3Q14 MD&A: Advanced Info Service Plc.

Executive Summary

AIS continued to ramp up 3G-2.1GHz network to strengthen customer experience. We have already built 20,500 base stations, surpassing our full-year target of 20,000 base stations. With the accelerating data uptake, we continued to install more small cells in dense areas along with our own extensive WiFi hotspots which have already reached 22,000 access points, with the year-end target of 28,000 access points. We maintained FY14 CAPEX of Bt40bn. Also, we expect that the auction of the 1800MHz will take place by July 2015. The spectrum will likely be utilized as 4G to provide more capacity and better quality to our customers.

AIS experienced better than normal seasonality this quarter but still less than expected. Our service revenue ex. IC stood at Bt29,382mn, decreasing 0.7% QoQ but increasing 1.5% YoY. The impact from the slow recovery in economic outlook suppressed revenue growth in this quarter. This passed reliance of FY14 revenue growth guidance of 1-2% on 4Q14, normally the high season. Mobile data continued to accelerate 13% QoQ and 62% YoY from improved smartphone penetration to 34%. This quarter EBITDA was Bt16,442mn growing 4% QoQ and 7.3% YoY because of lower regulatory cost in spite of higher D&A and network opex from continuing 3G investment.

Market competition stayed intense with an emphasis on mid-tier segments. Although we had lower handset sales margin of -2%, our AIS Super Combo 'Lava' has found a great sale in the market, which highly helped enhance our customer adoption of 3G handsets to grow in a total of 2.4mn units. This drove up 3G handset penetration rate on 3G-2.1GHz to 49%. Attractive bundling packages with handsets to penetrate into mid- to low-tier segments were more pronounced and cheaper both per voice and data units primarily from heightened competition.

We are expanding our horizon further to become an integrated digital life service provider – mobile, fixed broadband, and digital content. In 3Q14, we have partnered with various service providers. For example, we dealt with CIMB to provide Beat Banking service. We joined with CTH to give privilege to subscribers to watch BPL and Hormones Series through AIS applications. Moving into 2015, AIS is entering into the fixed broadband business early next year with a budget of Bt1bn to acquire 80,000 subscribers in the first year.

Operational Summary

In 3Q14, AIS total subscribers increased to 43.8mn. 3G-2.1GHz subscribers continued to increase to 38.7mn representing 88% of total subscribers ahead of our FY14 guidance of 85%. The number of 3G device on 2.1GHz network reached 19mn from 16mn last quarter. This was supported by the success of 3G network roll-out and attractive promotion packages bundling with smartphones such as AIS Super Combo. While subscription on 900/1800MHz continued to decline to 5.1mn.

Both ARPU and MOU were affected by the increasing number of multiple SIM per user as more subscribers acquired second SIM for data device and newer attractive promotional campaigns. As customers move to smartphone, we also witnessed their switching from prepaid to postpaid. This also drove down postpaid ARPU as new subscription expanded toward mid-tier segment. As a result, postpaid ARPU declined 3.4% QoQ and 10% YoY to Bt625, while prepaid ARPU decreased 3.4% QoQ and 14% YoY to Bt169.

