



Executive Summary

Revenue momentum improved following expanded 4G footprints. AIS continued to expand 4G coverage to 21.2k sites and covered 65% of population along with enhanced 4G quality, which allow better user experience. Meanwhile, mass advertisement and marketing campaigns were launched to enhance customer perception toward AIS network. As a result, service revenue (excluding IC) improved 2.2% YoY and 1.5% QoQ in 3Q16 amid intense competition. In addition, AWN has entered into the 2100MHz spectrum commercial trial agreement with TOT effective from Oct-16.

Device bundling continued to be the key strategy to retain and acquire customers. Following 900MHz license acquisition, the aggressive acquisition campaigns to migrate 2G customers has already slowed down. The focus has shifted to mid to high-end device bundling campaigns particularly in postpaid segment to attract new subscriber while maintain existing customers. AIS continued to offer attractive device bundling with strengthened 4G network. This was reflected in the growth in postpaid segment of 296k net additions while there was less pressure on prepaid segment. These handset subsidies and discount campaigns are reflected in higher marketing spending and negative handset margin (-16%). Meanwhile, rising demand for

video streaming drove average data usage to 3GB/data sub/month from 2.6GB in 2Q16. Nevertheless, EBITDA decreased 13% YoY and 10% QoQ mainly from active marketing campaigns, handset subsidy, and payment for tower and equipment rentals to TOT starting from 3Q16.

AIS continued to scale up the fixed-broadband footprints to 28 cities and 3mn homepass. With the expanded coverage, AIS Fibre has stepped into the mass market in Aug-16. During the quarter, we launched mass advertisements, enhanced sales force to reduce installation period while leveraged existing AIS' distribution channels. AIS Fibre recorded 195k subscribers, increasing from 115k in 2Q16, and ARPU of Bt498.

FY16 guidance is maintained. For 9M16, service revenue grew 0.2% YoY, in line with the guidance. EBITDA margin was at 41.2% compared to the guidance of 38%-39%. We expect market competition to be key pressure towards year end. Accelerated 4G investment resulted in high capex of Bt37bn for 9M16 against Bt40bn guidance. In 4Q16, AIS will book the cost of 2100MHz spectrum from commercial trial agreement with TOT.

3Q16 Market and competitive environment

On mobile business, although free handset campaign for migrating 2G customers in 1H16 has subsided, handset subsidy remains a key strategy for operators to gain and retain market share. The focus of handset campaigns has shifted to acquisition of postpaid subscribers by giving free phones or discount with contracted period, leading to postpaid segment growth.

On Fixed broadband business, customer adoption for Fibre to Home (FTTH) has increased. Operators are expanding FTTH coverage and replacing the ADSL network with fibre technology. Competition has also increased with the focus on offering better speed at the same price points. Special short-term discounts are offered to attract new subscription while bundled services, including broadband internet, mobile phone and TV, are also used to create differentiation.

Operational Summary

As of 3Q16, AIS had total subscriber of 39.9mn, a net addition of 518k subscribers. Postpaid customers were 6.1mn, a net addition of 296k, driven by handset campaigns, prepaid-to-postpaid migration, and smartphone adoption. With higher penetration in mid-tier segment, postpaid ARPU declined from Bt608 to Bt597 while VOU accelerated from 3.4GB/data sub/month to 4.1GB underpinned by fast speed of 4G and video-oriented contents. On the other hand, prepaid customers were 33.8mn, a net addition of 223k. The growth in prepaid subscribers were supported by handset campaigns but pressured by the migration from prepaid to postpaid. Prepaid ARPU slightly dropped from Bt188 to Bt186 while VOU continued to grow from 2.4GB to 2.7GB. Voice usage continued to decline reflected in blended MOU of 226 minutes down from 246 minutes.

