



Executive Summary

In the last quarter, we put an emphasis on improving our network quality and coverage to strengthen customers' experience on 3G network. The FY14 aim of 20,000 base stations is nearly achieved with the total of 19,300 base stations completed. Today, our 3G network coverage reached 97% of population equivalent to our 2G coverage, and the expansion with a focus on capacity and quality is still being continued. To improve our network in dense areas, more small cells are installed to help enhance customer experience.

Overall, we see better growth momentum towards AIS despite the weak macroeconomic sentiments and intense competitions. With our improving quality, the number of 3G subscribers escalated to 34.4mn, representing 80% on subscriber basis and 77% on revenue basis. Our service revenue, excluding IC, grew 2.2% QoQ and 1.7% YoY despite political turmoil in the country. Revenue from mobile data accelerated 54% YoY and 13% QoQ. EBITDA was Bt15,804mn, dropping 4% QoQ but flat YoY as lower regulatory cost offset high opex. Although net profit has declined 11% QoQ and 7.8% YoY, it is primarily caused by depreciation and amortization from our network expansion.

Moreover, various 3G-handset bundle strategies are implemented to penetrate into the mid-tier customer segment. For example, the successful "Super Combo" a handset-bundling package offering "Lava" smartphones with our better 3G quality has received decent customer response. This and other types of campaigns took AIS farther for 2G-to-3G migration toward mid-tier segment. Within 6 months, AIS doubled its 3G-handset subscribers on 3G network from 8.5mn in 4Q13 to 15.9mn in 2Q14. This has largely reduced our regulatory cost, which is now accounted for 18.2% of service revenue, down from 19.3% in 1Q14 and 24.5% in 2Q13.

We revised FY14 target growth of service revenue, excluding IC, to 1-2%, down from 6-8% as the political tension that continued to the first half of this year affected macro environment. The growth momentum is expected to take up in 2H14 underpinned by economic recovery and our better network quality and coverage. We expect our EBITDA margin to increase 100bps. In 2H14, we still have room for our CAPEX compared to the full year guidance of Bt40bn, to continue investment for quality including capacity sites, fiber optics and small cells.

Operational Summary

In 2Q14, AIS 3G-2.1GHz subscribers continued to increase to 34.4mn representing 80% of total subscribers mainly from the better quality of the network and attractive promotion on bundling smartphone with packages. Subscription on 2G-900/1800MHz continued to decline to 8.5mn. We also booked one-time effect of 1mn subscribers on prepaid churn due to the validity regulation that was introduced in March-13 which took effect on prepaid subscribers whose validity expired in this quarter. However, total subscribers still increased to 42.9mn.

In this quarter, discount on smartphone bundling with packages was a key driver for mid-tier 3G device penetration. As a result, postpaid average revenue per user (ARPU) increased 1.3% QoQ but decreased 5.7% YoY to Bt647, while MOU declined 3.6% QoQ and 12% YoY to 397 minutes. Excluding one-time effect, prepaid ARPU would decrease 3.9% QoQ and 16% YoY to Bt172 and prepaid MOU would decline 8.5% QoQ and 16% YoY to 259 minutes.

	2Q13	3Q13	4Q13	1Q14	2Q14
Subscribers					
2G ¹⁾	33,720,100	28,653,700	24,494,400	16,098,400	8,462,300 ³⁾
3G ²⁾	3,946,300	10,471,400	16,366,500	26,264,100	34,415,900 ³⁾
Postpaid	3,947,000	4,053,700	4,266,900	4,463,800	4,661,100
Prepaid	33,719,400	35,071,400	36,594,000	37,898,700	38,217,100 ³⁾
Total subscribers	37,666,400	39,125,100	40,860,900	42,362,500	42,878,200³⁾
Net additions					
2G ¹⁾	-3,398,800	-5,066,400	-4,159,300	-8,396,000	-7,636,000 ³⁾
3G ²⁾	3,946,300	6,525,100	5,895,100	9,897,600	8,151,700 ³⁾
Postpaid	121,200	106,700	213,200	196,900	197,300
Prepaid	426,300	1,352,000	1,522,600	1,304,700	318,400 ³⁾
Total net additions	547,500	1,458,700	1,735,800	1,501,600	515,700³⁾
ARPU (Baht/subs/month)					
2G ¹⁾	245	217	203	191	*178
3G ²⁾	402	368	297	256	*241
Postpaid	686	698	658	639	647
Prepaid	205	197	191	179	*175
Blended	253	245	234	225	*223
MOU (minute/sub/month)					
2G ¹⁾	320	305	291	255	**205
3G ²⁾	362	366	342	336	**306
Postpaid	450	444	429	412	397
Prepaid	308	302	294	283	**263
Blended	322	317	308	297	**277

