

3Q22 MD&A

Advanced Info Service Plc.

Executive Summary

3Q22 Thai economy continued a slow recovery from rising inflation.

Consumer purchasing power was limited following rising energy price and inflation. The increased cost of living put pressure on consumers to spend wisely and reduced costs where required. The economic recovery benefited tourist-related industries and growth remained sporadically in the affluent segment with higher purchasing power. Overall, AIS reported core service revenue of Bt33,130mn, improved 1.0% YoY but slightly dropped -0.5% QoQ, driven by growth in fixed broadband and non-mobile enterprise business with a growth of the mobile post-paid segment.

Mobile 5G customers grew significantly with more affordable devices, but competition and inflation continued to pressure the top line.

Mobile revenue reported Bt29,107mn, a slight decline -0.3% YoY and -0.4%QoQ. The key effect was prominent in the prepaid segment which had a higher impact from the decline in domestic purchasing power leading to lower prepaid usage despite an increase in tourism-related income. Competition remained intense with the market continued selling unlimited data packages driving the ARPU downward. Nonetheless, our 5G network continued to expand with >26k BTS and reached 85% of the population with our aim to deliver a superior customer experience. Our all-out effort drove 5G adoption to achieve 5G subscribers in Sep-22 at 5.5mn or 12% of total subscribers, a high growth of 41% QoQ. The ARPU uplift of 5G subscribers stayed about 10-15%.

FBB and Enterprise business remained a revenue growth engine through economic recovery.

Broadband revenue maintained its growth momentum with an increased subscriber base. The revenue recorded at Bt2,541mn, increased 16% YoY and 2.2% QoQ. AIS strives to deliver excellent service and quality with a focus on fixed-mobile-contents convergence (FMC) to deliver a superior experience for our customers amid the price-competitive environment. Revenue from non-mobile enterprise business recorded Bt1,271mn, grew 17% YoY following the demand of digital transformation in the enterprise sector.

Soften EBITDA from pressures on cost.

EBITDA in 3Q22 was Bt22,091mn dropped -3.5%YoY mostly from resumed marketing spending and surging network OPEX due to higher utility price and network expansion. It dropped -1.2% QoQ due to core service revenue decline while the cost of service continued to rise from inflation which affects electricity cost. Following the declined EBITDA, AIS reported net profit of Bt6,032 mn, -5.4% YoY and -4.3% QoQ.

FY22 guidance maintained.

For 9M22, AIS performance was in-line with the guidance. The revenue expects to grow with the seasonality trend in the fourth quarter. A slight decline in EBITDA (-2.4% YoY) would continue from pressure in cost. AIS FY22 CAPEX will remain approx. 30bn to ensure that we continue to invest adequately for 5G network quality leadership.

Market and Competitive Environment

The Thai economy in 3Q22 continued to face a slow recovery from macroeconomic factors. While the tourist sector improved from border reopening in more countries, accelerated inflation has pressured private consumption, especially on the cost of living in the low-to-middle income consumer group.

The mobile competition landscape in 3Q22 persisted at the same level as the previous quarter across all services. Despite AIS attempting to remove the unlimited voice offering from their entry-level packages in order to uplift ARPU, the inflation which limited a large base of prepaid customers' spending put the competition back in place with operators keeping the low-price plans afloat to attract more subscribers or defend their market share. The postpaid segment grew with the new devices launched in Q3. While the market promoted only 5G packages with more affordable 5G devices, 5G users grew significantly.

The home broadband market continued its fierce competition in response to economic challenges despite rising demand for good quality network at home. Operators are still offering low-price packages starting at 299 baht with some operators offering data sim as a bundle product with broadband packages to serve lower consumer purchasing power and grow the business.

Enterprise business was the key growth area for many operators which captured the digitization trends in businesses and consumers. All industries require better efficiency and connectivity. Smart solutions were sought after to be embedded and integrated into the product offerings for the customers. Nonetheless, enterprise customers also faced challenges from macroeconomic factors in decisions between investments or cost controls.

