FY18 MD&A
Advanced Info Service Plc.

Executive Summary

Maintained leadership in mobile business

In FY18 competition in mobile industry remained elevated particularly on data pricing with fixed speed unlimited price plan while handset subsidies were more locally-focused compared to last year. With accumulation of fixed-speed unlimited subscribers, revenue and ARPU have been pressured. However, from 3Q18 onward AIS along with other operators have rebalanced pricing structure to ease impact on ARPU. As a result, AIS's mobile revenue for FY18 was Bt124,601mn, softly growing 1.3% YoY. While 4G demand continues to rise, AIS aiming to strengthen our leadership position in delivering the best mobile data network decided to bid for an additional 1800MHz spectrum, resulting in AIS having the largest bandwidth of 2x60MHz in the industry. Consequently, we have evidently seen an improvement of network quality against peers while brand perception enhanced. That said, we have well added 1mn mobile customers in 2H18.

Expanded fixed broadband and strengthened digital services

AIS Fibre continued to grow healthily, despite intense competition, with revenue reaching Bt4,436mn, a 42% increase YoY. The growth was driven by added subscribers of 209,300 or around (estimated) 20% share of industry which totaled year-end subscribers at 730,500. On other digital services, AIS continued to scale up several platforms to serve both consumers and enterprises. Our VDO platform called AIS PLAY received higher awareness and was listed among the top five of video-viewing applications with current active subscribers climbing to 1.7mn. The mobile money platform under a joint venture, Rabbit LINE Pay, expanded its payment coverage to the sky train mass transit and grew monthly active users to 850,000. The enterprise business strengthened by CSL acquisition helped enhance AIS's capability to serve enterprise segment in areas such as enterprise data service and cloud which grew double digit while both AIS and CSL continued to have presence as strong brands in the market.

Implemented company-wide cost optimization

With low growth market, AIS has been focusing on optimizing and digitizing the core operation including network and service. This resulted in overall network OPEX (excluding cost of TOT partnership) to stay flat YoY or remained at 8% of core service revenue. The focus on effective spending amidst intense competition also translated into a 4% reduction in total marketing expenses YoY. FY18 CAPEX was lowered as 4G coverage was mostly completed and investment of Bt20bn was to mainly support added capacity and FBB network.

Expect mid-single digit growth in FY19

In summary, AIS delivered Bt133,429mn of core service revenue for FY18, a growth of 3.8% YoY. EBITDA increased 4.7% YoY to stand at Bt73,792mn or a margin (excluding equipment rental) of 45.2%, up from 44.7% in FY17. With continued network investment, net profit was reported at Bt29,682mn, slightly declining 1.3% YoY. For FY19, AIS expects to grow mid-single digit driven by all business segments. EBITDA margin is expected to be stable while budgeted for CAPEX of Bt20-25bn (see guidance on page 6).

Significant Event for FY19

Since 1 January 2019, AIS has adopted Thai Financial Reporting Standards (TFRS) 15, Revenue from Contracts with Customers. The standard affects the accounting of handset campaigns which are contracted with price plans. Prior to 2019, AIS fully expensed handset subsidy as either handset loss or marketing expense. With the effect of TFRS 15, key financial changes, compared to prior to 2019, will be as follows:

a) Device subsidy previously recognized as handset loss will be reallocated between device sales and service revenue weighted by fair market values of the handset price and full-contract price plan. As a result, device sales would increase and service revenue would decrease. Also, device subsidy recognized as marketing expense will be capitalized as contract assets and amortized against the service revenue over the customer contract term.
b) On balance sheet, there will be a new item namely "Contract assets", representing the difference between the revenue recognized and the upfront cash received from customers as well as capitalized device subsidies.

Considering the entire contract term, profitability of the contract remains the same. Please note that our guidance for FY19 provided on page 6 does not take into account TFRS 15 and is based on the same accounting principle as in FY18. Please see note 2 for more detail on TFRS 15.

Market and Competitive Environment

Following the softened mobile growth last quarter, operators have gradually stopped providing fixed-speed unlimited price plans and expect the impact of suppressed ARPU to slowly be unwind. Handset subsidies remained elevated in 4Q18 due to seasonality while aggressive campaigns remained in targeted areas. After completing spectrum auctions in 3Q18, overall 4G networks have improved following the deployment of the additional bandwidth, which is expected to help control operator's investment plans in the following year.

