

FPT CORP – FY2016 PERFORMANCE

In FY2016, FPT recorded consolidated revenue of VND 40,545 billion, equal to 89% of the full year target, up 1.4% YoY. Profit before tax was VND 3,014 billion, equal to 96% of the full year target, up 6% YoY. Profit after tax (PAT) was VND 2,576 billion in FY2016, equal to 97% of the full year target, up 6% YoY. PAT attributed to parent company's shareholders was VND 1,991 billion in FY2016, achieving 92% of the full year target, up 3% YoY. EPS was VND 3,925, achieving 93% of the full year target, up 3% YoY. Key sectors including Technology and Telecom continued to deliver double-digit growth.

By markets, the overseas part which was led by the software outsourcing business continued to grow healthily. In FY2016, revenue from overseas markets was VND 6,121 billion, up 26% YoY. Profit before tax from overseas markets was VND 936 billion in the same period, up 40% YoY, accounting for 31% of consolidated PBT in FY2016, vs 23% in FY2015. Pertaining to the domestic part, the Telecom services, Online advertising, Retail and Education segments were performing well and exceeded targets. However, the on-going challenges facing the domestic project-based business of FPT IS, and Microsoft's decision to halt the production of Lumia phones has caused FPT's mobile handset distribution revenue and profit to decline sharply, affecting the domestic portion of the consolidated result considerably.

Summary of full year consolidated financial performance

Unit: VND in billions

Items	FY2015 (Audited)	FY2016 (Unaudited)	YoY change	vs. FY guidance
Net revenue	40,003	40,545	1%	89%
Profit before tax (PBT)	2,851	3,014	6%	96%
Profit after tax (PAT)	2,438	2,576	6%	97%
PAT attributed to parent company's shareholders	1,931	1,991	3%	92%
Basic EPS (VND)	3,816	3,925	3%	93%

Table 1 - Summary of financial performance in FY2016

Segment reporting for the financial year ended 31 December 2016

Unit: VND in billions

Segments	REVENUE				PROFIT BEFORE TAX			
	FY2015	FY2016	YoY change	% FY guidance	FY2015	FY2016	YoY change	% FY guidance
Software development	5,202	6,301	21%	100%	741	931	26%	86%
<i>Software outsourcing</i>	4,104	5,181	26%	99%	634	855	35%	95%
<i>Software solutions</i>	1,098	1,120	2%	107%	107	75	-29%	41%
System integration	2,530	2,782	10%	99%	96	69	-29%	975%
IT services	873	868	-1%	96%	90	103	14%	86%
Subtotal Technology	8,605	9,952	16%	100%	927	1,102	19%	91%
Telecom services	5,109	6,176	21%	101%	878	944	8%	111%
Online advertising	375	490	31%	109%	167	254	52%	135%
Subtotal Telecom	5,484	6,666	22%	102%	1,044	1,198	15%	115%
Distribution and manufacturing of IT products and mobile handsets	17,371	12,452	-28%	67%	548	284	-48%	49%
Retail	7,842	10,585	35%	106%	180	259	44%	104%
Subtotal Distribution & Retail	25,213	23,037	-9%	81%	728	544	-25%	66%
Education & investments	702	890	27%	N/A	151	170	12%	N/A
Total	40,003	40,545	1%	89%	2,851	3,014	6%	96%

Table 2 - Financial performance by segments in FY2016 (unaudited)

Note: Subtotals may not add up due to rounding

TECHNOLOGY SECTOR

TECHNOLOGY SECTOR SAW REVENUE UP 16% AND PROFIT BEFORE TAX UP 19% YOY

Having sustained the positive double-digit growth since August, the Technology sector ended up the year recording 16% growth in terms of revenue, to VND 9,952 billion in FY2016, and 19% growth in terms of profit before tax (PBT) to VND 1,102 billion. Pre-tax margin of the Technology sector has also been expanded thanks to improved margin of the software outsourcing segment.

Software development

Software development comprises of **software outsourcing** sub-segment, which mostly serves customers in *developed markets* including Japan, the US, Europe and Asia Pacific (APAC), and **software solutions** sub-segment, of which most of the revenue is derived from the domestic market with increasing contribution from *developing markets* such as Laos, Cambodia, Myanmar, and especially South Asian countries including Bangladesh.

Overseas markets continued to play the key role in delivering growth for the software development during the full year. In FY2016, **software development**'s revenue was VND 6,301 billion, up 21% YoY in which **software outsourcing**'s revenue was VND 5,181 billion, up 26% YoY. On top of that, **software solution** revenue was VND 1,120 billion, up 2% YoY.

In terms of earnings, the **Software development** segment recorded growth of 26% versus prior year period.

Software outsourcing business has its PBT up 35% YoY, to VND 855 billion, with whole-year margin expanded thanks to improved utilization rate, better pricing, and a more preferable JPY movement in FY2016. However, outsourcing's PBT was 5% lower than target as one of the key client in the US market was acquired, hence a partial loss of man-month from such the account post-acquisition. Such the incident has caused the revenue from US market to decrease by 11% YoY. Other markets, on the contrary, have performed well, especially the biggest outsourcing market for FPT – Japan, of which revenue has increased by 52% YoY, and APAC – a relatively new market for FPT's outsourcing business, which has also recorded its revenue up 30% YoY. The Europe market has grown by 12% YoY in FY2016.