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3Q22 Operational Summary

3Q22 mobile subscribers increased 0.3% QoQ and reached 45.6mn, representing a total net addition of 157k subscribers in this quarter. Prepaid subscribers decreased 138K, or -0.4% QoQ, from a contraction of consumer purchasing power especially in the low-to-mid income segment with increased churn rate after high tourist sims sales in 2Q22. Postpaid gained new subscribers of 296k, increased 2.5% QoQ due to higher handset bundling sales with 5G packages especially in affluent segment. The blended ARPU dropped -1.6% QoQ to Bt212 pressured by consumer behavior amid inflation and intense price competition. At the end of 3Q22, 5G subscribers increased 41% QoQ to stand at 5.5mn from efforts to encourage 5G adoption through affordable 5G packages and device bundling.

AIS Fibre continued surging and closed 3Q22 at 2.1mn with net increase of 115k subscribers, a strong increase of 25% YoY. The increase was due to an expansion of service coverage to more suburb areas as well as efforts to reduce the churn rate from the strategy to offer more varieties of packages and services. However, price competition remained intense as operators continued to offer a low-price plans in the market for new acquisitions, causing a downward trend in ARPU falling to Bt418 or -3.4% QoQ.

Mobile Business Subscribers	3Q21	2Q22	3Q22	%YoY	%QoQ
Postpaid	11,275,700	12,074,900	12,371,000	9.7%	2.5%
Prepaid	32,381,600	33,429,500	33,290,700	2.8%	-0.4%
Total subscribers	43,657,300	45,504,400	45,661,700	4.6%	0.3%
Net additions					
Postpaid	289,200	314,800	296,100	2.4%	-5.9%
Prepaid	134,400	566,300	(138,800)	-203%	-125%
Total net additions	423,600	881,100	157,300	-63%	-82%
ARPU (Baht/sub/month)					
Postpaid	470	460	453	-3.7%	-1.6%
Prepaid	138	127	123	-11%	-2.9%
Blended	223	215	212	-5.2%	-1.6%
MOU (minute/sub/month)					
Postpaid	182	164	155	-15%	-5.5%
Prepaid	67	63	58	-13%	-7.9%
Blended	94	87	82	-13%	-5.7%
VOU (GB/data sub/month)					
Postpaid	26.2	30.2	31.9	22%	5.6%
Prepaid	20.9	26.8	28.3	35%	5.6%
Blended	22.6	28.0	29.6	31%	5.7%
5G subscription					
5G subscription	1,500,000	3,900,000	5,500,000	267%	41.0%
Fixed Broadband Business					
FBB subscribers	1,668,900	1,971,400	2,085,900	25%	5.8%
FBB net addition	133,000	106,300	114,500	-14%	7.7%
FBB ARPU (Baht/user/month)	455	432	418	-8.3%	-3.4%

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9M22 Snapshot

For 9M22, Core service revenue was recorded at 99,193 million, an increase of 1.7% YoY, from growth in broadband and non-mobile enterprise revenues. High competition and rising inflation put pressure on mobile revenue resulting in a -0.5% YoY drop. The FBB business continued to be a key engine of growth through accelerated expansion of network coverage and efforts to acquire new subscribers by delivering excellent service quality and bundling with other services, growing the revenue by 21% YoY. Enterprise and other service revenue driven by digital transformation in the Thai business sector, especially for Cloud products and ICT solutions, increased 21% YoY.

The cost of services rose 2.3% YoY, mainly due to the increase in network OPEX from surging energy and utility prices since 2Q22. D&A costs showed a slight decline in depreciation cost (-0.1% YoY) from the fully amortization of 3G network asset offsetting 5G investment. AIS continued launching more campaigns following economic recovery and border reopening resulting in an increase in marketing expenses by 20% YoY. As a result, SG&A expenses increased 6.2% YoY.

9M22 EBITDA declined -2.4% YoY as a result of inflation and competition which impacted mobile revenue growth and pressure from rising network OPEX and marketing expense. Net profit reported at Bt18,648mn, declined -7.0% YoY from one-time other income occurred in previous year.