Competition in fixed broadband in 4Q18 was stable from the last quarter without prominent price cut. However, throughout the year the standard speed of the market has shifted from 30Mbps in 2017 to 50Mbps in 2018 with a similar price range of around Bt600. Overall, pure broadband operators mainly used pricing strategy while integrated operators increasingly emphasized convergence offerings highlighting on higher package value. This has resulted in the narrowing price gap between pure and convergence price plans.

4Q18 Financial and Operational Summary

In 4Q18, core service revenue was Bt33,683mn, increasing 3.3% YoY and 1.7% QoQ, driven by both mobile and fixed broadband business. Mobile subscribers continued the improving trend with total net addition of 522,200, 66% of which was from prepaid. Price-plan rebalancing focusing on offering full 4G speed and increasing 4G adoption to 59% resulted in mobile revenue of Bt31,364mn, growing 1.1% YoY and 1.6% QoQ while ARPU declined 0.7% YoY but improved 0.2% QoQ. Growth in postpaid segment continued to expand to 20% of total subscribers, compared to 18% last year. AIS Fibre maintained the focus on quality acquisition in 57 key cities gaining a net addition of 53,800 subscribers, similar pace to that of 3Q18. However, with price competition, ARPU declined to Bt574 from Bt635 in 4Q17 but stabilized from 3Q18.

Regulatory fee was Bt1,420mn and accounted for 4.2% of core service revenue, steady from last quarter. Network OPEX was Bt7,366mn, increasing 47% YoY and 2% QoQ as we concluded the partnership contract with TOT. Excluding the accounting impact from recording cost of partnership with TOT, network OPEX would increase 6.5% YoY and 2.1% QoQ following ongoing cost optimization. To support brand awareness and seasonal handset campaigns, marketing expenses and handset loss were Bt3,045mn in total, increasing 27% YoY and 11% QoQ. Total SG&A hence increased 9.9% YoY and 2.6% QoQ to stand at Bt6,968mn.

EBITDA stood at Bt18,071mn, decreasing 2.1% YoY but increasing 1.4% QoQ, a 42.6% EBITDA margin (excluding equipment rental). Depreciation and amortization were Bt8,767mn, increasing 9% YoY and 4.4% QoQ from the new 1800MHz spectrum license as well as investment in 4G and fixed broadband. As a result, net profit was Bt6,839mn, decreasing 11% YoY but increasing 0.6% QoQ.

Mobile Business Subscribers	**4Q17**	**1Q18**	**2Q18**	**3Q18**	**4Q18**
Postpaid	7,390,100	7,617,100	7,822,600	8,014,700	8,189,900
Prepaid	32,665,400	32,432,900	32,272,100	32,632,300	32,979,300
Total subscribers	**40,055,500**	**40,050,000**	**40,094,700**	**40,647,000**	**41,169,200**
Net additions					
Postpaid	163,300	227,000	205,500	192,100	175,200
Prepaid	-294,100	-232,500	-160,800	360,200	347,000
Total net additions	**-130,800**	**-5,500**	**44,700**	**552,300**	**522,200**
ARPU (Baht/sub/month)					
Postpaid	581	578	574	562[1)]	571
Prepaid	183	184	183	178[1)]	176
Blended	**256**	**257**	**258**	**253**[1)]	**254**
MOU (minute/sub/month)					
Postpaid	257	251	242	241	244
Prepaid	151	148	136	124	121
Blended	**170**	**168**	**156**	**147**	**145**
VOU (GB/data sub/month)					
Postpaid	8.3	9.2	10.9	12.7	14.0
Prepaid	6.2	7.0	8.2	9.2	9.8
Blended	**6.7**	**7.6**	**8.9**	**10.1**	**10.9**
Device Penetration					
4G-handset penetration	46%	50%	54%	57%	59%
Fixed Broadband Business					
FBB subscribers	521,200	571,800	623,400	676,700	730,500
FBB net addition	39,700	50,600	51,600	53,300	53,800
FBB ARPU (Baht/user/month)	635	618	610	573	574

[1)]Recalculated

FY18 Financial Summary

Revenue

In 2018, **total revenue** was Bt169,856mn increasing 7.7% YoY attributed by growth in service revenue, consolidation of CSL, and equipment rental from partnership with TOT.