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

³⁾ We booked one-time churn of 1mn prepaid subscribers whose validity expired due to the change in validity regulation which took effect in March-13.

- Excluding this effect, total subscribers would be 43,878,300 and total net additions would be 1,515,800,
- prepaid subscribers would be 39,217,200 and prepaid net additions would be 1,318,500,
- 3G subscribers would be 34,665,900 and net 3G addition 8,401,700
- 2G subscribers would be 9,212,300 and net 2G addition 6,886,100

*Excluding one-time effect from validity, 2G ARPU would be Bt173, 3G ARPU Bt240, prepaid ARPU Bt172, and blended ARPU Bt220.

**Excluding one-time effect from validity, 2G MOU would be 199 minutes, 3G MOU 305 minutes, prepaid MOU 259 minutes, and blended MOU 274 minutes.



1H14 Snapshot

During 1H14, service revenue, excluding IC, was Bt58,571mn, stable from last year. Service revenue proportions of 2G/3G have changed from 96%/4% to 32%/68% showing successful migration onto 3G-2.1GHz. SIM and handset revenues were Bt10,670mn, an increase of 14% because of lower price handset promotions bundled with packages. In 1H14, AIS earned revenue from Wifi which have pushed up other service revenues to grow 19%. Costs of services, excluding IC were

Bt26,869mn dropping 8.2%. Although costs from network OPEX and SG&A climbed up, these were offset by a large reduction in regulatory fee which continued to decline. EBITDA was Bt32,258mn, a slight growth of 0.7%. Service EBITDA margin climbed up from 47.3% to 51.6%. Although EBITDA was stable, net profit dropped 6.1% to Bt17,956mn mainly from higher depreciation and amortization.

2Q14 Financial Summary

Revenue

In 2Q14, AIS total revenue, excluding construction, was Bt36,481mn flattened QoQ, although there was political uncertainties since the beginning of this year which lead to the economy slowdown. YoY, the total revenue declined 1.5% mainly from the lower interconnection revenue.

SIM & device sales, representing 14% of total revenue, excluding construction, were Bt5,024mn an increase of 19% YoY, mainly from the increasing demand of the smartphone and the attractive marketing campaigns such as AIS Lava and Super Deal. QoQ, SIM&device sales were softer 11% as consumers continue to wait for the new iPhone. Following our guidance on the zero handset margin strategy to push 3G device adoption, our **sales margin** declined to 0% from 2.3% in 1Q14 and 7.2% in 2Q13.

Service revenue, excluding IC, was Bt29,604mn an increase of 1.7% YoY and 2.2% QoQ following the better quality of 3G-2.1Ghz network and the demand of the mobile data despite the economy slowdown in the first half of the year. 3G contributed to 77% of revenue. (See table: revenue mix)

