1Q18 MD&A

Advanced Info Service Plc.

Executive Summary

Expand into potential growth areas of enterprise and mobile money

AIS has executed two strategic deals totaling Bt4.2bn of cash transactions in 1Q18. First was the acquisition of CS Loxinfo (CSL), totaling Bt3.4bn, which will provide synergy for AIS to strongly penetrate the enterprise market. Second was the investment in the Rabbit-LINE Pay (RLP) JV, totaling Bt788mn, targeting at widening mobile money and e-service to both AIS and non-AIS customers. These deals are part of our strategic intention to expand competitively in serving digital services and platforms to both consumers and enterprise.

Continue growing core revenue with controlled marketing expenses

In 1Q18, AIS reported service revenue of Bt34,565mn, +6.5% YoY and +2.5% QoQ, inclusive of CSL's revenue and equipment rental from partnership with TOT (see significant event). Excluding IC and equipment rental, service revenue would have been +5.7% YoY and +1.6% QoQ, against the FY18 guidance of +7-8% YoY. In 1Q18, AIS spent Bt6.5bn of CAPEX to deliver quality 4G network and has been active in reinforcing brand image especially via online media. As a result, mobile business grew 3.1% YoY and 0.5% QoQ. Marketing expenses remained at 5.5% of total revenue, same level both YoY and QoQ. Underpinned by localized promotional campaigns, the decline in prepaid subscriber has slowed down, while postpaid subscriber continued to grow and now accounts for 19% of total subscriber base, up from 16% in 1Q17. AIS Fibre continued its improving performance amidst competitive environment with revenue growth of 85% YoY and 6% QoQ while subscribers rose to 571,800 or a net addition of 50,600.

Put more focus on convergence and EBITDA generation

Given the growing fixed broadband and increasing popularity of AIS PLAY video platform, AIS has started to implement a fixed-mobile-content (FMC) convergence strategy to acquire/retain quality customer segments in order to increase revenue per household in the long term. In addition to achieving revenue growth, the company-wide cost optimization is ongoing and translated into EBITDA expansion of +9% YoY and +2.4% QoQ to stand at Bt18,905mn, a reported margin of 46.2%. Following improved EBITDA, AIS reported a net profit of Bt8,037mn, +4.5% YoY and +4.4% QoQ.

Secure competitive spectrum position

AIS has officially signed the roaming and equipment rental agreements with TOT, effective since 1-Mar-18, on co-utilizing the 2100MHz spectrum. This resulted in AIS having in total 55MHz spectrum in both low- and high-band, which ensures AIS's capability to provide strong network quality. The full-year guidance and outlook for 2018 was maintained as presented on page 6.

Significant Events

1. AIS, via AWN, currently holds 81.47% of total CSL's outstanding share and is the major shareholder of CSL. The acquisition deal in total was Bt3.4bn. Since Feb-18, AIS started to fully consolidate CSL's revenue and cost accordingly. At present, the revenue from CSL is grouped under other service revenues and device sales. As the acquisition value was higher than CSL's net identifiable assets, AIS recognized the value difference as goodwill amounting to Bt2.8bn. With the intention to delist CSL, the rest of the minority shareholders will be issued a final tender offer during 4-May to 6-Jul-18 at a price of Bt7.80/share.

2. In Mar-18, AIS, via mPAY, has announced a partnership with Rabbit-LINE Pay (RLP) through an investment of Bt788mn to buy 33.33% stake of the JV. In realizing the JV's performance, AIS shares 33.33% of the JV's net profit recognized as an asset under investments in joint venture and retained earnings.

3. AIS has been in a partnership with TOT since end-2016 to work on three separate deals to co-utilize assets consisting of 2100MHz spectrum, towers, and 2G equipment and facilities. Prior to Mar-18, AIS had paid a net expense totaling Bt2.4bn/quarter to TOT.

   In Jan-18, AIS and TOT officially finalized the contract on the 2100MHz spectrum and have signed the roaming and equipment rental agreements, effective since 1-Mar-18. Following the agreements, the accounting treatment was changed from net basis to gross basis. Therefore, since Mar-18, AIS has recognized the revenue from equipment rental while the cost of roaming is presented under network OPEX. The net financial impact before and after the agreements' effective date does not materially change.

4. The NBTC has published the Information Memorandum (IM) of 1800MHz auction in the Royal Gazette on 7-May-18. Summary of key information is below.

