin maintained at 5.4%. EBITDA was Bt16,316mn, an increase of 6.4% QoQ and 5.8% YoY mainly from the regulatory fee saving. Net profit was Bt8,816mn, an increase of 5.7% QoQ and 4.2% YoY. Without defer tax on DPC, normalized net profit was Bt9,098mn.

FY13 Financial Summary

Revenue

In 2013, AIS total revenue remained stable from last year at Bt142,783mn due to lower interconnection rate (from Bt1/minute to Bt0.45/minute starting since July 1st) offset rising data momentum.

- **SIM & device sales,** representing 13% of total revenue, were Bt18,995mn and increased 7.3% YoY on growing smartphone popularity. **Sales margin**, however, continued to decline from 8% to 7% due to declining device price and attractive co-branded handset offerings to push 3G handset adoption.
- **Service revenue, excluding IC,** stood at Bt112,528mn and increased 3.9% YoY, underpinned by strong demand for mobile internet whereas voice continued to decline. In May-13, AIS launched the new 3G-2.1GHz and encouraged customers to move to the new 3G-2.1GHz service. In 2013, revenue from 3G-2.1GHz represented 20% of service revenue, excluding IC

  Voice revenue was Bt71,941mn, a decrease of 3.5% YoY, due to weak economic sentiment. The revenue contraction was mainly seem from the prepaid segment which dropped 5.9% YoY following the NBTC's prepaid validity regulation. This resulted in lower customer spending since the minimum top-up value for 30 days validity has reduced from Bt200 to Bt10. As a result of the new 3G launch, non-voice revenue for year 2013 grew 24% YoY to Bt32,376mn, underpinned by rising data demand and more affordable smartphone. The largest portion of non-voice revenue came from mobile data service which grew strongly, its contribution to service revenue, excluding IC rose to 19% from 14% in 2012. International Roaming (IR) went down 4% YoY from global price pressure, partly offset by growing users and usage of data roaming. International call & other businesses rose 16% in 2013 from infrastructure rental, AIS Wi-fi, and expanded international call business.
- **Interconnection charges (IC)** Both IC revenue and cost declined almost 30% due to IC rate reduction. In 2013, AIS was the IC recipient of Bt659mn, an increase of 17% YoY.

Cost & Expense

Despite 3G network expansion, **cost of service, excluding IC**, was stable YoY at Bt52,780m in 2013 since 3G related costs was offset by lower regulatory cost.

- **Regulatory fee** was at Bt26,443, a decrease of 7.9% YoY, as the revenue shift from 2G (BTO contract) to 3G (license system), which carries lower regulatory cost. In 2013, the regulatory fee represented 23% of service revenue, including net IC, compared to 26% last year.
- **Depreciation & Amortization (D&A) stood** at Bt16,309mn, an increase of 5.7% YoY, due to 3G investment and 2.1GHz license amortization. This was partly offset by lower amortization of asset under BTO (2G).
- **Network OPEX** was Bt7,757mn, an increase of 19% YoY, as we rollout new 13,200 sites of 3G-2.1GHz in 77 provinces, covering 80% of population. Network opex was 5.4% of total revenue from 4.6% last year.
- **Other cost of service** was Bt2,271mn, an increase of 5.9% YoY, due to increased call center staff.

SG&A expense was Bt14,876mn, an increase of 24% YoY from marketing spending and other 3G related expenses. In 2013, SG&A to total revenue reached 10% compared to 8% last year.

- **Marketing expense** was Bt4,331mn,an increase of 50% YoY to launch and promote the new 3G service.
- **General admin expense** was Bt9,526mn, an increase of 14% YoY due to increased headcount, expense related to 3G and write-off in obsolete equipment.
- **Depreciation** stood at Bt232mn, an increase of 15% YoY mainly from shop expansion.
- **Bad debt** was Bt787mn, an increase of 45% YoY due to growth of postpaid segment. Bad debt as a percentage to postpaid revenue was 2.5%, compared to 2% last year. The level of bad debt remains under normal business circumstance.

Net Foreign Exchange In 2013, net foreign exchange loss was Bt233mn compare to Bt102mn net gain in 2012. This resulted from Thai Baht depreciation and USD denominated CAPEX on the expansion of 3G network.