Subscribers	**3Q13**	**4Q13**	**1Q14**	**2Q14**	**3Q14**
2G[1)]	28,653,700	24,494,400	16,098,400	8,462,300	5,114,600
3G[2)]	10,471,400	16,366,500	26,264,100	34,415,900	38,680,600
Postpaid	4,053,700	4,266,900	4,463,800	4,661,100	4,786,700
Prepaid	35,071,400	36,594,000	37,898,700	38,217,100	39,008,500
Total subscribers	**39,125,100**	**40,860,900**	**42,362,500**	**42,878,200**	**43,795,200**
Net additions					
2G[1)]	-5,066,400	-4,159,300	-8,396,000	-7,636,000	-3,347,700
3G[2)]	6,525,100	5,895,100	9,897,600	8,151,700	4,264,700
Postpaid	106,700	213,200	196,900	197,300	125,600
Prepaid	1,352,000	1,522,600	1,304,700	318,400	791,400
Total net additions	**1,458,700**	**1,735,800**	**1,501,600**	**515,700**	**917,000**
ARPU (Baht/subs/month)					
2G[1)]	217	203	191	178	188
3G[2)]	368	297	256	241	221
Postpaid	698	658	639	647	625
Prepaid	197	191	179	175	169
Blended	**245**	**234**	**225**	**223**	**216**
MOU (minute/sub/month)					
2G[1)]	305	291	255	205	194
3G[2)]	366	342	336	306	284
Postpaid	444	429	412	397	387
Prepaid	302	294	283	263	255
Blended	**317**	**308**	**297**	**277**	**270**

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

9M14 Snapshot

During 9M14, AIS gained revenue momentum, underpinned by the improving 3G network quality and growing demand for mobile data. As a result, service revenue, excluding IC, stood at Bt87,953mn, an increase of 0.5%, however still below our FY14 target of 1-2% growth. With the success of attractive campaigns for 2G to 3G migration, service revenue proportion for 2G/3G moved from 88%/12% to 26%/74%. The success of AIS Super Combo (low-price co-brand smartphone) and zero handset margin campaign drove SIM and handset revenue to Bt14,878mn, an increase of 14%, while handset margin stood at 0.2% comparing to 7% last year. The increase in 3G device adoption helped reduce the regulatory fee and drove cost of service, excluding IC, down 7.7% to Bt40,254mn, despite the increase in network OPEX from 3G network expansion. Hence, EBITDA was Bt48,700mn, an increase of 2.8% while service EBITDA margin rose from 47.9% to 52.1%. With the expansion of 3G network, we had higher finance cost as well as D&A, so net profit dropped 2% to Bt26,911mn.

3Q14 Financial Summary

Revenue

In 3Q14, AIS total revenue, excluding construction was Bt35,355mn, a decrease of 3.1% QoQ from lower handset sales. YoY, total revenue, excluding construction increased 2.6%, mainly from improving service revenue excluding IC despite the slow economic recovery.

SIM & device sales, which contributed 12% of total revenue, were Bt4,208mn. The sales decreased 16% QoQ as customers were waiting for the iPhone6 which would be available for sale in 4Q14. YoY, sales increased 14%, as demand for smartphone continued and attractive AIS Super Combo handset gained the popularity. According to our guidance on zero handset margin strategy to push more 3G device, **sales margin** was -2% comparing to 5.5% in 3Q13 and 0% in 2Q14.

Service revenue, excluding IC, was Bt29,382mn, a slight drop of 0.7% QoQ from softer voice revenue. YoY, service revenue excluding IC increased 1.5%, supporting by the accelerating mobile data growth. 3G contributed to 86% of revenue. (see table revenue mix)

- In 3Q14, **Voice revenue** was Bt15,710mn, a decrease of 7% QoQ and 17% YoY from the substitution of mobile data in some subscribers' segment and price competition.
- **Non-voice revenue** Non-voice revenue, stood at Bt11,388mn an increase of 8.6% QoQ and 39% YoY, driven by mobile data which increased 13% QoQ and 62% YoY. Mobile data continued to accelerate, underpinned by the increased in smartphones and data users and also more affordable pricing pack for both postpaid and prepaid. **Mobile data revenue** accounted for 31% of service revenue, excluding IC, compared to 20% in 3Q13 and 27% in 2Q14.
- **International roaming (IR)** In 3Q14, International roaming (IR) decreased 3% QoQ and 14% YoY due to the impact from the martial law and low tourist season.
- **International call & other businesses** increased 4.5% QoQ and 33% YoY, mainly driven by the growth of AIS Wifi.
- **Interconnection charges (IC)** Net interconnection charge (IC) was Bt163mn in this quarter, compared to Bt109mn last quarter and Bt132mn last year.

