

AIS **DIGITAL** INTELLIGENCE **ANNUAL** **REPORT 2018**

Annual Report 2018

Advanced Info Service Public Company Limited

CONTENT

Company Overview

- 006 Message from chairman of the board and CEO
- 010 Operational highlight
- 011 Financial highlight
- 013 Key development towards sustainable growth
- 015 Awards and recognition

Our Business

- 017 Business overview
- 019 Top ten shareholders
- 021 Business structure of AIS group
- 022 Structure of INTUCH group
- 023 Message from the chairman of executive committee
- 024 Revenue structure & products and services
- 031 Industry competition 2018 & outlook 2019
- 034 Business direction over the next 3-5 years
- 037 Risk factors

Corporate governance

- 044** Profile of the directors and management
- 052** Directors and management's shareholding in AIS and subsidiaries
- 053** Message from chairman of nomination and governance committee
- 054** Message from chairman of leadership development and compensation committee
- 055** Management structure
- 072** Corporate governance
- 088** Relationship with investors
- 089** Audit committee report 2018
- 093** Risk management, internal control, internal audit
- 106** Message from sustainable development committee
- 107** Business sustainability
- 108** Related transactions

Financial report

- 131** Board of directors' responsibility for financial reporting
- 132** Report of the independent certified public accountants
- 137** Financial statements
- 247** Management discussion and analysis

Additional information

- 260** General information and other significant information

COMPANY OVERVIEW

VISION

To become the most-admired Digital Life Service Provider in Thailand.

MISSION

To enhance people's lives through Digital Services.

- Deliver superior products and services to enrich people's daily lives and to improve enterprise capabilities and efficiency.
- Enhance customer intimacy through the best customer experience.
- Drive intrapreneurship and employees' professionalism, and promote a positive, lively and agile work culture.
- Build win-win growth to all stakeholders.



Somchai Lertsutiwong

Somchai Lertsutiwong
Chief Executive Officer

Kan Trakulhoon
Chairman of the Board of Directors

AS THE LEADING TELECOMMUNICATIONS COMPANY WITH OVER 41 MILLION CUSTOMERS ACROSS THE COUNTRY, AIS HAS BEEN CONTINUALLY LAYING STRONG FOUNDATION OF DIGITAL TRANSFORMATION

Dear Shareholders

Our vision to become the leading digital life service provider

2018 was a challenging year for AIS. The market growth of 3–4% was lower than the previous year, in large part due to the increasing competition and continued investment into networks and spectrum licenses. In addition to the technological challenges or digital disruption which encourage new approaches to business models, there were also innovative products which enable more consumers to be reached. In our position as the leading telecommunications company with over 41 million customers across the country, AIS has been continually laying strong foundation Digital Transformation for the last four years. AIS follows an organizational strategy which allows for more flexibility, by improving our organizational and employee processes. We intend to maintain our leadership in our core mobile business, continue expanding customer base of fixed broadband business, while finding new avenues of digital services to create profit. This is to strengthen our position as the leading digital life service provider and to develop innovative products and services which will benefit the Thai people.

Investment in the 4G network to keep us as the market leader of our core product

In the last year, the Thai telecommunications industry has completed the transition from a concessions system to a licensing system, which shall enable operators to invest more properly in the future of telecommunications in Thailand. As for AIS, continued quality of product and customer service remains the foundation of our service and was an important factor in our decision to win the bid for the 1800MHz frequency, which allows us to provide our customers with the widest spectrum bandwidth in the entire industry. Our continued investments to enhance the quality of our 4G network means that our customers can use the internet on their phone almost anywhere, with a 4G usability ratio of over 59% and more than 11GB of data consumed per person. Furthermore, our customers' usage of our service has become more diverse, from no longer just using chat applications, to viewing content, making financial transactions on their phones, and trading goods through the various rising e-commerce platforms. AIS helps Thai people and the Thai economy by enabling quick and easy access to data and transactions to be processed on phones.

Developing new innovations in preparation for the 5G era

The growth cycle of 4G technology will continue for many more years, due to the increasing use of smartphones and the ever-important role of social media in our daily lives. However, in the next 2–3 years, Thailand will begin to use 5G technology, which will increase the capability of our infrastructure and pave the way for new ultramodern services, such as auto-driven cars, hologram media technology, and voice-controlled home devices. Over the last year, AIS has invested in our NB-IoT network and begun to test our services with many different enterprises. As a leader in infrastructure development, AIS realizes the importance for Thai companies to be aware of technological advancements. Our mission is to develop product innovations creatively and improve the skill of our staff in order to ensure that our services respond to the needs of a growing customer base. We will achieve this by working together with partners in research, technology, and service to become a center of information to be passed on to companies in other industries that wish to keep up to date with modern technology. This is performed parallel with AIS working closely and building a shared understanding with the state and the NBTC to ensure the regulation in the industry is fair and clear and will result in the maximum benefit for Thai society and the Thai economy.