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Profit

In 2013, EBITDA was Bt63,691mn, an increase of 3.7% YoY. The key factor that drove the growth on EBITDA was lower regulatory fee on the new 2.1GHz license (license fee 5.25% vs revenue sharing 25-30%), amid higher network operation expense on expanding 3G network. This also resulted in a slight increase in **EBITDA margin** to 44.6% from 43.4% in 2012. **Net income** was Bt36,274mn, increasing 4% YoY, due to improved EBITDA and reduced corporate tax (from 23% to 20%), in spite of higher network depreciation and amortization on new 2.1GHz spectrum. **Net profit margin** remained flat at 25.4%.

Financial position

At the end of 2013, total asset increased to Bt112,026mn from Bt100,968mn in 2012 mainly from fixed-asset due to 3G network expansion. Cash was used to pay for dividend, as a result it decreased to Bt15,254mn from Bt23,531mn. Inventories increased to Bt2,865mn from Bt1,427mn in 2012 due to the stock on iPhone. Network under BTO contract continued to decrease to Bt20,500mn from Bt29,157mn in 2012, as the contract is approaching expiration. Liquidity remained healthy with the current ratio at 0.77.

Interest bearing debt increased to Bt24,169mn from Bt20,915mn in 2012. Our gearing remained low with net debt to equity of 0.19 times and average cost of debt was 3.4%. Consolidated equities were Bt45,893mn and increased from Bt43,542mn in 2012 due to net income growth.

Cash Flow

In 2013, AIS had cash flow from operation of Bt51,329mn, which remained flat YoY. CAPEX was Bt28,460mn and increased from Bt9,598mn due to the expansion on 3G-2.1GHz project. Free cash flow (OCF-CAPEX) was Bt22,869mn and decreased from Bt41,535mn mainly from 3G network expense.

Income statement (Bt mn)	4Q12	3Q13	4Q13	%YoY	%QoQ	FY12	FY13	%YoY
Voice revenue	18,992	17,828	17,232	-9.3%	-3.3%	74,557	71,941	-3.5%
Non-voice revenue	7,225	8,205	8,563	19%	4.4%	26,197	32,376	24%
International Roaming	782	622	759	-2.9%	22%	2,803	2,690	-4.0%
Others (IDD, other fee)	1,225	1,310	1,476	20%	13%	4,778	5,521	16%
Service revenue, ex. IC	**28,224**	**27,964**	**28,030**	**-0.7%**	**0.2%**	**108,336**	**112,528**	**3.9%**
IC revenue	3,908	1,826	1,845	-53%	1.1%	15,518	11,260	-27%
SIM and handset sales	6,068	3,687	5,947	-2.0%	61%	17,695	18,995	7.3%
Total revenues	**38,200**	**33,477**	**35,822**	**-6.2%**	**7.0%**	**141,549**	**142,783**	**0.9%**
Cost of service	**(17,811)**	**(15,048)**	**(13,923)**	**-22%**	**-7.5%**	**(67,732)**	**(63,381)**	**-6.4%**
Regulatory fee	(7,604)	(6,217)	(5,497)	-28%	-12%	(28,696)	(26,443)	-7.9%
Depreciation & Amortization	(3,848)	(4,338)	(4,147)	7.8%	-4.4%	(15,428)	(16,309)	5.7%
Network operating expense	(2,029)	(2,200)	(1,959)	-3.5%	-11%	(6,510)	(7,757)	19%
Other cost of services	(613)	(598)	(626)	2.2%	4.7%	(2,145)	(2,271)	5.9%
IC cost	(3,718)	(1,694)	(1,693)	-55%	-0.1%	(14,953)	(10,601)	-29%
Cost of SIM and handset sales	(5,565)	(3,483)	(5,625)	1.1%	62%	(16,218)	(17,760)	9.5%
Total costs	**(23,376)**	**(18,351)**	**(19,547)**	**-16 %**	**5.5%**	**(83,951)**	**(81,141)**	**-3.3%**
Gross profit	**14,824**	**14,946**	**16,275**	**9.8%**	**8.9%**	**57,598**	**61,642**	**7.0%**
SG&A	**(3,616)**	**(4,066)**	**(4,440)**	**23%**	**9.2%**	**(11,958)**	**(14,876)**	**24%**
Marketing Expense	(988)	(1,289)	(1,420)	44%	10%	(2,890)	(4,331)	50%
General administrative & staff cost	(2,417)	(2,522)	(2,748)	14%	9.0%	(8,324)	(9,526)	14%
Bad debt provision	(157)	(196)	(209)	33%	6.4%	(543)	(787)	45%
Depreciation	(54)	(59)	(63)	18%	6.8%	(201)	(232)	15%
Operating profit	**11,208**	**10,880**	**11,835**	**5.6%**	**8.8%**	**45,640**	**46,765**	**2.5%**
Net foreign exchange gain (loss)	53	(35)	(215)	-509%	-519%	102	(233)	-328%
Other income (expense)	155	153	115	-26%	-25%	964	708	-27%
Finance cost	(258)	(241)	(228)	-12%	-5.2%	(1,093)	(1,002)	-8.3%
Income tax	(2,772)	(2,438)	(2,707)	-2.3%	11%	(10,715)	(10,008)	-6.6%
Non-controlling interest	71	22	16	-77%	-25%	(16)	44	-378%
Net profit for the period	**8,458**	**8,341**	**8,816**	**4.2%**	**5.7%**	**34,883**	**36,274**	**4.0%**