In FY2016, headcounts of the outsourcing business has surpassed the 10,000 people milestone, accounting for 15% of total IT headcounts in Vietnam, and comparable to Top 15 India-based IT outsourcing companies. In Japan market, the outsourcing revenue has also surpassed the USD 100 million milestone, started to be recognized as a sizeable company in Japan, which will help gain more customer attention. FPT Software – the subsidiary that is in charge of the outsourcing business, has also established an Automotive domain with more than 1,000 headcount, opening two new offices including one in Japan, and another one in a totally new market South Korea, which headquarters a number of considerable global automotive brands.

Software solutions segment, however, hasn't performed as well as the outsourcing part financially, and recorded a year of profit decline as more expenses have incurred to finish long-lasting pending projects, which are government and banking related. Such projects have been fully or mostly finished during the year, paving way for a resumed growth in 2017.

System integration and IT services

The (hardware) system integration segment has performed better than expected, recording a revenue VND 2,782 billion, up 10% YoY, and a decent profit before tax of VND 69 billion in FY2016.

The IT services segment recorded full year revenue of VND 868 billion, down 1% YoY, and PBT of VND 103 billion, up 14% YoY.

Total value of contract signed in FY2016 was VND 4,627 billion, up 6.2% against the prior year period. Estimated backlog balance for the three segments including system integration, software solutions and IT services ended up being VND 2,423 billion by the end of the year, down 7.4% YoY.

After two years of restructuring, FY2016 was a year of improvement in terms of delivery for FPT IS (the subsidiary that is in charge of software solutions, system integration and IT services segments, with its focus on Vietnam and other emerging markets). Large and complex projects have been completed including the installation of surveillance cameras on expressways, including software solutions using self-developed image processing technology (new project, new client), installing the new IT and communication systems for Deposit Insurance of Vietnam Corp., and the Bangladesh Income Tax integration system (BITAX). Such a completion of a complex project overseas will open up more opportunities for the company in the new market Bangladesh.

TELECOM SECTOR

TELECOM SECTOR SAW REVENUE UP 22% AND PBT RETURNED TO POSITIVE GROWTH WITH 15% INCREASE YEAR OVER YEAR

The Telecom sector reported FY2016 revenue of VND 6,666 billion, up 22% YoY, and profit before tax of VND 1,198 billion, up 15% versus the prior year. Revenue and PBT of the Telecom sector exceeded the full year target by 2% and 15%, respectively.

Telecom services – margin improved since third quarter and sustained for the full year

Being the key growth driver of the Telecom sector's revenue and profits, the Telecom services segment recorded VND 6,176 billion in revenue in FY2016, growing by 21% YoY, equal to 101% of the full year target. The full year PBT has sustained the improvement since the third quarter, amounting to VND 944 billion in the year, up 7.6% YoY. Full year earnings achieved 111% of the full year target.

In more details, revenue from providing *broadband services* to individuals and households recorded a healthy growth of 17% YoY to VND 4,259 billion in FY2016, led by a 21% subscriber growth.

Other non-broadband telecom services, including leased line, voice, data center and IPTV services have also performed well and recorded 31% top-line growth on a year-over-year basis, to VND 1,918 billion in the same period, exceeding full year revenue target by 6%.

Online advertising – growing impressively

Revenue of *digital content* segment, which include only *online advertising* from 2016 (as compared to prior years, when there was also revenue from online game and related services, i.e. payment gateway). The segment recorded revenue of VND 490 billion in FY2016, up 31% YoY, and PBT of VND 254 billion in FY2016, increasing impressively by 52% YoY and exceeded the full year target by 39%. Excluding the irregular financial gain from selling stake owned by FPT Online in a member company to a strategic investor, as explained in our previous monthly newsletters, the full year earnings also delivered an impressive 34% YoY growth. Such an impressive result was attributed to improved marketing spending from real estate and pharmaceutical clients in 2016, and FPT Online's better monetization of advertisement inventory.

DISTRIBUTION AND RETAIL SECTOR

Revenue from distribution and retail sector was VND 23,037 billion in FY2016, down 9% YoY, and profit before tax of VND 544 billion, down 25% YoY.

Distribution of IT products and mobile handsets

The distribution business recorded revenue of VND 12,452 billion, and PBT of VND 284 billion in FY2016. The IT product distribution has delivered a decent growth amid market decline with revenue up 6% YoY to VND 7,873 billion, and PBT up 5% YoY to VND 250 billion. On the contrary, the mobile handset distribution sub-segment has seen both revenue and profit dropped, which were mainly due to (1) the change of Apple's



iPhone distribution model from distributors to retailers, which caused iPhone revenue to decline by VND 3,111 billion, equal to 76% reduction year over year; (2) in 2016, Microsoft had announced that they would halt the production of Lumia phones. Such a decision has led to a sharp decline in mobile handset distribution revenue, and negatively affected the profit as inventory had been stocked before that. Estimated impact from price cut to clear off the Lumia inventory has lowered the 2016 profit by roughly VND 121 billion. As the clean off has been done fully in 2016, that won't affect 2017 profit.

Retail business

Technology product retail business has maintained an impressive growth in the year. In FY2016, retail revenue was VND 10,585 billion, up 35% YoY, and profit before tax was VND 259 billion, up 44% YoY, showing margin expansion. FPT Retail was operating 385 stores by the end of the year. Online sales, another important growth driver, also saw 58% YoY growth in FY2016, accounting for 8.5% of the full year retail revenue.

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