Number of licenses	3 licenses with 2x15MHz each
Starting price	Bt37,457mn / license
N-1 rule	Applied

Penalty if violating auction rules	Bid bond of Bt1,880mn forfeited and fined not less than Bt5,620mn
Terms of payment	-50% within 90 days after auction -25% at end of year two -25% at end of year three
Tentative key dates	Application submission: 15-June Auction date: 4-Aug

Market and Competitive Environment

Competition in mobile market has remained competitive since end-2017. Overall, operators more carefully spent on marketing activities. Postpaid segment continued to be the main focus where handset subsidies and network quality remained key attractions. In prepaid segment, localized marketing campaigns including both handset and pricing were provided in targeted cities. The trend of prepaid-to-postpaid conversion continued to be strong and should still gradually result in industry's ARPU uplift.

For fixed broadband, operators have been more competitive in expanding fibre footprint to acquire and retain customers. Therefore, pricing strategy in the form of higher-speed-at-same-price was used more aggressively while fibre products remained key attractions. Toward the end of the quarter, the industry standard monthly price plan was still maintained at around Bt600 but with a speed range scaled up to 30-50Mbps, while the 100Mbps package is now accessible at below Bt1,000.

1Q18 Operational Summary

In 1Q18, total mobile subscribers remained stable at 40.1mn. Postpaid segment continued to grow robustly underpinned by increasing data consumption and prepaid-to-postpaid conversion trend. As a result, postpaid subscribers rose 227k and currently used 9.2GB of data/month, compared to 5.7GB in 1Q17, while ARPU slightly declined 0.5% QoQ to stand at Bt578. Prepaid segment saw a net loss of 233k, declining but at the lowest QoQ rate since 1Q17. Similar to postpaid, data consumption among prepaid strongly grew to 7GB/month, compared to 3.5GB in 1Q17, with ARPU gradually improving to Bt184 or +0.5% QoQ. On a blended basis, ARPU continued to increase to Bt257 or +0.4% QoQ following the larger postpaid base and VOU growth.

AIS Fibre continued to ramp up with a net addition of 50,600 in 1Q18, compared to 39,700 in 4Q17. Focusing on quality acquisition, AIS Fibre maintained price competitiveness amidst the intense market discounts offered by competitors. As a result, ARPU declined to Bt618 or -2.7% QoQ. With stronger AIS's integrated position, we encouraged customers to be on a convergence plan, which will support the ARPH (average revenue per household) in the long term.

Mobile Business Subscribers	1Q17	2Q17	3Q17	4Q17	1Q18
Postpaid	6,661,400	6,991,500	7,226,800	7,390,100	7,617,100
Prepaid	33,986,400	33,482,000	32,959,500	32,665,400	32,432,900
Total subscribers	**40,647,800**	**40,473,500**	**40,186,300**	**40,055,500**	**40,050,000**
Net additions					
Postpaid	231,800	330,100	235,300	163,300	227,000
Prepaid	-615,200	-504,400	-522,500	-294,100	-232,500
Total net additions	**-383,400**	**-174,300**	**-287,200**	**-130,800**	**-5,500**
ARPU (Baht/sub/month)					
Postpaid	579	593	590	581	578
Prepaid	181	182	182	183	184
Blended	**244**	**251**	**254**	**256**	**257**
MOU (minute/sub/month)					
Postpaid	280	271	264	257	251
Prepaid	190	169	163	151	148
Blended	**205**	**186**	**181**	**170**	**168**
VOU (GB/data sub/month)					
Postpaid	5.7	6.7	7.5	8.3	9.2
Prepaid	3.5	4.1	5.4	6.2	7.0
Blended	**4.0**	**4.7**	**5.9**	**6.7**	**7.6**
Device Penetration					
4G-handset penetration	35%	39%	42%	46%	50%
Fixed Broadband Business					
FBB subscribers	373,900	445,900	481,500	521,200	571,800
FBB net addition	72,400	72,000	35,600	39,700	50,600
FBB ARPU (Baht/user/month)	541	600	637	635	618

1Q18 Financial Summary

Revenue

In 1Q18, AIS had Bt40,933mn of **total revenues** which increased 5.3% YoY from both mobile and fixed broadband. QoQ, total revenues decreased 0.7% mainly due to lower interconnection charge (IC) and device sales revenue.

Service revenue was Bt34,565mn increasing 6.5% YoY and 2.5% QoQ. Excluding revenues from IC and equipment rental, service revenue would have increased 5.7% YoY and 1.6% QoQ, against the FY18 guidance of +7-8% YoY. This was underpinned by both mobile (+3.1% YoY, +0.5% QoQ) and fixed broadband (+85% YoY, +6% QoQ) businesses.