Revenue mix (Bt mn)	4Q12	3Q13	4Q13	%YoY	%QoQ	FY12	FY13	%YoY
2G revenue[1)]	26,999	19,005	15,117	-44%	-21%	103,557	85,613	-17%
3G revenue [2)]	-	7,650	11,437	NA	50%	-	21,394	NA
Total 2G and 3G revenue (including voice, non-voice, IR)	**26,999**	**26,654**	**26,554**	**-1.6%**	**-0.4%**	**103,557**	**107,007**	**3.3%**
% 3G revenue	-	29%	43%			-	20%	

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EBITDA (Bt mn)	4Q12	3Q13	4Q13	%YoY	%QoQ	FY12	FY13	%YoY
Operating Profit	11,208	10,880	11,835	5.6%	8.8%	45,640	46,765	2.5%
Depreciation & amortization	3,902	4,398	4,211	7.9%	-4.2%	15,630	16,541	5.8%
(Gain) loss on disposals of PPE	372	93	323	-13%	248%	364	562	55%
Management benefit expense	(40)	(36)	(44)	9.6%	23%	(153)	(163)	6.8%
Other financial cost	(14)	(5)	(8)	-41%	81%	(45)	(14)	-68%
EBITDA	**15,428**	**15,329**	**16,315**	**5.8%**	**6.4%**	**61,436**	**63,691**	**3.7%**
Consolidated margin (%)	40.4%	45.8%	45.5%			43.4%	44.6%	
Service margin* (%)	46.4%	50.8%	53.5%			48.4%	50.5%	

*Service margin is derived from service business which excludes handset business.
Service margin = (EBITDA – Net sales)/(Total revenue – Sales revenue)

Financial Position (Bt mn/% to total asset)	4Q12		4Q13	
Cash	23,531	23 %	15,254	14%
ST investment	1,340	1.3%	1,577	1.4%
Trade receivable	8,065	8.0%	10,264	9.2%
Inventories	1,427	1.4%	2,865	2.6%
Others	3,741	3.7%	5,005	4.5%
Current Asset	**38,103**	**38%**	**34,965**	**31%**
Spectrum license	14,577	14%	13,601	12%
Network and PPE	40,297	40%	56,422	50%
Intangible asset	2,033	2.0%	2,178	1.9%
Defer tax asset	5,314	5.3%	3,557	3.2%
Others	644	0.6%	1,303	1.2%
Total Assets	**100,968**	**100.0%**	**112,026**	**100.0%**
Trade payable	7,341	7.3%	11,718	11%
ST loan & CP of LT loans	8,462	8.4%	9,303	8.3%
Accrued R/S expense	4,855	4.8%	3,535	3.2%
Others	15,630	16%	17,279	15%
Current Liabilities	**36,288**	**36%**	**45,491**	**41%**
Debenture & LT loans	12,453	12%	14,866	13%
Total Liabilities	**57,426**	**57%**	**66,133**	**59%**
Retained earning	17,344	17%	19,729	17%
Total Equity	**43,542**	**43%**	**45,893**	**41%**