Growth in the fixed broadband market and developing a digital platform for the future

Apart from maintaining our position as the leading mobile phone network provider, the combination of growth in fixed broadband under the brand AIS Fibre and the development of digital services is a key strategy for us to create new services for and relationships with our customers. AIS entering the fixed broadband market has pushed the industry to expand fibre optic networks to home internet users, which gives customers increased usability when accessing content. While the price point for the fixed broadband market is very competitive, AIS Fibre has grown by 42% in revenue in the last year, with more than 730,500 customers, and continues to underpin our goal to become a major player in this market. Our fibre broadband service not only improves household internet quality, but also allows customers to access other AIS's services, such as our mobile service, video platform, or SmartHome service in the future, which will create a more connected and deeper relationship between AIS and our customers. As well as the aforementioned investments in network infrastructure, AIS has invested Baht 5 billion into two important businesses over the last year. Firstly, the acquisition of CS Loxinfo which will allow us to offer cloud and other ICT solutions to corporate companies, and secondly the investment in the Rabbit LINE Pay Joint Venture in order to expand the capabilities of mobile money. This is another key element of AIS's strategy of seeking additional revenues and will allow for rapid growth in other markets by working closely with the leading companies in these other sectors.

Continued good governance and our responsibility to our investors

A key challenge for the coming year will be adapting to the continually changing digital age, with new types of businesses forming quickly, and endless opportunities that also bring increased risk for every company. As such, strategies on effective marketing are essential for us to maintain our foothold as the market leader as well as increasing our growth on the back of new opportunities. It is important to ensure that we have the appropriate cash-flow and overall capital to allow investment into our long-term future. AIS remains committed to operating our business with good governance by considering our stakeholders as a result of our business choices. This includes our individual

customers, corporate clients, the communities in which we provide our networks, as well as partners who grow together with us. That said, AIS is determined to focus on adding value to the business sustainability considering economic, social, and environmental impacts. We have completed our 7th annual sustainability report, in which you can read further detail of the operating concepts. All in all, AIS has reported to make a net profit of Baht 29,682 million over the past year, or accounted for about 90% of the industry's profit, with shareholder dividends maintained at no less than 70%. As such, the board of directors has decided to pay a dividend to AIS's shareholders Baht 21,049 million for the year 2018.

Warm regards,



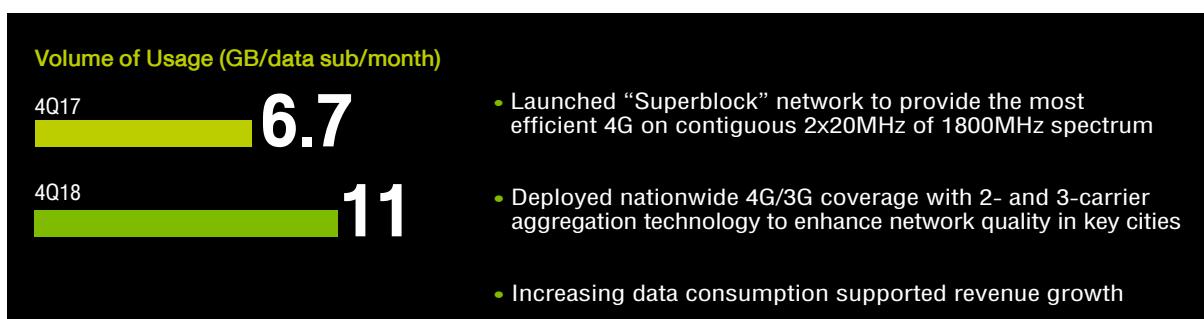
Kan Trakulhoon
Chairman of the Board of Directors