- **Mobile revenue** was Bt31,172mn increasing 3.1% YoY and 0.5% QoQ. Mobile revenue includes airtime, mobile data, international roaming (IR), international direct dialing (IDD), and other digital solutions. The main growth driver was from increasing 4G-user penetration which continued to grow to 50% of total subscribers, up from 35% in 1Q17 and driven by quality 4G network and popularity of video streaming. Consequently, data volume of usage (VOU) grew to 7.6GB/data sub/month, up from 4GB in 1Q17.
- **Fixed broadband revenue** was Bt1,013mn increasing 85% YoY and 6% QoQ due to the expanding subscriber base. Total subscriber was 571,800, a net addition 50,600, up from 39,700 in 4Q17. ARPU dropped to Bt618/month, down from Bt635 in 4Q17, due to competition.
- **Other service revenues** include revenues from CSL, enterprise data services (EDS), and others. In 1Q18, other service revenues were Bt962mn increasing 63% YoY and 51% QoQ, mainly from the consolidation of revenue from CSL.
- **Interconnection charge (IC) and equipment rental** were Bt1,418mn increasing 31% YoY and 28% QoQ. Since Jan-18, the new IC rate of Bt0.19/minute became effective, compared to Bt0.27/minute last year. On the other hand, equipment rental was started in Mar-18 following the official agreement on partnership with TOT (see significant event).

SIM & device sales were Bt6,368mn decreasing 0.6% YoY and 15% QoQ. The drop QoQ was mainly from lower sales of high-tier products. Net margin was -1.1%, compared to -6.7% in 1Q17 and -0.6% in 4Q17.

Cost & Expense

In 1Q18, **cost of service** was Bt17,281mn increasing 6.3% YoY and 1.5% QoQ mainly from the change in accounting treatment on the partnership with TOT.

- **Regulatory fee** was Bt1,475mn, accounting for 4.3% of service revenue. This was a decrease of 19% YoY from the high base of USO fee rate in 1H17 but an increase of 13% QoQ due to the one-time license fee rate adjustment in 4Q17.
- **Depreciation and amortization** was Bt7,941mn increasing 17% YoY due to the depreciation of 4G and fixed broadband networks. QoQ, D&A declined 1.3%.
- **Network OPEX** was Bt5,462mn increasing 8.3% YoY and 9% QoQ mainly due to the change in accounting treatment on the partnership with TOT (see significant event). Excluding all costs paid to TOT, the focus on cost optimization continued to result in controlled network OPEX, which declined 5.9% YoY and 4.8% QoQ.
- **Other costs of service**, which included interconnection cost, were Bt2,403mn decreasing 7.2% YoY and 9.7% QoQ due to the IC rate adjustment and lower prepaid commission, offset by higher costs of content.

SG&A expenses were Bt6,336mn increasing 17% YoY from higher marketing expenses and staff cost but flat QoQ due to softened market expenses.

- **Marketing expenses** were Bt2,250mn increasing 4.3% YoY but decreasing 4.5% QoQ. Marketing expenses to total revenue stood at 5.5%, trending down from an average of 6.3% in 2017 as a consequence of targeted handset campaigns.
- **Admin and others** were Bt4,086mn increasing 25% YoY mainly from higher staff cost and one-time of reverse of handset provision in 1Q17. QoQ, admin and others increased 2.6% from higher staff cost.

Net FX loss was Bt129mn compared to a net gain of Bt150mn and Bt21mn in 1Q17 and 4Q17 from unrealized loss of CAPEX payables.

Finance cost was Bt1,292mn flattish YoY but decreasing 4% QoQ mainly from a debt repayment of Bt9.3bn in the quarter.

Profit

In 1Q18, AIS reported Bt18,905mn of **EBITDA**, increasing 9% YoY and 2.4% QoQ, following operational improvement. This implied a reported **EBITDA margin** of 46.2%. Excluding the impact from new accounting treatment on partnership with TOT, EBITDA margin would have been 46.9%, against the FY18 guidance of 45-47%. **Net profit** was reported at Bt8,037mn, an increase of 4.5% YoY and 4.4% QoQ in spite of rising network D&A. As a result of recurring tax benefits from investments in 2016 and 2017, effective tax rate stood at 17% in 1Q18.

Financial position

Comparing to end-2017, as at Mar-18, total assets were Bt286,765mn increasing 1% from goodwill and investment in joint venture, offset by lower cash. Total liabilities were Bt238,749mn increasing 2.2% mainly from Bt10,614mn dividend payable paid on 26-Apr-18, offset by lower interest-bearing debt, currently standing at Bt101bn. As a result, total equity was Bt48,036mn declining 4.7% from dividend payment. Net debt to EBITDA was 1.2x, down from 1.4x at end-2017, while average cost of debt was maintained at 3.2% per year.