Cost & Expense

In 3Q14, **Cost of services, excluding IC,** stood at Bt13,385mn, decreasing 1.6% QoQ and 6.6% YoY. This was from a large decrease in regulatory fee even though D&A, and network opex rose.

- **Regulatory fee** was Bt4,589mn, decreasing 15% QoQ and 26% YoY. The large reduction was caused by less roaming expense and the improved 3G handset adoption rate which increased from 46% in the last quarter to 49% in this quarter. Currently, %regulatory fee to service revenue ex. IC was 15.6%, down from 18.2% in the last quarter and 21.5% last year.
- **Depreciation & Amortization (D&A)** was Bt4,819mn, up 5.9% QoQ and 11% YoY, coming from the on-going investments in 3G network, mainly fiber optics. However, the 2G assets around Bt11bn will be fully amortized by 3Q15 when the 900MHz concession expires.
- **Network OPEX** was Bt2,354mn rising 14% QoQ and 7% YoY. The base station-related costs such as rental, utility and insurance costs grew along with a higher number of base stations which now has reached 20,500.
- **Other cost of service** was Bt1,623mn rising slightly 1.8% QoQ and 2.7% YoY from special bonus for call center staff.

SG&A expense was Bt4,643mn, down 9.7% QoQ but up 14% YoY. This is mainly from less marketing and admin expenses QoQ but vice versa YoY.

- **Marketing expenses** stood at Bt1,414mn, a decrease of 19% QoQ, due to the cycle of softer advertisement and promotion. Although it increased 9.7% YoY due to various launches of attractive promotions, the amount of marketing expense is likely to stay at around 4-4.5% of total revenue onwards.
- **General admin expenses** were Bt2,864mn decreasing 3.4% QoQ primarily from lower loss of asset write-off. However, they increased 14% YoY mainly due to higher number of staff and higher loss of asset write-off. The asset write-off was Bt194mn in this quarter from Bt321mn in 2Q14 and Bt77mn in 3Q13.
- **Depreciation and amortization** was at Bt75mn, a rise of 4.1% QoQ and 26% YoY, mainly from shop renovation.
- **Bad debt** was Bt290mn, decreasing 18% QoQ but increasing 48% YoY. The reduction QoQ was from a change in the acquisition policy to focus on quality of customers. However, a surge YoY followed the expansion of postpaid base to mid-tier segment. This quarter % bad debt to

postpaid revenue was 3.3%, down from 4.1% in 2Q14 and 2.4% in 3Q13.

Finance costs stood at Bt471mn, an increase of 27% QoQ and 96% YoY. In 3Q14 AIS had higher interest expenses from a long-term loan of Bt5,000mn issued at the end of 2Q14 and a short-term loan of Bt3,000mn issued in August.

Net gain from foreign exchange was Bt120mn, a rise from Bt22mn in the last quarter and from Bt-35mn in 3Q13. This gain was due to stronger Baht currency during the period on USD denominated CAPEX while our foreign currency debt is fully hedged.

Profit

In 3Q14, **EBITDA** was Bt16,442mn, an increase of 4% QoQ and 7.3% YoY. The key driver for the growth was lower regulatory fee, amid higher network OPEX from continued expansion of 3G network. This also resulted in an increase in **EBITDA margin** (excluding construction) to 46.5% from 43.3% in 2Q14 and 44.5% in 3Q13. **Service EBITDA margin** expanded to 53.1% increasing 280bps QoQ from the lower in marketing expense and expanded 390bps YoY from lower regulatory fee.

Net income was Bt8,955mn, increasing 5.7% QoQ and 7.4% YoY, despite of an increase in D&A and higher interest expense. **Net profit margin** stood at 25%, an increase from 23% in 2Q14 and 24% in 3Q13.