3Q22 Financial Summary

Revenue

In 3Q22, AIS generated **total revenue** of Bt46,234mn, increasing 9.1% YoY and 2.1% QoQ due to high volume sales of the new iPhone14 which was launched earlier by one quarter this year together with continued business momentum in broadband business.

Core service revenue (excluding IC and NT partnership) recorded at Bt33,130mn, improved 1.0% YoY from a strong growth in fixed broadband with a slight increase in non-mobile enterprise business. However, the core service revenue decreased -0.5% QoQ from mobile business that was hit from inflation that eroded purchasing power in price sensitive customers while the competition remained intense.

- **Mobile revenue** was at Bt29,107mn, decreased -0.3% YoY and -0.4% QoQ from competition and inflation which affected the mass customer segment. This was partially offset by an increase in IR/IDD revenue from the expanded border reopening in more countries.
- **Fixed broadband revenue** was at Bt2,541mn, increased 16% YoY and 2.2% QoQ from continued gaining subscribers and market share. Nonetheless, ARPU still decline due to low-price packages for new customers.
- **Enterprise non-mobile revenue & others** was at Bt1,481mn, improved 5.6% YoY driven by demand for Cloud service and ICT solutions, and decreased -6.7% QoQ from a large deal closed in 2Q related to Cloud product.

Revenue from interconnection charge (IC) and NT partnership was at Bt3,171mn, dropped -6.9% YoY and -0.7% QoQ due to lower network traffic with NT.

SIM & Device sales reported at Bt9,934mn, improved 61% YoY from a lower base in 3Q21 as the new iPhone14 was launched earlier by one quarter this year and 13% QoQ. This also helped improve sales margin from 0.2% in 2Q22 to 1.0% in 3Q22 as the increased sales came from higher value product with better package bundling prices.

Cost & Expense

In 3Q22, the **cost of service** was at Bt21,863mn, increased 2.0% YoY and 1.1% QoQ mainly from the increase in network OPEX due to rising of utility cost.

- **Regulatory fee** was at Bt1,380mn, increased 1.9% YoY and 0.4% QoQ aligned with an increase in core service revenue. The regulatory fee as % of core service revenue was maintained at 4.2%, the same level as in 2Q22.
- **Depreciation & amortization** was Bt12,822mn, while 5G network continued rolling out, it decreased -1.8% YoY due fully depreciated asset in some part of 3G network equipment and remain flat QoQ.
- **Network OPEX & NT partnership cost** was at Bt5,156mn, increased 10.9%YoY and 6.8% QoQ due to the increased network utility cost following the rising energy price and higher number of base stations from 5G rollout.
- **Other costs of service** recorded at Bt2,505mn, increased 5.4% YoY due to content cost following the acquiring new content and dropped -5.4% QoQ from a decline in cost of Cloud in line with lower Cloud sales in 3Q22.

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SG&A expenses recorded Bt5,633mn, increased 7.6% YoY from high marketing spending compared to low base in 3Q21 but decreased -1.0% QoQ from cost optimization.

- **Marketing expenses** at Bt1,821mn, increased 27% YoY from last year's low base and -1.0% QoQ from marketing cost optimization.
- **Admin & other expenses** at Bt3,812mn, increased 0.2%YoY and declined -1.0% QoQ mainly from cost control initiatives.

Net FX loss was lower at Bt -231mn in 3Q22, compared to FX loss of Bt-335mn last quarter. AIS has the policy to mitigate the currency risk using hedging instruments where applicable.

Finance cost was at Bt1,294mn, decreased -8.5% YoY and -2.2% QoQ from lower interest-bearing debt. The average cost of borrowing slightly decreased from 2.7% to 2.6%.

Income Tax was at Bt1,410mn, increased 0.8% YoY and decreased -3.9% QoQ, following the decline in profit before tax. The effective tax rate was 18.9% increasing from 18.0% in 3Q21 due to expiring tax benefits and remain steady from 2Q22.

Profit

EBITDA In 3Q22 was at Bt22,091mn, decreased -1.2% QoQ from network OPEX and decreased -3.5% YoY from higher marketing expenses.