- In 2Q14, **voice revenue** was Bt16,890mn, a decrease of 12% YoY and 2.5% QoQ mainly from the saturated voice market and the replacement of the mobile data in some of the subscriber's segments.
- **Non-voice revenue** stood at Bt10,488mn, an increase of 32% YoY and 9.6% QoQ, driven by the increasing demand for mobile data which increased to 54% YoY and 13% QoQ. The demand for mobile data and smartphone accelerated in this quarter, underpinned by marketing campaigns such as AIS Super Combo and Maomao which drove the data users in mid-tier segment. **Mobile data revenue** accounted for 27% of service revenue, excluding IC, compared to 25% in 1Q14 and 18% in 2Q13.
- **International roaming (IR)** increased 11% QoQ from the Thai's national holiday in April, but decreased 15% YoY mainly from the political uncertainties.
- **International call & other businesses** increased 6.3% QoQ and 28% YoY mainly from AIS Wifi.
- **Interconnection charges (IC)** Both IC revenue and cost remained stable QoQ but declined more than 50% YoY from IC rate reduction. In 2Q14, AIS was the IC recipient of Bt109mn which decreased by 41% YoY and 28% QoQ.

Cost & Expense

In 2Q14, **total cost**, excluding construction, was Bt20,392mn, stable QoQ and down 7.1% YoY. **Cost of services, excluding IC**, stood at Bt13,603mn, reflecting a change of +2.5% QoQ and -6.2% YoY due to a reduction in regulatory fee, offsetting by operating cost for 3G.

Regulatory fee was Bt5,394mn, reducing 3.5% QoQ and 24% YoY. Currently, the regulatory fee is accounted for 18.2% of service revenue excluding IC, decreasing from 19.3% in 1Q14 and 24.4% in 2Q13, due a larger subscriber base using 3G.

Depreciation & Amortization (D&A) stood at Bt4,550mn, an increase of 7.7% QoQ and 14% YoY from continuity in 3G-2.1GHz network expansion.

Network OPEX was Bt2,065mn, a climb-up of 9.1% QoQ and 10% YoY, due to the expansion of 3G-2.1GHz network which has current coverage of 97% of population with 19,300 base stations.

Other cost of service stayed at Bt1,594mn, increasing 2.1% both QoQ and YoY.

SG&A expense was Bt5,144mn, an increase of 29% QoQ and 54% YoY. SG&A to total revenues stood at 14%, rising from 11% in 1Q14 and 8.8% in 2Q13.

- **Marketing expenses** were Bt1,754mn, a rise of 48% QoQ and 91% YoY, which is accounted for 4.8% of total revenues (excluding construction). This is due to marketing campaigns to attract customers onto 2.1GHz continuously, causing higher costs on advertisement and promotion.
- **General admin expenses** were at Bt2,964mn, an increase of 19% QoQ and 35% YoY, due to higher bonus and salary payments caused by higher number of staff recruited. The obsolete equipment write-off in this quarter was Bt321mn, increasing from Bt237mn in 1Q14 and Bt34mn in 2Q13.
- **Depreciation and amortization** was Bt72mn increasing 17% QoQ and 31% YoY due to shop renovation and expansion.
- **Bad debt** was Bt354mn, a rise of 38% QoQ and 88% YoY, due to growth in postpaid customers. Bad debt to postpaid revenue in this quarter stood at 4.1%, rising from 3.1% in 1Q14 and 2.4% in 2Q13, which is still under normal business circumstances.

Financial costs stood at Bt369mn, rising 61% QoQ and 43% YoY, from issuance of Bt16,600mn new debentures in April.



2Q14 MD&A: Advanced Info Service Plc.

Net Foreign Exchange was Bt22mn, decreasing from Bt72mn in 1Q14 but increasing from a loss of Bt155mn in 2Q13. All of which was due to volatility in exchange rates.

Profit

This quarter AIS had earnings before interest, tax, depreciation and amortization (**EBITDA**) of Bt15,804mn, decreasing 4% QoQ but stable 0.3% YoY. This is mainly due to stable service revenue, excluding IC, but higher marketing expenses. **EBITDA margin** (excluding construction) stood at 43.3%, slightly down from 45.1% in 1Q14 but up from 42.5% in 2Q13. **Service EBITDA margin** was at 50.3%, decreasing from 53% in 1Q14 due to higher marketing expenses, but increasing from 47.1% in 2Q13 because of higher revenue on 3G-2.1GHz. **Net income** was Bt8,475mn, decreasing 11% QoQ and 7.8% YoY, due to costs from 3G base station extension and financial cost from issued debentures despite lower regulatory fee and revenue sharing. **Net profit margin** stood at 23%, a decrease from 26% in 1Q14 and 24% in 2Q13.