Financial position

At the end of 3Q14, AIS continued to expand and enhance 3G network, resulted in an increase in fixed asset to Bt85,914mn from Bt83,440mn last quarter. However, total asset decreased to Bt121,250mn from Bt130,443mn, mainly caused by the decrease in cash from interim dividend payment. Liquidity remained healthy with the current ratio of 0.86. In this quarter AIS had a short-term loan of Bt3,000mn. Our gearing remained low with net debt to EBITDA of 0.4 times and average cost of debt was 4%.

Cash Flow

In 9M14, AIS had a strong cash flow from operation of Bt44,125mn, increased by 1.2% from the same period last year. CAPEX reached Bt25,696mn against the FY14 target of Bt40,000mn. Free cash flow (OCF-CAPEX) was Bt18,429mn. Dividend was paid Bt35,052mn and interest bearing debt increased by Bt17,857mn.

Income statement (Bt mn)	3Q13	2Q14	3Q14	%YoY	%QoQ	9M13	9M14	%YoY
Voice revenue	18,810	16,890	15,710	-17%	-7.0%	57,757	49,928	-14%
Non-voice revenue	8,205	10,488	11,388	39%	8.6%	23,813	31,444	32%
International Roaming	622	554	537	-14%	-3.0%	1,931	1,591	-18%
Others (IDD, other fee)	1,310	1,671	1,746	33%	4.5%	4,045	4,990	23%
Service revenue, ex. IC	**28,946**	**29,604**	**29,382**	**1.5%**	**-0.7%**	**87,546**	**87,953**	**0.5%**
IC revenue	1,826	1,853	1,765	-3.4%	-4.8%	9,414	5,454	-42%
SIM and handset sales	3,687	5,024	4,208	14%	-16%	13,048	14,878	14%
Total revenues ex. construction	**34,459**	**36,481**	**35,355**	**2.6%**	**-3.1%**	**110,008**	**108,284**	**-1.6%**
Regulatory fee	(6,217)	(5,394)	(4,589)	-26%	-15%	(20,946)	(15,571)	-26%
Depreciation & Amortization	(4,338)	(4,550)	(4,819)	11%	5.9%	(12,162)	(13,593)	12%
Network operating expense	(2,200)	(2,065)	(2,354)	7.0%	14%	(5,798)	(6,311)	8.8%
Other cost of services	(1,581)	(1,594)	(1,623)	2.7%	1.8%	(4,693)	(4,779)	1.8%
Cost of service, ex. IC	**(14,336)**	**(13,603)**	**(13,385)**	**-6.6%**	**-1.6%**	**(43,598)**	**(40,254)**	**-7.7%**
IC cost	(1,694)	(1,744)	(1,602)	-5.4%	-8.1%	(8,908)	(5,029)	-44%
Cost of SIM and handset sales	(3,483)	(5,045)	(4,291)	23%	-15%	(12,136)	(14,849)	22%
Total costs ex. construction	**(19,513)**	**(20,392)**	**(19,278)**	**-1.2%**	**-5.5%**	**(64,642)**	**(60,132)**	**-7.0%**
Gross profit	**14,946**	**16,090**	**16,077**	**7.6%**	**-0.1%**	**45,367**	**48,152**	**6.1%**
SG&A	**(4,066)**	**(5,144)**	**(4,643)**	14%	-9.7%	**(10,437)**	**(13,792)**	**32%**
Marketing Expense	(1,289)	(1,754)	(1,414)	9.7%	-19%	(2,912)	(4,354)	50%
General administrative & staff cost	(2,522)	(2,964)	(2,864)	14%	-3.4%	(6,779)	(8,330)	23%
Bad debt provision	(196)	(354)	(290)	48%	-18%	(578)	(901)	56%
Depreciation	(59)	(72)	(75)	26%	4.1%	(169)	(208)	23%
Operating profit	**10,880**	**10,945**	**11,434**	**5.1%**	**4.5%**	**34,930**	**34,361**	**-1.6%**
Net foreign exchange gain (loss)	(35)	22	120	447%	459%	(18)	215	-1287%
Other income (expense)	153	99	176	15%	78%	593	366	-38%
Finance cost	(241)	(369)	(471)	96%	27%	(774)	(1,069)	38%
Income tax	(2,438)	(2,226)	(2,311)	-5.2%	3.8%	(7,300)	(6,980)	-4.4%
Non-controlling interest	22	5	7	-69%	26%	28	19	-31%
Net profit for the period	**8,341**	**8,475**	**8,955**	**7.4%**	**5.7%**	**27,458**	**26,911**	**-2.0%**