EBITDA margin was at 48%, a decline compared to 49% in 2Q22 and 54% in 3Q21 mainly due to an increased mix of handset sales to total revenue.

The reported net profit was at Bt6,032mn, decreased -5.4% YoY and -4.3% QoQ pressured by lower EBITDA in 3Q22 partially offset by less unrealized foreign exchange loss and lower finance cost.

Financial position

Total assets as of the ending quarter declined -3.0% to Bt345,369mn, compared to the end of 2021. Current assets were at Bt37,885mn, which increased 6.5% from higher handset inventories. Total non-current assets were at Bt307,485mn, decreased -4.1% due to the amortization of spectrum licenses, Network and PPE, and lower right-of-use assets.

Total liabilities closed at Bt267,156mn, declined -4.6% from the end of 2021 mainly from the Bt12,610mn dividend payable in 1Q22. Interest-bearing debt stood at Bt95,692mn, increased by 9% from an increase in short-term loans. Net debt to EBITDA (excluding lease liabilities and license payable) remained healthy at 1.0x. Total equity was at Bt78,214mn, which declined -4.4% due to dividend payment.

Cash flow

In 9M22, cash flow from operation (after tax) reported at Bt57,141mn, decreased -12% YoY following a decreased in EBITDA. Cash outflow for network investment was at Bt22,804mn and at Bt11,039mn for spectrum license. As a result, free cash flow for 9M22 was at Bt14,068mn (OCF less CAPEX, spectrum license and lease liabilities paid). In total, net cash decreased by -Bt3,381mn resulting in an outstanding cash of Bt9,358mn at the end of Sep-22.

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Income statement (Bt mn)	3Q21	2Q22	3Q22	%YoY	%QoQ	9M21	9M22	%YoY
Mobile revenue	29,204	29,217	29,107	-0.3%	-0.4%	87,653	87,171	-0.5%
Fixed broadband revenues	2,189	2,487	2,541	16%	2.2%	6,146	7,466	21%
Other service revenues	1,403	1,588	1,481	5.6%	-6.7%	3,776	4,556	21%
Core service revenue	32,797	33,293	33,130	1.0%	-0.5%	97,575	99,193	1.7%
IC and NT partnership	3,407	3,193	3,171	-6.9%	-0.7%	10,446	9,603	-8.1%
Service revenue	36,204	36,486	36,301	0.3%	-0.5%	108,020	108,796	0.7%
SIM and device sales	6,173	8,786	9,934	61%	13%	22,974	27,990	22%
Total revenues	42,377	45,273	46,234	9.1%	2.1%	130,995	136,786	4.4%
Regulatory fee	1,354	1,374	1,380	1.9%	0.4%	4,062	4,111	1.2%
Depreciation & Amortization	13,055	12,783	12,822	-1.8%	0.3%	38,615	38,574	-0.1%
Network OPEX and NT partnership	4,649	4,825	5,156	11%	6.8%	14,320	14,797	3.3%
Other costs of services	2,377	2,648	2,505	5.4%	-5.4%	6,577	7,548	15%
Cost of service	21,435	21,630	21,863	2.0%	1.1%	63,574	65,030	2.3%
Cost of SIM and device sales	6,205	8,769	9,833	58%	12%	22,756	27,743	22%
Total costs of service and sale	27,640	30,399	31,696	15%	4.3%	86,330	92,773	7.5%
Gross profit	14,737	14,874	14,538	-1.3%	-2.3%	44,665	44,013	-1.5%
SG&A	5,236	5,690	5,633	7.6%	-1.0%	15,875	16,861	6.2%
Marketing Expense	1,430	1,840	1,821	27%	-1.0%	4,310	5,153	20%
Admin and others	3,805	3,850	3,812	0.2%	-1.0%	11,565	11,708	1.2%
Operating profit	9,501	9,184	8,905	-6.3%	-3%	28,790	27,153	-5.7%
Net foreign exchange gain (loss)	-428	-335	-231	-46%	-31%	-808	-608	-25%
Other income (expense)	115	247	62	-46%	-75%	786	462	-41%
Finance cost	1,414	1,323	1,294	-8.5%	-2.2%	4,260	3,936	-7.6%
Income tax	1,399	1,467	1,410	0.8%	-3.9%	4,447	4,420	-0.6%
Non-controlling interest	-0.6	-0.6	-0.7	19%	18%	-2	-2	18%
Net profit for the period	6,374	6,305	6,032	-5.4%	-4.3%	20,059	18,648	-7.0%