Mobile Business	3Q15	4Q15	1Q16	2Q16	3Q16
Subscribers					
Postpaid	5,363,200	5,431,200	5,412,400	5,812,800	6,108,700
Prepaid	32,447,500	33,056,900	33,515,900	33,542,200	33,764,700
Total subscribers	37,810,700	38,488,100	38,928,300	39,355,000	39,873,400
Net additions					
Postpaid	143,300	68,000	-18,800	400,400	295,900
Prepaid	-2,393,700	609,400	459,000	26,300	222,500
Total net additions	-2,250,400	677,400	440,200	426,700	518,400
ARPU (Baht/sub/month)					
Postpaid	630	612	608	608	597
Prepaid	192	195	194	188	186
Blended	249	254	251	248	248
MOU (minute/sub/month)					
Postpaid	339	330	320	313	305
Prepaid	283	286	272	234	213
Blended	291	292	279	246	226
VOU (MB/data sub/month)					
Postpaid	2,150	2,360	2,680	3,430	4,090
Prepaid	1,680	1,910	2,030	2,380	2,670
Blended	1,770	2,000	2,160	2,590	2,960
Device Penetration					
4G-handset penetration	N/A	N/A	16%	19%	24%
Fixed Broadband Business					
FBB subscribers	26,000	44,000	72,000	115,000	195,000
FBB net addition	14,000	18,000	28,000	43,000	80,000
FBB ARPU (Baht/user/month)	667	615	583	520	498

9M16 Snapshot

For 9M16, total revenue (excluding IC) was Bt110,830mn, a decrease of 4.0% YoY mainly from lower handset sales and declining voice revenue. With an intense competition on handset migration in 1H16 and discounted campaigns in 3Q16, sales revenue decreased 19% YoY with -4.6% sales margin. Service revenue (excluding IC) was Bt90,944mn, an increase of 0.2% YoY. Excluding the one-time prepaid adjustment of Bt318mn in 2Q15, the service revenue would grow 0.6% YoY. This was underpinned by increased data usage which rose 67% YoY to 3GB/data sub/month, offset by intense market competition and 2G-900MHz uncertainty in 1H16.

On the costs side, 9M16 regulatory fee accounted for 9.4% of service revenue (excluding IC) and remained high despite revenue migration toward licensing scheme, due to a one-time USO fee in 1Q16 (7% excluding one-time USO fee). Network OPEX was Bt9,745mn, increasing by 40% YoY from 4G network rollout and TOT partnership cost (towers and equipment rental) started from 3Q16. SG&A increased by 51% YoY to Bt21,815mn mainly from higher marketing spending. Attractive handset campaigns were launched to attract new and retain existing customers while mass advertisements were deployed to enhance customer perception toward AIS network. As a result, EBITDA was Bt45,684mn, decreasing by 15% YoY. EBITDA margin was 41.2% which was still above the guidance of 38%-39%. Net profit was Bt24,198mn, a decrease of 15% YoY. Excluding the USO fee and deferred tax asset in 1Q16, the normalized net profit would decline by 12% YoY.

3Q16 MD&A: Advanced Info Service Plc.

3Q16 Financial Summary

Revenue

In 3Q16, total revenue (excluding construction) was Bt37,096mn, increasing 0.9% YoY and 1.7% QoQ. This was driven by better momentum on service revenue while competitive handset campaigns pressured the handset sales YoY.

SIM & device sales were Bt5,064mn decreasing 5.5% YoY but increasing 3.7% QoQ. However, competition in handset offerings to acquire and retain customers caused SIM & device sales margin to become negative at -16%, compared to -11% in 3Q15 and +2.3% in 2Q16.

Service revenue (excluding IC) was Bt30,626mn, an increase of 2.2% YoY and 1.5% QoQ.