Key Financial Ratio	4Q12	3Q13	4Q13
Interest bearing debt to equity	0.48	0.58	0.53
Net debt to equity	Net cash	0.19	0.19
Net debt to EBITDA	Net cash	0.12	0.14
Current Ratio	1.05	0.73	0.77
Interest Coverage	46	46	54
DSCR	5.0	5.5	5.1
ROE	85%	80%	88%

Debt repayment schedule (Bt mn)	Debenture	Loan
1Q13	-	-
2Q13	4,000	247
3Q13	4,000	-
4Q13		5,247
2014	2,500	6,939
2015	-	2,399
2016	-	3,707
2017	-	1,801
2018	-	6,799

Source and use of fund : FY13			(Bt mn)
Source of Fund		**Use of Fund**	
Operating CF before change in working capital	64,658	Dividend payment	33,889
Cash decreased	8,360	CAPEX & Fixed assets	28,460
Net Changes in short-term borrowings	4,000	Income tax paid	9,225
Proceeds of long-term borrowings	7,812	Debt repayment	8,486
Interest received	559	Finance cost and finance lease paid	1,010
Sale of property and equipment	16	Net change in current/long investments	231
		Changes in working capital	4,105
Total	**85,405**	**Total**	**85,405**

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FY2014 MANAGEMENT OUTLOOK & STRATEGY

Revenue growth	• Service revenue, excluding IC, increase 6 to 8%
3G-2.1GHz subscribers	• 75% of total subscribers • 50% using 3G devices
EBITDA margin	• **Service margin** increase 300bps to 53% • **Consolidated margin** maintain at 44%
CAPEX	• Bt40bn o 20,000 3G BTSs with additional small cells, covering 95% population and faster fiber optic rollout o AIS shop expansion and renovation
Total Depreciation & Amortization	Increase 18% YoY *(incl. network, license fee, and fixed asset in SG&A)*

Strengthen 3G-2.1GHz network to improve customer perception toward AIS 3G 2100

The investment plan for the year 2014 is to lift up customer experience on 3G by continued network expansion for both coverage and capacity. With 20,000 3G-2.1GHz base stations, we aim to provide similar network coverage as 2G, at 95% population coverage. We also plan to strengthen quality and expand network capacity in dense areas by adding small cells and accelerate fiber optic expansion. Our fiber transmission will support growing mobile data demand as well as new potential wired-broadband service. In addition, we plan to expand and renovate our AIS shops to increase customer touch points and brand attraction. Total estimated CAPEX is Bt40bn in 2014.

Rising device adoption will drive revenue growth momentum

With the lack of voice growth due to gloomy economic outlook and saturated market, revenue driver depends more on rising adoption of smartphone users. We aim to stimulate 3G/smart devices adoption among medium-tier users by offering campaigns on affordable devices with zero margins. Hence we target 3G device penetration to be 50% of 2.1GHz subscribers. Following that, devices sales will increase substantially while marketing spending could reach 4.5% of total revenue. Meanwhile, the fast 3G network expansion will enable us to offer superior services at competitive prices. There will be more segmented innovative applications and content to enhance users' experience in digital lifestyles. With accelerated non-voice momentum offset subdue voice segment, service revenue is expected to grow in a range of 6-8% YoY.

Improved cost competitiveness with the 3G subscription and device penetration

This year, 3G-2.1GHz users is expected to reach 75% of total subscribers from 40% last year. With rising 3G-2.1GHz subscription and device adoptions, regulatory cost is trending down (5.25% of revenue versus 20-30% on the original 2G-900MHz contract). In 2014, service margin is expected to improve by 300bps to 53% as regulatory savings offset higher marketing spending and other 3G related costs. However, the zero handset margin strategy and larger portion of handset sales will pressure consolidated EBITDA margin which is expected to be relatively flat compared to 2013 at 44%.

Maintain the dividend policy: 100% dividend payout

The company aims to maintain 100% payout ratio and pays dividend twice a year. The payout ratio is based on consolidated earnings and subject to the availability of retained earnings on the separated financial statement. This commitment is supported by strong operating cash flow and a low debt level. The CAPEX and license payment will be funded by internal cash flow and additional borrowings if required. If and when there are any new business opportunities or significant changes that may impact on our future operation and investment, and hence capital structure, the company will promptly discuss any new direction with the investment community.

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