Service revenue was Bt144,005mn, increasing 8.3% YoY. Excluding IC & equipment rental, **core service revenue** was Bt133,429mn increasing 3.8% YoY, in line with our guidance, driven by higher mobile data usage and increasing fixed broadband subscribers.

- **Mobile revenue** was Bt124,601mn increasing 1.3% YoY due to higher data consumption reaching 11 GB/data sub/month amidst pricing competition. Improving network quality and brand awareness has resulted in a net subscriber addition of 1.1mn, 72% of which was from postpaid.
- **Fixed broadband revenue** was Bt4,436mn increasing 42% YoY. In 2018, AIS Fibre has gained 209,300 of net subscriber addition and now has 730,500 total subscribers. ARPU in 4Q18 was Bt574, a decline from Bt635 in 4Q17, reflecting pricing competition and discounts to re-contract customers
- **Other service revenues,** which included revenues from CSL, enterprise data services and others, were Bt4,391mn, increasing 77% YoY mainly due to a full-year recognition of CSL revenue in 2018.
- **Interconnection charge (IC) and equipment rental** were Bt10,576mn, increasing 142% YoY due to full-year recognition of equipment rental incurred from the change in accounting on partnership with TOT since Mar-18, partially offset by lower IC from a decline in IC rate.

SIM & device sales were Bt25,851mn increasing 4.3% YoY. SIM and device margin in 2018 was –3.5%, same level as in 2017, following continued handset campaigns.

Cost & Expense

In 2018, **cost of service** was Bt76,700mn increasing 15% YoY due to higher D&A and cost of the partnership with TOT, offset by lower regulatory fee.

- **Regulatory fee** was Bt5,723mn declining 8.7% YoY mainly from the lower license fee rate .Currently, regulatory fee to core service revenue represented 4.3%, compared to 4.9% in 2017.
- **Depreciation and amortization** was Bt33,282mn, increasing 12% YoY due to network expansion of both mobile and fixed broadband as well as the newly acquired 1800MHz license amortization.
- **Network OPEX** was Bt26,929mn increasing 34% YoY due mainly to the change in accounting on partnership with TOT. Excluding the TOT cost, network OPEX slightly increased 1.6% YoY following the cost optimization program.
- **Other costs of service**, which included cost of content, prepaid commission, and IC cost, were Bt10,766mn increasing 1.9 %YoY due to higher cost of content offset by lower prepaid commission.

SG&A expenses were Bt26,295mn increasing 4.9% YoY mainly due to higher admin expenses offset by lower marketing expense.

- **Marketing expenses** were Bt9,550mn declining 4.4% YoY due to more targeted handset campaigns. This has resulted in a reduction of %marketing expenses to total revenue from 6.3% in 2017 to 5.6% in 2018.
- **Admin and other expenses** were Bt16,745mn increasing 11% YoY mainly from higher staff cost, shop expansion & renovation, and the one-time expense of Bt134mn regarding withholding tax in 3Q18. In 2018, %bad debt to postpaid revenue declined to 3.8%, compared to 4.3% in 2017 following a focus on quality acquisition in both mobile and fixed broadband.

Net FX gain was Bt119mn decreasing from Bt225mn in 2017. FX gain/loss was incurred from CAPEX payables due to currency fluctuation whereas foreign debts were all fully hedged.

Finance cost was Bt5,148mn decreasing 2.9% YoY due to lower deferred interest from spectrum licenses. Average cost of borrowing was maintained at 3.1% per year.

Profit

In 2018, **EBITDA** was Bt73,792mn, increasing 4.7% YoY due to the improved operational results from both service revenue growth and cost optimization. Reported EBITDA margin was 43.4%. However, **excluding equipment rental, EBITDA margin** would be 45.2%, in line with the guidance of 45-47% and improved from 44.7% in2017. In summary, AIS reported a **net profit** of Bt29,682mn, a slight decline of 1.3% YoY, following a pressure in D&A.