- **Voice revenue** was Bt12,494mn, decreasing 14% YoY and 2.8% QoQ. The increasing smartphone penetration and customer behavior using more internet on mobile have continued to cannibalize voice usage.
- **Non-voice revenue** was Bt16,242mn increasing 18% YoY and 4.7% QoQ underpinned by the faster 4G speed and increasing 4G handset availability. The blended VOU reached 3GB/data sub/month, driven by video-oriented contents on mobile. Mobile data revenue currently represented 47% of service revenue (excluding IC), compared to 39% in 3Q15 and 45% in 2Q16.
- **Fixed broadband revenue** previously was grouped under other revenues. In 3Q16, fixed broadband revenue was Bt232mn, increasing 546% YoY and 59% QoQ, following the expanded coverage and growing subscriber base. This quarter AIS Fibre had 195k subscribers with a net addition of 80k and ARPU of Bt498. The coverage have reached 3mn homepass in 28 provinces.
- **International revenues and others** consisted of international roaming, international direct dialing, and other fee income. These revenues were Bt1,659mn, decreasing 1.5% YoY but increasing 0.6% QoQ.

Net Interconnection charges (Net IC) was Bt51mn, decreasing from Bt143mn in 3Q15 and Bt85mn in 2Q16.

Cost & Expense

Total cost (excluding construction) was Bt20,768mn, increasing 1.9% YoY and 19% QoQ. Cost of service (excluding IC) was Bt13,537mn increasing 3.1% YoY and 20% QoQ. The drop in regulatory fee compensated rising network OPEX and payments to TOT YoY. QoQ, cost increased from higher D&A and payments to TOT.

- **Regulatory fee** was Bt1,769mn, decreasing 47% YoY and 20% QoQ. In 3Q16, regulatory fee was 5.8% of service revenue (excluding IC) as AIS started to fully operate under the license scheme since July 2016 after the 900MHz remedy period ended in Jun-16.
- **Depreciation and amortization** was Bt6,156mn, increasing 5% YoY and 40% QoQ. The high network investments in 3Q16 resulted in D&A increase QoQ. However, with the last 2G-asset amortization in 3Q15, D&A slightly increase YoY.

- **Network OPEX** was Bt4,094mn, increasing 82% YoY and 31% QoQ. In 3Q16 we started to make payments of concession towers and equipment to TOT amounting Bt466mn/month or Bt1.4bn in 3Q16. Excluding these payments, network OPEX would rise 20% YoY mainly due to higher number of 4G base stations, which was 21,200 in 3Q16.
- **Other costs of service** were Bt1,518mn, decreasing 8.9% YoY and 2.9% QoQ. The YoY decrease was from a change in accounting of cost of fixed broadband from expensing to capitalizing since 1Q16.

SG&A expenses were Bt7,260mn increasing 48% YoY and 12% QoQ driven by higher marketing expenses from customer acquisition and retention programs.

- **Marketing expenses** were Bt3,828mn increasing 121% YoY and 23% QoQ due to aggressive handset campaigns and continued advertising to improve customer perception. The campaigns targeted for both prepaid and postpaid segments.
- **General admin expenses** were Bt2,976mn increasing 7.5% YoY and 2% QoQ mainly from higher staff cost.
- **Depreciation and amortization** was Bt106mn increasing 18% YoY and 5.2% QoQ from channel expansion.
- **Bad debt** was Bt350mn, increasing 15% YoY and 9.3% QoQ. Bad debt as a percentage to postpaid revenue was 3.3%, compared to 3.1% in 3Q15 and 3.2% in 2Q16.

Finance cost was Bt1,311mn increasing 183% YoY and 56% QoQ from higher interest bearing debt of Bt107bn, following new spectrum acquisitions and network expansion.

Net FX gain was Bt67mn, mostly realized, compared to a loss of Bt132mn in 3Q15 and a gain of Bt179mn in 2Q16. FX gain/loss was incurred from CAPEX payables as a result of currency fluctuation whereas foreign debts were all fully hedged.

Other income was Bt94mn, decreasing 58% YoY and 20% QoQ. The decrease YoY was due to the one-time recognition of other income in 3Q15.