Financial position

Compared with FY13, AIS had total assets of Bt130,443mn, an increase of 16% due to higher cash which grew 105%. Assets of 3G network continued to grow, but 2G assets under the agreements for operations steadily reduced. Current liabilities decreased 8.5%, but long-term borrowings grew to Bt36,582mn partially from newly issued debentures. Still, AIS has a strong current ratio of 1.13x, up from 1.07x, and remains a ratio of net debt to equity at 0.25 with an average cost of debt of 4.1% p.a.

Cash Flow

AIS had an operating cash flow of Bt29,996mn, rising 2% from 1H13. CAPEX for 1H14 was Bt15,461mn from FY14 target of Bt40,000mn. Cash received from long-term borrowings was Bt21,600mn, with cash paid for short- and long-term borrowings of Bt6,743mn. Income tax and dividend paid were Bt21,009mn in total.

Income statement (Bt mn)	2Q13	1Q14	2Q14	%YoY	%QoQ	1H13	1H14	%YoY
Voice revenue	19,219	17,328	16,890	-12%	-2.5%	38,947	34,218	-12%
Non-voice revenue	7,921	9,567	10,488	32%	9.6%	15,608	20,056	29%
International Roaming	651	500	554	-16%	11%	1,309	1,053	-20%
Others (IDD, other fee)	1,310	1,572	1,671	28%	6.3%	2,736	3,244	19%
Service revenue, ex. IC	29,101	28,967	29,604	1.7%	2.2%	58,600	58,571	-0.1%
IC revenue	3,715	1,836	1,853	-50%	1.0%	7,588	3,689	-51%
SIM and handset sales	4,209	5,646	5,024	19%	-11%	9,361	10,670	14%
Total revenues ex. construction	37,027	36,448	36,481	-1.5%	0.1%	75,552	72,930	-3.5%
Regulatory fee	(7,088)	(5,588)	(5,394)	-24%	-3.5%	(14,728)	(10,982)	-25%
Depreciation & Amortization	(3,987)	(4,224)	(4,550)	14%	7.7%	(7,823)	(8,774)	12%
Network operating expense	(1,873)	(1,892)	(2,065)	10%	9.1%	(3,599)	(3,957)	9.9%
Other cost of services	(1,561)	(1,562)	(1,594)	2.1%	2.1%	(3,112)	(3,156)	1.4%
Cost of service, ex. IC	(14,508)	(13,266)	(13,603)	-6.2%	2.5%	(29,262)	(26,869)	-8.1%
IC cost	(3,530)	(1,683)	(1,744)	-51%	3.7%	(7,214)	(3,427)	-53%
Cost of SIM and handset sales	(3,907)	(5,514)	(5,045)	29%	-8.5%	(8,653)	(10,559)	22%
Total costs ex. construction	(21,944)	(20,462)	(20,392)	-7.1%	-0.3%	(45,129)	(40,854)	-9.5%
Gross profit	15,080	15,986	16,090	6.7%	0.6%	30,421	32,076	5.4%
SG&A	(3,349)	(4,004)	(5,144)	54%	29%	(6,371)	(9,149)	44%
Marketing Expense	(917)	(1,185)	(1,754)	91%	48%	(1,623)	(2,939)	81%
General administrative & staff cost	(2,189)	(2,501)	(2,964)	35%	19%	(4,257)	(5,465)	28%
Bad debt provision	(189)	(257)	(354)	88%	38%	(381)	(611)	60%
Depreciation	(55)	(62)	(72)	31%	17%	(110)	(133)	22%
Operating profit	11,731	11,982	10,945	-6.7%	-8.7%	24,050	22,927	-4.7%
Net foreign exchange gain (loss)	(155)	72	22	-114%	-70%	17	94	464%
Other income (expense)	207	91	99	-52%	8.8%	440	190	-57%
Finance cost	(258)	(229)	(369)	43%	61%	(533)	(598)	12%
Income tax	(2,339)	(2,443)	(2,226)	-4.8%	-8.9%	(4,863)	(4,669)	-4.0%
Non-controlling interest	9	7	5	-41%	-24%	6	12	101%
Net profit for the period	9,195	9,481	8,475	-7.8%	-11%	19,117	17,956	-6.1%
Revenue mix (Bt mn)	2Q13	1Q14	2Q14	%YoY	%QoQ	1H13	1H14	%YoY
2G revenue ¹⁾	25,451	11,304	6,387	-75%	-44%	53,525	17,691	-67%
3G revenue ²⁾	2,340	16,091	21,545	820%	34%	2,340	37,636	1508%
Total 2G and 3G revenue	27,791	27,395	27,932	0.5%	2.0%	55,865	55,327	-1.0%
% 3G revenue	8.4%	59%	77%			4.2%	68%	