EBITDA (Bt mn)	3Q21	2Q22	3Q22	%YoY	%QoQ	9M21	9M22	%YoY
Operating Profit	9,501	9,184	8,905	-6%	-3.0%	28,790	27,153	-5.7%
Depreciation & amortization	13,442	13,192	13,222	-1.6%	0.2%	39,828	39,784	-0.1%
(Gain) loss on disposals of PPE	-12	11	-533	4,307%	-5,006%	-5	-508	10,629%
Impairment loss of asset	—	—	536	100%	100%	—	536	100%
Management benefit expense	-37	-28	-36	-5%	28%	-120	-104	-13%
Other financial cost	-6	-6	-4	-34%	-32%	-19	-13	-31%
EBITDA	22,888	22,353	22,091	-3.5%	-1.2%	68,475	66,848	-2.4%
EBITDA margin (%)	54 %	49 %	48 %			52 %	49 %	

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Financial Position (Bt mn%to total asset)	4Q21		3Q22	
Cash	12,739	3.6%	9,358	2.7%
ST investment	1,392	0.4%	1,035	0.3%
Trade receivable	15,219	4.3%	16,765	4.9%
Inventories	2,104	0.6%	5,006	1.4%
Others	4,111	1.2%	5,720	1.7%
Current Assets	35,566	10%	37,885	11%
Spectrum license	131,775	37%	122,792	36%
Network and PPE	117,844	33%	113,989	33%
Right of use	50,574	14%	44,759	13%
Intangible asset	10,864	3%	15,940	4.6%
Defer tax asset	4,236	1.2%	4,124	1.2%
Others	5,363	1.5%	5,880	1.7%
Total Assets	356,222	100.0%	345,369	100%
Trade payable	26,745	7.5%	29,677	8.6%
ST loan & CP of LT loans	14,132	4%	31,375	9.1%
CP of lease liabilities	10,537	3%	11,308	3.3%
Accrued R/S expense	3,361	0.9%	3,361	1%
CP of spectrum payable	10,903	3.1%	10,830	3.1%
Others	26,190	7.4%	23,599	6.8%
Current Liabilities	91,868	26%	110,150	32%
Debenture & LT loans	73,697	21%	64,316	19%
LT lease liabilities	40,597	11%	34,606	10%
Spectrum payable	61,416	17%	51,762	15%
Other	6,819	1.9%	6,321	1.8%
Total Liabilities	274,397	77%	267,156	77%
Retained earnings	57,103	16%	52,880	15%
Others	24,722	6.9%	25,333	7.3%
Total Equity	81,825	23%	78,214	23%

Key Financial Ratio	3Q21	2Q22	3Q22
Interest-bearing debt to equity (times)	1.2	1.1	1.2
Net debt to equity (times)	1.1	0.9	1.1
Net debt to EBITDA (times)	0.9	0.9	1.0
Net debt & lease liability & spectrum license payable to EBITDA	2.3	2.2	2.2
Current Ratio (times)	0.4	0.4	0.3
Interest Coverage (times)	15.7	15.7	14.8
Debt Service Coverage Ratio (times)	4.2	3.2	2.1
Return on Equity	35 %	32 %	31 %

Figures from P&L are annualized YTD.