Profit

In 3Q16, **EBITDA** was Bt15,257mn decreasing 13% YoY and 10% QoQ due to increases in costs and expenses to strengthen AIS' market leadership. The high level of market competition has driven up marketing expenses to 10.3% of total revenue in 3Q16, against the company's normal level of 4-4.5%. However, consolidated **EBITDA margin** remained relatively strong at 41.1%, supported by an increase in revenue. With elevated D&A from network expansion and higher finance cost, **net profit** was Bt6,529mn, a decrease of 24% YoY and 32% QoQ. Net profit margin declined to 17.6% from 23.4% in 3Q15 and 26.3% in 2Q16.

3Q16 MD&A: Advanced Info Service Plc.



Income statement (Bt mn)	3Q15	2Q16	3Q16	%YoY	%QoQ	9M15	9M16	%YoY
Voice revenue	14,478	12,855	12,494	-14%	-2.8%	46,463	38,921	-16%
Non-voice revenue	13,759	15,519	16,242	18%	4.7%	39,019	46,592	19%
Fixed Broadband	36	146	232	546%	59%	55	480	771%
Others (IR, IDD, other fees)	1,683	1,649	1,659	-1.5%	0.6%	5,197	4,950	-4.7%
Service revenue (excluding IC)	29,956	30,169	30,626	2.2%	1.5%	90,734	90,944	0.2%
IC revenue	1,456	1,431	1,405	-3.5%	-1.8%	5,319	4,278	-20%
sales revenue	5,356	4,882	5,064	-5.5%	3.7%	19,376	15,609	-19%
Total revenues (excluding construction)	36,769	36,482	37,096	0.9%	1.7%	115,429	110,830	-4.0%
Regulatory fee	(3,344)	(2,223)	(1,769)	-47%	-20%	(11,454)	(8,580)	-25%
Depreciation & Amortization	(5,861)	(4,403)	(6,156)	5.0%	40%	(16,651)	(14,536)	-13%
Network Operation	(2,253)	(3,120)	(4,094)	82%	31%	(6,948)	(9,745)	40%
Other cost of service	(1,666)	(1,563)	(1,518)	-8.9%	-2.9%	(4,993)	(4,677)	-6.3%
Cost of service (excluding IC)	(13,124)	(11,309)	(13,537)	3.1%	20%	(40,046)	(37,538)	-6.3%
IC cost	(1,314)	(1,346)	(1,354)	3.1%	0.6%	(4,764)	(4,048)	-15%
Cost of sale of goods	(5,951)	(4,768)	(5,878)	-1.2%	23%	(19,534)	(16,326)	-16%
Total cost (excluding construction)	(20,389)	(17,424)	(20,768)	1.9%	19%	(64,344)	(57,913)	-10%
Gross profit	16,379	19,059	16,327	-0.3%	-14%	51,085	52,918	3.6%
Total SG&A	(4,896)	(6,460)	(7,260)	48%	12%	(14,448)	(21,815)	51%
Marketing expenses	(1,733)	(3,121)	(3,828)	121%	23%	(4,692)	(12,024)	156%
Administrative expenses	(2,769)	(2,917)	(2,976)	7.5%	2.0%	(8,506)	(8,534)	0.3%
Bad debt expenses	(305)	(320)	(350)	15%	9.3%	(995)	(954)	-4.1%
Depreciation	(90)	(101)	(106)	18%	5.2%	(256)	(303)	18%
Operating profit	11,483	12,599	9,067	-21%	-28%	36,637	31,103	-15%
Net foreign exchange gain (loss)	(132)	179	67	-151%	-62%	32	271	735%
Other income (expense)	222	117	94	-58%	-20%	451	328	-27%
Finance costs (interest expense & deferred interest)	(463)	(842)	(1,311)	183%	56%	(1,362)	(2,905)	113%
Total Income tax	(2,495)	(2,456)	(1,371)	-45%	-44%	(7,401)	(4,581)	-38%
Non-controlling interests	1	0	(17)	-1,322%	-14,424%	5	(17)	-462%
Net profit for the period	8,616	9,596	6,529	-24%	-32%	28,361	24,198	-15%
EBITDA (Bt mn)	3Q15	2Q16	3Q16	%YoY	%QoQ	9M15	9M16	%YoY
Operating Profit	11,483	12,599	9,067	-21%	-28%	36,637	31,103	-15%
Depreciation & amortization	5,951	4,504	6,262	5.2%	39%	16,907	14,839	-12%
(Gain) loss on disposals of PPE	75	-	-	-100%	-	302	-	-100%
Management benefit expense	(38)	(35)	(39)	1.8%	12%	(136)	(110)	-19%
Other financial cost	(39)	(57)	(33)	-16%	-42%	(137)	(149)	8.4%
EBITDA	17,431	17,012	15,257	-13%	-10%	53,572	45,684	-15%
EBITDA margin (%)	47.4%	46.6%	41.1%			46.4%	41.2%	