Cash Flow

In 1Q18 AIS generated Bt17,734mn of cash flow from operation (after tax), increasing 28% YoY due to improved EBITDA. Deducting CAPEX of Bt6,467mn, AIS generated Bt11,267mn of free cash flow, compared to Bt2,329mn in 1Q17. Cash paid to CSL's shareholders was Bt3,418mn while investment in the RLP JV caused Bt788mn. In the quarter, AIS paid back Bt9,285mn of borrowings. In summary, an outstanding cash was Bt8,499mn, a decrease of Bt2,151mn from end-2017.

Income statement (Bt mn)	1Q17	4Q17	1Q18	%YoY	%QoQ
Mobile revenue	30,226	31,016	31,172	3.1%	0.5%
Fixed broadband revenue	549	956	1,013	85%	6.0%
Other service revenues	589	639	962	63%	51%
IC and equipment rental	1,087	1,107	1,418	31%	28%
Service revenue	**32,451**	**33,717**	**34,565**	**6.5%**	**2.5%**
SIM and device sales	6,407	7,488	6,368	-0.6%	-15%
Total revenues	**38,858**	**41,205**	**40,933**	**5.3%**	**-0.7%**
Regulatory fee	(1,815)	(1,301)	(1,475)	-19%	13%
Depreciation & Amortization	(6,807)	(8,044)	(7,941)	17%	-1.3%
Network operating expense	(5,043)	(5,012)	(5,462)	8.3%	9.0%
Other costs of services	(2,590)	(2,661)	(2,403)	-7.2%	-9.7%
Cost of service	**(16,256)**	**(17,018)**	**(17,281)**	**6.3%**	**1.5%**
Cost of SIM and device sales	(6,836)	(7,534)	(6,437)	-5.8%	-15%
Total costs of service and sale	**(23,091)**	**(24,552)**	**(23,718)**	**2.7%**	**-3.4%**
Gross profit	**15,767**	**16,653**	**17,215**	**9.2%**	**3.4%**
SG&A	**(5,439)**	**(6,338)**	**(6,336)**	**17%**	**0.0%**
Marketing Expense	(2,157)	(2,357)	(2,250)	4.3%	-4.5%
Admin and others	(3,283)	(3,982)	(4,086)	25%	2.6%
Operating profit	**10,327**	**10,315**	**10,879**	**5.3%**	**5.5%**
Net foreign exchange gain (loss)	150	21	(129)	-186%	-702%
Other income (expense)	176	223	248	41%	11%
Finance cost	(1,293)	(1,346)	(1,292)	0.0%	-4.0%
Income tax	(1,668)	(1,512)	(1,658)	-0.6%	9.6%
Non-controlling interest	0.2	(1.4)	(11)	-6316%	685%
Net profit for the period	**7,693**	**7,701**	**8,037**	**4.5%**	**4.4%**

EBITDA (Bt mn)	1Q17	4Q17	1Q18	%YoY	%QoQ
Operating Profit	10,327	10,315	10,879	5.3%	5.5%
Depreciation & amortization	6,917	8,164	8,079	17%	-1.0%
(Gain) loss on disposals of PPE	160	7	-	-100%	-100%
Management benefit expense	(34)	(24)	(48)	38%	99%
Other financial cost	(23)	(8)	(6)	-75%	-32%
EBITDA	**17,347**	**18,454**	**18,905**	**9.0%**	**2.4%**
Reported EBITDA margin (%)	44.6%	44.8%	46.2%		

Guidance tracking	1Q18	FY18 Guidance
Service revenue (excluding IC & equipment rental) growth	+5.7% YoY	+7-8% YoY
SIM and device sales growth	-0.6% YoY	Decline
SIM and device sales margin	-1.1%	Near zero
EBITDA margin (excluding equipment rental)	46.9%	45-47%
CAPEX	Bt6,467mn	Bt35,000-38,000mn