¹⁾ 2G refers to 900 & 1800MHz operation under Build-Transfer-Operate contract

²⁾ 3G refers to 2100MHz operation under license issued by the NBTC



2Q14 MD&A: Advanced Info Service Plc.

EBITDA (Bt mn)	2Q13	1Q14	2Q14	%YoY	%QoQ	1H13	1H14	%YoY
Operating Profit	11,731	11,982	10,945	-6.7%	-7.5%	24,050	22,927	-4.7%
Depreciation & amortization	4,042	4,286	4,622	14%	9.8%	7,933	8,908	12%
(Gain) loss on disposals of PPE	32	240	321	904%	-0.4%	147	561	283%
Management benefit expense	(49)	(35)	(68)	39%	55%	(83)	(103)	25%
Other financial cost	(3)	(18)	(16)	420%	96%	(1)	35	2318%
EBITDA	15,753	16,454	15,804	0.3%	-4%	32,046	32,258	0.7%
Consolidated EBITDA margin (%)	42.5%	45.1%	43.3%			41%	44%	
Service EBITDA margin (%)	47.1%	53%	50.3%			47.3%	51.6%	

Service EBITDA margin is derived from service business which excludes handset business.

Service EBITDA margin = (EBITDA – Net sales)/(Total revenue – Sales revenue)

Revenue & cost from construction (Bt mn): IFRS112	2Q13	1Q14	2Q14	%YoY	%QoQ	1H13	1H14	%YoY
Construction revenue	1,203	251	196	-4.1%	-0.1%	2,615	448	-83%
Construction cost	(1,203)	(251)	(196)	-4.1%	-0.1%	(2,615)	(448)	-83%

Financial Position (Bt mn/% to total asset)	1Q14	2Q14
Cash	16,907 15%	27,328 21%
ST investment	1,506 1.3%	1,515 1.2%
Trade receivable	9,763 8.4%	9,921 7.6%
Inventories	2,343 2.0%	2,683 2.1%
Others	5,153 4.4%	5,556 4.3%
Current Asset	35,671 31%	47,002 36%
Spectrum license	13,360 12%	13,117 10%
Network and PPE	60,331 52%	64,134 49%
Intangible asset	2,226 1.9%	2,260 1.7%
Defer tax asset	3,101 2.7%	2,704 2.1%
Others	1,181 1.0%	1,227 0.9%
Total Assets	115,870 100%	130,443 100%
Trade payable	10,491 9.1%	11,150 8.5%
ST loan & CP of LT loans	2,772 2.4%	2,774 2.1%
Accrued R/S expense	4,555 3.9%	5,518 4.2%
Others	35,538 31%	18,552 14%
Current Liabilities	57,013 49%	41,651 32%
Debenture & LT loans	14,781 13%	36,582 28%
Total Liabilities	77,593 67%	83,693 64%
Retained earning	12,115 11%	20,590 16%
Total Equity	38,277 33%	46,749 36%

Key Financial Ratio	2Q13	1Q14	2Q14
Interest bearing debt to equity	0.43	0.46	0.83
Net debt to equity	Net cash	0.02	0.25
Net debt to EBITDA	Net cash	0.01	0.18
Current Ratio	1.07	0.63	1.13
Interest Coverage	46	57	31
DSCR	6.3	14.6	12.1
ROE	85%	90%	80%