3Q16 MD&A: Advanced Info Service Plc.



Financial Position (Bt mn/% to total asset)	2Q16		3Q16	
Cash & cash equivalent	14,937	5.5%	13,556	5.0%
ST investment	35	0.0%	-	0.0%
Trade receivable	11,200	4.1%	10,826	4.0%
Inventories	7,175	2.7%	4,331	1.6%
Others	6,139	2.3%	5,069	1.9%
Current Assets	39,487	15%	33,782	12%
Spectrum license	119,328	44%	117,353	43%
Network and PPE	103,178	38%	112,111	41%
Intangible asset	3,729	1.4%	3,942	1.5%
Deferred tax asset	2,322	0.9%	2,547	0.9%
Others	2,680	1.0%	1,768	0.7%
Total Assets	270,724	100%	271,503	100%
Trade payable	16,781	6.2%	14,712	5.4%
ST loan & CP of LT loans	15,839	5.9%	26,387	9.7%
Accrued R/S expense	5,362	2.0%	5,359	2.0%
Others	24,914	9.2%	22,320	8.2%
Current Liabilities	62,896	23%	68,779	25%
Debenture & LT loans	75,898	28%	80,750	30%
Others	85,045	31%	85,749	32%
Total Liabilities	223,839	83%	235,278	87%
Retained earnings	21,187	7.8%	10,503	3.9%
Others	25,697	9.5%	25,722	9.5%
Total Equity	46,885	17%	36,225	13%

Key Financial Ratio	1Q16	2Q16	3Q16
Interest bearing debt to equity (times)	1.65	1.94	2.94
Net debt to equity (times)	1.23	1.62	2.57
Net debt to EBITDA (times)	0.85	1.25	1.53
Current Ratio (times)	0.50	0.63	0.49
Interest Coverage (times)	17	12	16
Debt Service Coverage Ratio (times)	3.8	2.7	1.7
Return on Equity	83%	74%	90%

Figures from P&L are annualized YTD.

Bt mn	Debt repayment schedule		License payment schedule	
	Debenture	Loan	1800MHz	900MHz
4Q16	-	23,943	-	-
2017	397	1,801	10,247	-
2018	-	2,799	10,247	4,020
2019	7,789	2,664	-	4,020
2020	-	23,229	-	59,574
2021	1,776	8,429	-	-
2022	-	8,182	-	-
2023	7,820	3,650	-	-
2024	6,638	-	-	-
2025	-	-	-	-
2026	7,180	-	-	-

Source and use of fund : 9M16				(Bt mn)
Source of Fund		Use of Fund		
Operating cash flow	50,811	CAPEX & Fixed asset		37,031
Proceed of LT borrowings	34,654	Dividend paid		36,509
Proceed of ST borrowings	13,290	Payment of spectrum license		8,068
Net change in investments	304	Repayment of LT borrowings		5,550
Interest received	157	Income tax paid		9,567
Sale of property	17	Finance cost & Financial lease paid		1,505
		Cash increase		1,003
Total	99,233	Total		99,233

Financial position

End of 3Q16, AIS' total assets were Bt271,503mn, relatively stable from previous quarter. PPE increased as investment in 4G and 3G network continued while inventories decreased from execution of handset campaigns. Total liabilities were Bt235,278mn, increasing by 5.1% from previous quarter due to additional borrowings including new short-term loans of Bt11bn and a long-term loan of Bt5.7bn in order to support working capital and investment. Consequently, net debt to EBITDA rose to 1.53x and interest-bearing debt to equity was 2.94x with 3.0% p.a. average cost of debt. Total equity decreased by 23% to Bt36,225mn following an interim dividend payment of Bt37bn in Sep-16.