Financial position

As at December 2018, AIS had total assets of Bt290,505mn increasing 2.3% YoY mainly from the new 1800MHz spectrum license. Total current assets were Bt34,905mn stable from 2017 as higher account receivables, following a larger base of postpaid customers, was offset by lower cash. Total non-current assets were Bt255,600mn increasing 2.6% YoY from spectrum license, goodwill and investment in Rabbit LINE Pay (RLP).

Total liabilities were Bt232,836mn, stable from 2017 as payments for existing spectrum licenses were offset by the 1800MHz license acquisition. Total equity was Bt57,669mn increasing 14% YoY from higher retained earnings. As a result, AIS's financial position remained strong with a current ratio and an interest coverage ratio of 0.5x and 12x, respectively. At the end of 2018, AIS had interest-bearing debt of Bt109,100mn with a net debt to EBITDA of 1.3x, stable from 2017, while maintained an investment grade credit rating at BBB+ for S&P.

Cash Flow

In 2018, AIS generated Bt69,132mn of operating cash flow (after tax) increasing 5.5% YoY following the improved EBITDA. Cash CAPEX was Bt20,198mn, largely declining from Bt41,108mn in 2017 following controlled investment and the negotiation with suppliers for longer payment term. Also, AIS has paid license installments totaling Bt20,536mn to the NBTC. As a result, free cash flow was Bt28,398mn (OCF less CAPEX less license fee), improving from Bt14,174mn in 2017. AIS paid Bt5,042mn for the acquisition of CSL and the investment in RLP as well as dividend of Bt21,852mn. With net repayments of Bt738mn, cash outstanding was Bt9,067mn.

Income statement (Bt mn)	4Q17	3Q18	4Q18	%YoY	%QoQ	FY17	FY18	%YoY
Mobile revenue	31,016	30,862	31,364	1.1%	1.6%	122,979	124,601	1.3%
Fixed broadband revenue	956	1,117	1,212	27%	8.6%	3,128	4,436	42%
Other service revenues	639	1,155	1,107	73%	-4.1%	2,476	4,391	77%
Core service revenue	**32,611**	**33,134**	**33,683**	**3.3%**	**1.7%**	**128,583**	**133,429**	**3.8%**
IC and equipment rental	1,107	3,111	3,202	189%	2.9%	4,364	10,576	142%
Service revenue	**33,717**	**36,245**	**36,885**	**9.4%**	**1.8%**	**132,947**	**144,005**	**8.3%**
SIM and device sales	7,488	5,865	7,699	2.8%	31%	24,775	25,851	4.3%
Total revenues	**41,205**	**42,110**	**44,584**	**8.2%**	**5.9%**	**157,722**	**169,856**	**7.7%**
Regulatory fee	(1,301)	(1,429)	(1,420)	9.2%	-0.6%	(6,272)	(5,723)	-8.7%
Depreciation & Amortization	(8,044)	(8,401)	(8,767)	9.0%	4.4%	(29,686)	(33,282)	12%
Network operating expense	(5,012)	(7,223)	(7,366)	47%	2.0%	(20,080)	(26,929)	34%
Other costs of services	(2,661)	(2,781)	(2,830)	6.3%	1.7%	(10,566)	(10,766)	1.9%
Cost of service	**(17,018)**	**(19,835)**	**(20,383)**	**20%**	**2.8%**	**(66,604)**	**(76,700)**	**15%**
Cost of SIM and device sales	(7,534)	(6,189)	(8,032)	6.6%	30%	(25,654)	(26,756)	4.3%
Total costs of service and sale	**(24,552)**	**(26,023)**	**(28,414)**	**16%**	**9.2%**	**(92,259)**	**(103,456)**	**12%**
Gross profit	**16,653**	**16,087**	**16,170**	**-2.9%**	**0.5%**	**65,463**	**66,400**	**1.4%**
SG&A	**(6,338)**	**(6,794)**	**(6,968)**	**9.9%**	**2.6%**	**(25,078)**	**(26,295)**	**4.9%**
Marketing Expense	(2,357)	(2,426)	(2,713)	15%	12%	(9,990)	(9,550)	-4.4%
Admin and others	(3,982)	(4,368)	(4,255)	6.9%	-2.6%	(15,088)	(16,745)	11%
Operating profit	**10,315**	**9,293**	**9,202**	**-11%**	**-1.0%**	**40,385**	**40,105**	**-0.7%**
Net foreign exchange gain (loss)	21	12	129	502%	939%	225	119	-47%
Other income (expense)	223	119	118	-47%	-0.8%	613	560	-8.5%
Finance cost	(1,346)	(1,277)	(1,288)	-4.3%	0.9%	(5,302)	(5,148)	-2.9%
Income tax	(1,512)	(1,345)	(1,320)	-13%	-1.8%	(5,843)	(5,923)	1.4%
Non-controlling interest	(1.4)	(1)	(1)	-7.7%	39%	(0.6)	(32)	5125%
Net profit for the period	**7,701**	**6,800**	**6,839**	**-11%**	**0.6%**	**30,077**	**29,682**	**-1.3%**