Debt repayment schedule (Bt mn)	Debenture	Loan
2Q14	-	246.5
3Q14	-	-
4Q14	-	2,746.5
2015	-	2,399
2016	-	3,707
2017	397	1,801
2018	-	6,799
2019	7,789	1,250
2020	-	2,500
2021	1,776	1,250
2022	-	-
2023	-	-
2024	6,638	-

Source and use of fund : 2Q14 (Bt mn)		Use of Fund (Bt-mn)	
Operating CF before change in working capital	33,232	Dividend payment	17,095
Proceeds of long-term borrowings	21,600	CAPEX & Fixed assets	15,461
Changes in working capital	679	Income tax paid	3,914
Interest & Dividend received	170	Debt repayment	6,743
Net change in investments & Sale of property	76	Cash increased	12,071
		Finance cost & investment in associate	473
Total	55,757	Total	55,757



FY2014 MANAGEMENT OUTLOOK & STRATEGY (REVISED)

Service revenue, excluding IC (revised)	<ul style="list-style-type: none"> increase 1-2% YoY (from 6-8%)
3G-2.1GHz subscribers (revised)	<ul style="list-style-type: none"> 85% of total subscribers (from 75%) 45% using 3G devices (from 50%)
EBITDA margin (revised)	<ul style="list-style-type: none"> Service margin increase from 300bps YoY (maintained) Consolidated margin increase 100bps YoY (from flat)
CAPEX	<ul style="list-style-type: none"> Bt40bn (maintained) <ul style="list-style-type: none"> 20,000 3G BTSs with additional small cells, covering 95% population and faster fiber optic rollout AIS shop expansion and renovation
Depreciation & Amortization (revised) <i>incl. network, license fee, and fixed asset in SG&A</i>	<ul style="list-style-type: none"> increase 15% YoY (from 18%)

The Bt40bn CAPEX is maintained.

In 1H14, AIS achieved 97% population coverage on the 3G-2.1GHz network with 19,300 base stations. The investment plan for the year 2014 remained unchanged even though the 4G auction is postponed to 2015. The network quality is the key to enhance data growth momentum which enables AIS to offer superior services at competitive prices. For the latter half of this year, AIS will continue to lift up customer experience on 3G by strengthening quality and expanding network capacity in dense areas by adding small cells and accelerating fiber optic expansion. Our fiber transmission will support growing mobile data demand as well as new potential wired-broadband service. However, the D&A this year is estimated to increase 15% from previously estimation of 18% YoY.

Revised up EBITDA margin target +100bps YoY despite lower revenue guidance to 1-2% YoY

In 1H14, AIS recorded flat service revenue due to weak macro environment. Nevertheless, the growth momentum in the latter half of this year is expected to accelerate on the back of improving consumer confidence from relieved political situation and better data growth from improving network quality. We revised the full-year service revenue growth to 1-2% from previously 6-8%. 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). With the smaller portion of handset sales, the consolidated EBITDA margin target is revised up to +100bps YoY from previously flat. Meanwhile, the service margin guidance remained unchanged at +300bps YoY as regulatory savings offset higher marketing spending and other 3G related costs.

Expected faster 3G subscription amidst slower 3G device adoption

Due to the fast network rollout, AIS hit the full year customer migration target of 75% within the first six months. 3G subscription is now 80% of total subscribers. FY14, we expect to reach 85% as it will take higher effort to migrate low-end user in rural market. However, we revised the 3G device penetration target to 45% of 3G-2.1GHz users from previously 50% due to the softer than expected device sales in 1H14. We aim to stimulate 3G/smart devices adoption among medium-tier users by offering campaigns on affordable devices with zero margins. Marketing budget is maintained at 4.5% of total revenue.

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.

AIS Investor Relations
<http://investor.ais.co.th>
investor@ais.co.th
Tel: (66) 2299 5117

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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.