	Debt Repayment Schedule		License payment schedule			
	Bt mn	Debenture	Loan	900MHz	2600MH	700MHz
3M22			16,287			
2023	7,820		7,689	7,565		3,473
2024	6,638		7,432	7,565		3,473
2025			9,102	7,565	2,934	3,473
2026	8,180		6,853		2,934	3,473
2027	9,000		6,110		2,934	3,473
2028	2,500		5,130		2,934	3,473
2029					2,934	3,473
2030					2,934	3,473
2031	3,000					

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

Source and Use of Fund: 9M22 (Bt.mn)				
	Source of fund		Use of fund	
Operating cash flow	62,976		Dividend paid	22,871
Sale of equipment	123		CAPEX & Fixed assets	22,804
Interest received	87		Spectrum license	11,039
Dividend received & Other	28		Lease liability payments	9,229
			Income tax and Finance cost paid	8,120
Cash decrease	3,381			
Total	74,440			74,440

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2022 Guidance

Core service revenue	Low-single digit growth
EBITDA	Flat to slightly decline
CAPEX (exclude spectrum)	Approx. Bt30bn

Core service revenue is expected to grow at low-single digit due to economic fluctuation.

Thai economy outlook for the rest of the year expects to remain fragile despite a sign of recovery in 1H22 due to inflation and continuous hike in energy price globally from the impact of Russian invasion of Ukraine which magnified the slowdown in the global economy. Global recession is foreseen to be a key to slow down the growth in Thai economic recovery, private consumption, and purchasing powers particularly in low-mid income segment. The lower purchasing power might be the key pressure on industry ARPU. However, our focus remains unchanged in building our foundation of 'Cognitive Tech-Co' and strive to deliver superior service excellence for our customers in all segments.

- **Mobile revenue remains under pressure** – Heighten inflation risk is a key impact in raising cautious spending behavior and adversely influences low-mid income customers to turn to a cheaper package. AIS aims to lead with superior 5G user experience to capture high value segment to prevent the compete with price directly to uplift ARPU. We continue our focus on enhancing network quality, increase customer engagement, and delivering effective retention programs.
- **Fixed broadband maintains the growth momentum to outpace the industry growth** – Despite lower demands from less requirement to work from home, AIS will continue to increase penetration in new areas that are underserved and deliver superior service quality. We maintain our execution to deepening household penetration with Fix-Mobile-Content Convergence (FMC) strategy. Our aim is maintained to be a significant player with target milestone of 2.2mn fiber customer in 2022.
- **Enterprise business will continue delivering double digit growth** – It is our focus on strategic partnership and building collaborations for our customers to help them adapt with digital transformation trends and grow together with AIS.

EBITDA is expected in flat to slightly decline

AIS continues driving our revenue growth amidst the uncertainty in all business segments but faced challenges in the bottom line due to an impact from the increased cost. AIS takes efforts in executing cost optimization and efficiency improvement, but downside risk is inherited in the rising utilities costs and required spending to grow our business per plan in this challenging competitive environment. Cost of contents invested in 2H21 to build our value-added services will remain for the rest of the year. Higher marketing cost will be incurred from resumed business promotions and activities compared to a low base in 2021 due to several lockdowns. We launch campaigns to acquire and retain customers and will continue to do so for the rest of the year. As a result, EBITDA is expected to be flat to slightly decline.

Continued investing in growth opportunities

CAPEX is expected approximately Bt30bn. AIS aims to maintain our 5G network leadership in Thailand, both in coverage and capacity, following the accelerating demand in traffic of 4G/5G data using which continuously increases and aims to provide a superior customer experience by leveraging our 5G best-in-class technology. The 5G network expansion will be deployed on a comprehensive spectrum portfolio, including low and mid-band as well as millimeter-wave band spectrum, to deliver the best quality in selective areas with a high penetration of 5G devices.

Dividend policy at minimum 70% of net profit

AIS is committed to driving long-term growth while delivering returns to shareholders. We place importance on maintaining strong financial health and flexibility to pursue future growth. Our dividend policy is to pay a minimum of 70% of net profit. By preserving cash flow, we ensure that we have the financial flexibility to lead, compete, and pursue growth prospects 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 and investment plan including any other future obligations of the Company and/or subsidiaries. Such dividends shall not adversely affect the Company and subsidiaries' ongoing operations.