EBITDA (Bt mn)	4Q17	3Q18	4Q18	%YoY	%QoQ	FY17	FY18	%YoY
Operating Profit	10,315	9,293	9,202	-11%	-1.0%	40,385	40,105	-0.7%
Depreciation & amortization	8,164	8,556	8,919	9%	4.2%	30,151	33,879	12%
(Gain) loss on disposals of PPE	7	12	(20)	-377%	-270%	164	2	-99%
Management benefit expense	(24)	(41)	(32)	35%	-22%	(143)	(177)	24%
Other financial cost	(8)	(2)	2	-123%	-230%	(60)	(18)	-71%
EBITDA	**18,454**	**17,817**	**18,071**	**-2.1%**	**1.4%**	**70,498**	**73,792**	**4.7%**
Reported EBITDA margin (%)	44.8%	42.3%	40.5%			44.7%	43.4%	

Financial Position (Bt mn/% to total asset)	4Q17		4Q18	
Cash	10,650	3.7%	9,067	3.1%
ST investment	2,643	0.9%	2,221	0.8%
Trade receivable	14,179	5.0%	16,361	5.6%
Inventories	3,951	1.4%	3,823	1.3%
Others	3,418	1.2%	3,433	1.2%
Current Assets	**34,841**	**12%**	**34,905**	**12%**
Spectrum license	107,524	38%	111,749	38%
Network and PPE	132,579	47%	130,212	45%
Intangible asset	4,499	1.6%	5,092	1.8%
Defer tax asset	2,562	0.9%	3,210	1.1%
Others	2,062	0.7%	5,337	1.8%
Total Assets	**284,067**	**100%**	**290,505**	**100%**
Trade payable	14,686	5.2%	18,422	6.3%
ST loan & CP of LT loans	9,575	3.4%	17,104	5.9%
Accrued R/S expense	5,362	1.9%	5,362	1.8%
Others	39,977	14%	31,877	11%
Current Liabilities	**69,601**	**25%**	**72,764**	**25%**
Debenture & LT loans	100,102	35%	92,030	32%
Others	63,938	23%	68,042	23%
Total Liabilities	**233,641**	**82%**	**232,836**	**80%**
Retained earnings	24,675	8.7%	32,505	11%
Others	25,752	9.1%	25,163	8.7%
Total Equity	**50,427**	**18%**	**57,669**	**20%**

Key Financial Ratio	4Q17	3Q18	4Q18
Interest-bearing debt to equity (times)	2.2	2.2	1.9
Net debt to equity (times)	1.9	2.0	1.7
Net debt to EBITDA (times)	1.4	1.4	1.3
Current Ratio (times)	0.5	0.4	0.5
Interest Coverage (times)	14	13	12
Debt Service Coverage Ratio (times)	3.4	2.6	2.9
Return on Equity	65%	66%	55%

Figures from P&L are annualized YTD.