Cash Flow

In 9M16, AIS generated operating cash flow (before tax) of Bt50,811mn, decreasing from Bt52,420mn in 9M15. Total accumulated CAPEX spent was Bt37,031mn which represented 41% of service revenue (excluding IC) and resulted in Bt13,780mn free cash flow (operating cash flow-CAPEX). Cash increased from long-term loan of Bt34,654mn along with short-term loan of Bt13,290mn; however, cash decreased by dividend paid of Bt36,509mn and the first 900MHz-license installment of Bt8,068mn in Jun-16. As a result, remaining cash and cash equivalent were Bt13,556mn.

Credit Rating

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

2016 MANAGEMENT OUTLOOK & STRATEGY (MAINTAINED)

Revenue growth	<ul style="list-style-type: none"> Service revenue (excluding IC) growth is expected to increase slightly Handset sales is expected to decline and carries negative margin due to intense competition
EBITDA margin	<ul style="list-style-type: none"> Consolidated EBITDA margin is expected in range of 38% to 39%
CAPEX	<ul style="list-style-type: none"> Cash CAPEX for network investment is expected to be around Bt40bn
D&A	<ul style="list-style-type: none"> Network D&A is expected to decline 25% due to fully amortized 2G asset following concession expiry in Sep-15 offsetting increased investment in 3G & 4G Deferred interest on 1800MHz & 900MHz licenses will cost Bt1.2bn in 2016
Dividend	<ul style="list-style-type: none"> Maintain 100% dividend payout for 2016

Addition of 900MHz in spectrum portfolio brings short term benefits and long term competitive edge

Following the 900MHz re-auction in May 2016, AIS won a 10MHz block of license for 15 years. This supports short term benefits of retaining 2G service and protecting revenue base, while improving a long term competitive position with larger spectrum holding at both low-band and high-band. In the short term, 900MHz will continue to be partially utilized for 2G network rented from TOT and serve 5.2mn subscribers using 2G devices mostly in upcountry area. Meanwhile, as 3G and 4G demand expands we also consider utilizing partial 900MHz to extend coverage and capacity in key strategic areas. This will enhance AIS competitiveness in mobile data service and hence our long term leading position.

To scale down 2G-3G subsidy while preserving a budget for competitive handset offerings

Since beginning of the year, AIS pushed an aggressive handset subsidy to convert 2G device users to 3G/4G. With the current holding of 900MHz which allows us to continue 2G service, AIS will reduce the aggressive subsidy as we have extended period for migration to newer technology. Nevertheless, as competition remains intense particularly in handset discount campaigns, we preserve a budget to ensure our competitiveness and market share.

Revenue to improve slightly

With the 900MHz license, 2G revenue loss as previously projected is abate, partly also driven by the handset subsidy executed during the first five months of the year. We project overall service revenue to slightly increase supported by strong demand for data. EBITDA margin is expected to be in a range of 38-39% pressured by intense market competition.

FTTH expansion to reach full urban coverage in 28 cities and 6.5mn homepass

With first launch last year, AIS remains in the process of scaling up our FTTH business. An investment budget of Bt7bn for this year is reallocated to cover the full urban area of 28 cities from the previous target of 24 cities with a reach of 6.5mn homepass. 9M16, we achieved a coverage of 3mn homepass in 28 cities. We target to achieve a significant market share in the next three years with more budget and manpower dedicated to the business.

100% dividend payout maintained for 2016

The dividend payment shall be made twice a year. The payout ratio is based on consolidated earnings and subject to the availability of retained earnings on the separate financial statements. AIS remains committed to an optimal capital structure while maintaining financial flexibility for growth.

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.