3Q14 MD&A: Advanced Info Service Plc.

Revenue mix (Bt mn)	3Q13	2Q14	3Q14	%YoY	%QoQ	9M13	9M14	%YoY
2G revenue (900MHz and 1800MHz)	19,819	6,387	3,760	-81%	-41%	73,344	21,451	-71%
3G revenue (2100MHz)	7,817	21,545	23,875	205%	11%	10,157	61,511	506%
Total 2G and 3G revenue	**27,636**	**27,932**	**27,636**	**0%**	**-1.1%**	**83,501**	**82,963**	**-0.6%**
% 3G revenue	28%	77%	86%			12%	74%	

EBITDA (Bt mn)	3Q13	2Q14	3Q14	%YoY	%QoQ	9M13	9M14	%YoY
Operating Profit	10,880	10,945	11,434	5.1%	4.5%	34,930	34,361	-1.6%
Depreciation & amortization	4,398	4,622	4,893	11%	5.9%	12,330	13,801	12%
(Gain) loss on disposals of PPE	93	321	194	109%	-40%	239	755	215%
Management benefit expense	(36)	(68)	(43)	19%	-37%	(119)	(146)	23%
Other financial cost	(5)	(16)	(35)	667%	116%	(6)	(70)	1060%
EBITDA	**15,329**	**15,804**	**16,442**	**7.3%**	**4%**	**47,375**	**48,700**	**2.8%**
Consolidated EBITDA margin (%)	**44.5%**	**43.3%**	**46.5%**			**43.1%**	**45.0%**	
Service EBITDA margin (%)	49.2%	50.3%	53.1%			47.9%	52.1%	

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):**IFRS 12**	3Q13	2Q14	3Q14	%YoY	%QoQ	9M13	9M14	%YoY
Construction revenue	847	196	135	-84%	-31%	3,462	583	-83%
Construction cost	(847)	(196)	(135)	-84%	-31%	(3,462)	(583)	-83%

Financial Position (Bt mn/% to total asset)	2Q14		3Q14	
Cash	27,328	21%	16,087	13%
ST investment	1,515	1.2%	1,476	1.2%
Trade receivable	9,921	7.6%	10,028	8.3%
Inventories	2,683	2.1%	1,808	1.5%
Others	5,556	4.3%	5,936	4.9%
Current Asset	**47,002**	**36%**	**35,335**	**29%**
Spectrum license	13,117	10%	12,870	11%
Network and PPE	64,134	49%	67,029	55%
Intangible asset	2,260	1.7%	2,337	1.9%
Defer tax asset	2,704	2.1%	2,478	2.0%
Others	1,227	0.9%	1,200	1.0%
Total Assets	**130,443**	**100%**	**121,250**	**100%**
Trade payable	11,150	8.5%	9,219	7.6%
ST loan & CP of LT loans	2,774	2.1%	5,768	4.8%
Accrued R/S expense	5,518	4.2%	5,853	4.8%
Others	22,209	17%	20,466	17%
Current Liabilities	**41,651**	**32%**	**41,306**	**34%**
Debenture & LT loans	36,582	28%	36,571	30%
Others	5,460	4.2%	5,628	4.6%
Total Liabilities	**83,693**	**64%**	**83,505**	**69%**
Retained earning	20,590	16%	11,588	9.6%
Others	26,159	20%	26,157	22%
Total Equity	**46,749**	**36%**	**37,745**	**31%**