Debt Repayment Schedule			License payment schedule	
Bt mn	**Debenture**	**Loan**	**1800MHz**	**900MHz**
2019	7,789	9,264	-	4,020
2020	-	24,829	3,128	59,574
2021	1,776	12,079	3,128	-
2022	-	13,440	-	-
2023	7,820	6,550	-	-
2024	6,638	150	-	-
2025	-	300	-	-
2026	7,180	750	-	-
2027	9,000	750	-	-
2028	-	750	-	-

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

Source and Use of Fund: FY18			(Bt mn)
Source of fund		**Use of fund**	
Operating cash flow	75,895	CAPEX & Fixed assets	20,198
Sale of equipment	847	Payment of spectrum license	20,536
Interest received	173	Dividend paid	21,852
Proceed from ST borrowings	3,000	Income tax paid	6,763
Cash decrease	1,577	Finance cost and financial lease paid	3,363
		Repayment of ST borrowings	850
		Repayment of LT borrowings	2,888
		Investment in joint venture and others	788
		Cash paid for business acquisition	4,254
Total	**81,492**	**Total**	**81,492**

2019 MANAGEMENT OUTLOOK & STRATEGY

Core service revenue	• Mid-single digit growth (Pre TFRS 15)
Consolidated EBITDA margin	• Stable from last year
Budgeted CAPEX	• Bt20-25bn
Dividend policy	• Minimum 70% of net profit

Core service revenue is expected to grow mid-single digit

In 2019, AIS strives to continue strengthening core mobile business while putting more focus on growing fixed broadband and enterprise as well as continue the building blocks of new digital services. We target to achieve core service revenue growth of mid-single digit YoY with the focus on being competitive to gain fair market share and hence retain or expand our scale in respective businesses.

For mobile business, 4G adoption and demand is expected to continue rising following improved customer perception of our 4G network supported by the competitive spectrum portfolio. As a leading operator, AIS aims to be competitive in maintaining our mobile business scale as well as enhancing our product and brand proposition to better penetrate and serve certain growing segments.

Having been in the market for four years, AIS Fibre continues to grow with subscriber market share reaching 8%. Our focus on quality acquisition has brought in healthy revenue stream and provided us vital customer access at home. In 2019, deployment of FMC (Fixed-Mobile Convergence) strategy will be more pronounced as we aim to increase ARPU per household (ARPH) leveraging the high-value mobile customer base and deeper household personalization. That said, we aim to achieve 1mn fibre customers milestone this year, implying an estimated market share of 10%.

Post the acquisition of CSL in 2018, strategic alignment has been actively executed. In 2019, we aim to continue our growth in Enterprise Data Service (EDS) while the integrated capability of AIS and CSL shall strongly support our provision of Cloud, Data Centers, ICT managed services as well as other enterprise verticals. Overall, the enterprise revenue, currently representing 10% of core service revenue including revenue from mobile airtime, should continue delivering high-single digit growth in 2019.

EBITDA expands with a margin stable from last year and CAPEX planned at Bt20-25bn

As we have executed the company-wide cost management, our cost structure has been continually optimized amidst the competitive landscape. To support our aspiration in 2019, we ensure to allocate sufficient capital to marking our core mobile leadership and expanding other businesses. As process digitization continues, operating expense is expected to be controlled, offset by the cost to support network growth in all businesses. As a result, we expect EBITDA margin (EBITDA over total revenue) to be stable from last year (43.4% in 2018). With the full range of spectrum portfolio in 900/1800/2100MHz to support more 4G and continued 3G, we plan to invest at a similar range to the previous year with Bt20-25bn in total, of which Bt4-5bn allocated for fixed broadband. This budgeted CAPEX is mainly for 4G capacity expansion incorporating our plan to ensure 5G-compatible architecture and our focus to carefully balancing investment with return.

Dividend policy at minimum 70% of net profit

AIS is committed to driving long-term growth while delivering return to shareholders. We place importance in maintaining strong financial health and flexibility to pursue future growth. Our dividend policy is to pay a minimum 70% of net profit. By preserving cash flow, we ensure that we have the financial flexibility to lead, compete, and pursue growth prospect in any changing circumstances.

The dividend payment shall still be made twice a year and is based on consolidated earnings and subjected to the availability of retained earnings on the separate financial statements. In all cases, dividend payment shall depend on cash flow, investment plan including any other future obligations of the Company and/or subsidiaries. Such dividend shall not adversely affect the Company and subsidiaries ongoing operations.

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