Financial Position (Bt mn/% to total asset)	4Q17		1Q18	
Cash	10,650	3.7%	8,499	3.0%
ST investment	2,643	0.9%	2,407	0.8%
Trade receivable	14,179	5.0%	15,969	5.6%
Inventories	3,951	1.4%	4,670	1.6%
Others	3,418	1.2%	2,472	0.9%
Current Assets	**34,841**	**12%**	**34,017**	**12%**
Spectrum license	107,524	38%	105,587	37%
Network and PPE	132,579	47%	133,864	47%
Intangible asset	4,499	1.6%	4,857	1.7%
Defer tax asset	2,562	0.9%	2,558	0.9%
Others	2,062	0.7%	5,903	2.1%
Total Assets	**284,067**	**100%**	**286,785**	**100%**
Trade payable	14,686	5.2%	13,334	4.6%
ST loan & CP of LT loans	9,575	3.4%	383	0.1%
Accrued R/S expense	5,362	1.9%	5,362	1.9%
Others	39,977	14%	54,937	19%
Current Liabilities	**69,601**	**25%**	**74,015**	**26%**
Debenture & LT loans	100,102	35%	100,016	35%
Others	63,938	23%	64,719	23%
Total Liabilities	**233,641**	**82%**	**238,749**	**83%**
Retained earnings	24,675	8.7%	22,098	7.7%
Others	25,752	9.1%	25,938	9.0%
Total Equity	**50,427**	**18%**	**48,036**	**17%**

Key Financial Ratio	1Q17	4Q17	1Q18
Interest-bearing debt to equity (times)	2.5	2.2	2.1
Net debt to equity (times)	2.2	1.9	1.9
Net debt to EBITDA (times)	1.2	1.4	1.2
Current Ratio (times)	0.4	0.5	0.5
Interest Coverage (times)	14	13	13
Debt Service Coverage Ratio (times)	7.3	4.4	17
Return on Equity	75%	65%	65%

Figures from P&L are annualized YTD.

Debt Repayment Schedule			License payment schedule	
Bt mn	**Debenture**	**Loan**	**1800MHz**	**900MHz**
2018	-	2,799	10,247	4,020
2019	7,789	3,364	-	4,020
2020	-	24,829	-	59,574
2021	1,776	12,079	-	-
2022	-	13,290	-	-
2023	7,820	6,400	-	-
2024	6,638	-	-	-
2025	-	-	-	-
2026	7,180	-	-	-
2027	9,000	-	-	-

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

Source and Use of Fund: 1Q18			(Bt mn)
Source of Fund		**Use of Fund**	
Operating cash flow	18,086	CAPEX & Fixed asset	6,467
Sale of equipment	310	Income tax paid	351
Interest received	55	Finance cost & financial lease paid	292
Cash decreased	2,151	Repayment of LT borrowings	2,585
		Repayment of ST borrowings, net	6,700
		Investment in joint venture and others	789
		Cash paid for business acquisition	3,418
Total	**20,602**	**Total**	**20,602**

2018 MANAGEMENT OUTLOOK & STRATEGY

Service revenue (excluding IC)	• +7-8%YoY (2% of which comes from CSL)
Handset sales	• Decline and make near-zero margin
Consolidated EBITDA margin	• 45-47%
CAPEX	• Bt35-38bn
Dividend policy	• Minimum 70% of net profit

Strong mobile data growth continues with improving network perception

In 2018 mobile data consumption is expected to continue its robust growth underpinned by increasing 4G usage on video content and social media as well as overall improving economic environment. After two years of 4G launch, network and brand perception of AIS perceived by the market have been improving steadily. This shall continue in 2018 with a focus to acquire quality data users in both postpaid and prepaid. In addition to leading in network advancement, attractive handset bundling will remain an important tool for both customer acquisition and retention.

Expand fixed broadband into major cities and target stronger subscriber addition

The brand "AIS Fibre" continues to gain popularity since the service launch in 2015 and has achieved 6% of market share. In 2018, AIS Fibre aims to expand the service further from the current 50 cities to promptly serve the demand for fibre technology. We maintain our goal to become a significant player in 2020 while placing an emphasis on quality acquisition and fixed-mobile convergence proposition targeting at revenue per household.

Grow in the enterprise market with the integration of CSL

Currently, AWN, AIS's subsidiary, has acquired all tendered shares of CSL amounting to 81.47% of total CSL outstanding shares. The acquisition is part of AIS's long-term strategy in the enterprise business in which we focus on Cloud as well as ICT solutions. Potential synergies are present in a new source of revenue leveraging upon CSL's expertise and expanded subscriber base as well as in the cost benefit from co-used infrastructures. The synergies will be gradually realized following the integration plan.

Capture EBITDA from both revenue growth and cost efficiency

In summary, we expect the service revenue (excluding IC) to grow 7-8% YoY. The 2% growth, out of 7-8%, will come from consolidating 100% of CSL's revenue. Also, we continue to capture the value generated from our ongoing cost efficiency program. As a result, we expect EBITDA margin to expand into a range of 45-47%. Total cash CAPEX (excluding spectrum payments) is expected to be in a range of Bt35-38bn for both mobile and fixed broadband to respond to 4G growth and expanding fibre last miles.

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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