Key Financial Ratio	3Q13	2Q14	3Q14
Interest bearing debt to equity	0.58	0.83	1.11
Net debt to equity	0.19	0.25	0.69
Net debt to EBITDA	0.12	0.18	0.39
Current Ratio	0.73	1.13	0.86
Interest Coverage	46	31	27
DSCR	5.5	12.1	7.1
ROE	80%	80%	85%

Debt repayment schedule	Debenture	Loan (Bt mn)
4Q14	-	5,692
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 : 9M14			(Bt mn)
Source of Fund (Bt-mn)		**Use of Fund (Bt-mn)**	
Operating CF before change in working capital	50,238	CAPEX & Fixed assets	25,696
Changes in working capital	2,618	Repayments of borrowings	3,743
Decrease in other investments	101	Increase in investments and S/T loans to associate	104
Proceeds of L/T borrowings	21,600	Dividend payment	35,052
Interest received	290	Finance cost and finance lease paid	618
Sales of property and equipment	21	Income tax paid	8,731
Dividend received	10	Cash increased	935
Total	**74,878**	**Total**	**74,878**

FY2014 MANAGEMENT OUTLOOK & STRATEGY

Service revenue, excluding IC	• increase 1-2% YoY
3G-2.1GHz subscribers	• 85% of total subscribers (already achieved) • 45% using 3G devices
EBITDA margin	• **Service margin** increase from 300bps YoY • **Consolidated margin** increase 100bps YoY
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
Depreciation & Amortization *incl. network, license fee, and fixed asset in SG&A*	• increase 15% YoY

AIS keeps on investing in our 3G-2.1GHz network

The whole year CAPEX is maintained at Bt40bn as we will continue investing for better network quality. During the past 9 months, AIS has spent around Bt26bn on CAPEX. We already built 20,500 base stations on the 3G-2.1GHz network which by now has covered 97% population coverage. Also, the expansion of fiber optics has been continuing to serve as our core fundamentals for all services including our fixed broadband to be launched early next year. More small cells and WiFi access points are also vastly installed especially in dense areas to enhance customer experience. D&A this year is likely to increase 15% YoY.

In early 2015, AIS will officially start our fixed broadband business. As we are moving toward a digital life service provider, fixed broadband is indispensable for serving customer need to connect at home, while they use mobile outside. AIS can leverage our extensive amount of fiber optics nationwide to provide services with better technologies of FTTx and VDSL. The budget for the project was set at Bt4.6bn with 1mn hompass capacity and 300,000 subscribers; however the investment in the first year (2015) will be around Bt1bn with the target to achieve 250,000 homepass capacity and 80,000 subscribers.

EBITDA margin target to stay at +100bps YoY with revenue growth of 1-2% YoY

In 9M14, AIS recorded slight growth of 0.5% YoY of service revenue ex. IC. However, we expect the full-year service revenue growth of 1-2% despite the slow recovery in economy. This put reliance to meet the target on the performance of 4Q14 which is normally our best quarter. The growth will continue to be driven by accelerating data consumption even though our voice revenue continues to drop. 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). Therefore, we expect to achieve service EBITDA margin of +300bps YoY. Although we are successful in selling our co-brand 'Lava' handsets, the handset margin climbed down as a result of promotional campaigns. This should make our consolidated EBITDA margin to stay at +100bps YoY.

Migration targets achieved

In 3Q14, AIS has successfully migrated 88% of subscribers by SIM to 3G-2.1GHz network, and also encouraged 3G handset adoption rate up to 49%. The 2G-to-3G migration and 3G handset adoption rates in the last quarter will depend primarily on penetration in mid- to low-tier segments. We expect that operators would find more of new affordable handset models to continue penetrating the market and to acquire market share. Customers will benefit from more various and cheaper phones with attractive bundling packages which will also provide more room for regulatory cost savings for the company.

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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