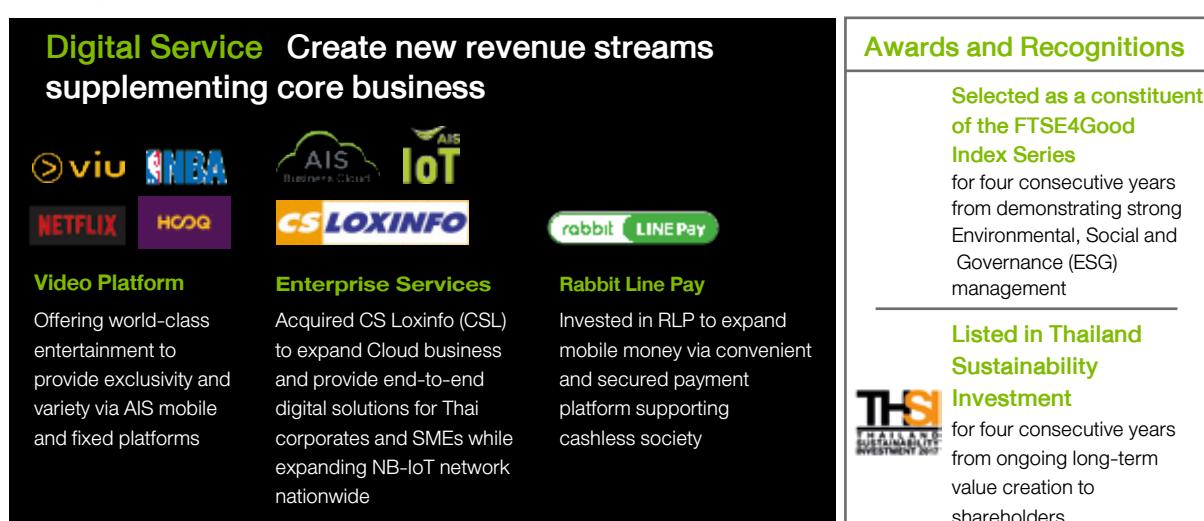
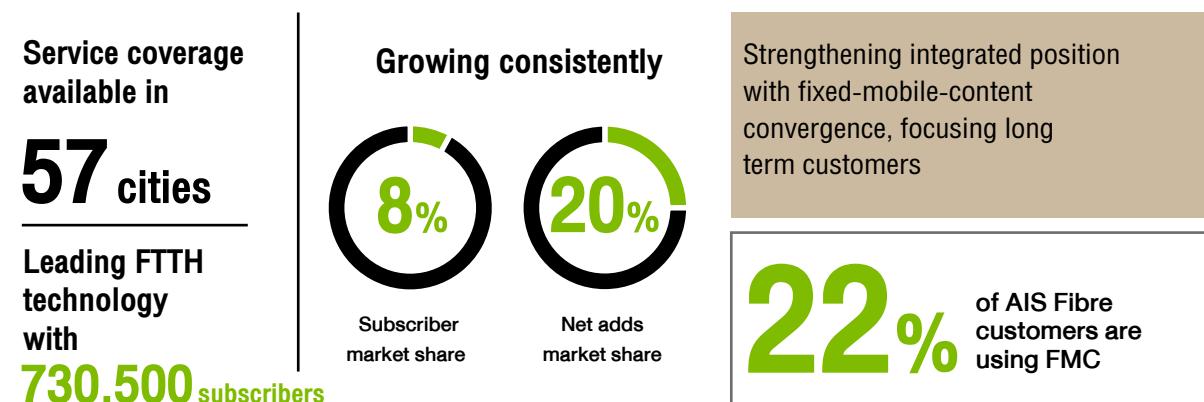
Somchai Lertsutiwong
Chief Executive Officer

OPERATIONAL HIGHLIGHTS

Mobile Rolled out advanced technology to strengthen mobile leadership position



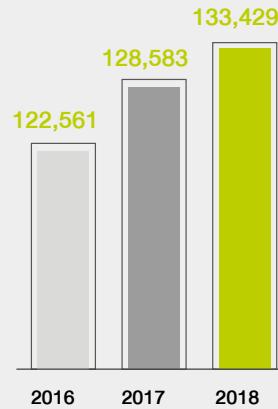
Fixed Broadband Focused on quality acquisition with convergence service



FINANCIAL HIGHLIGHTS

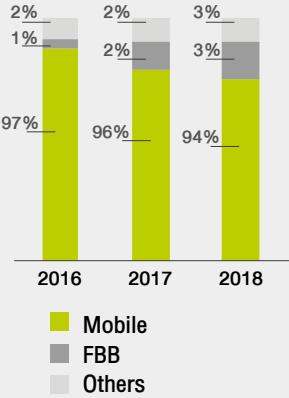
Service revenue (Bt mn)

Service revenue continued to grow 3.8% YoY from both mobile and fixed broadband



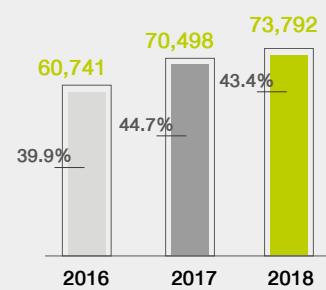
Breakdown of service revenue

4G consumption and FTTH subscriptions have been key revenue drivers



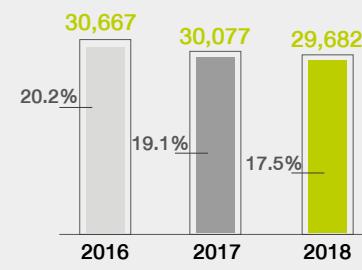
EBITDA (Bt mn) and margin (%)

EBITDA improved 4.7% YoY following revenue growth and efficient cost control.



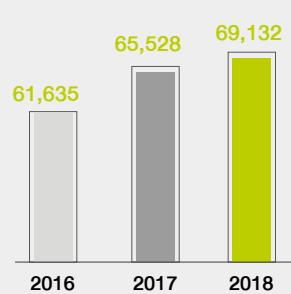
Net profit (Bt mn) and margin (%)

Net profit was maintained despite continued network investments and competition.



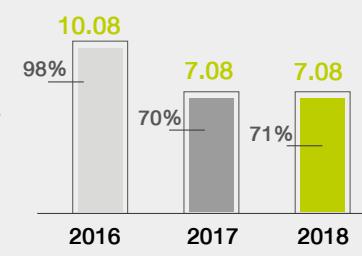
Operating cash flow (Bt mn)

Strong operating cash flow to support investments for the long term.



Dividend payment (Bt/share) and payout ratio

Continued to deliver high dividend payout and maintained optimal cost structure



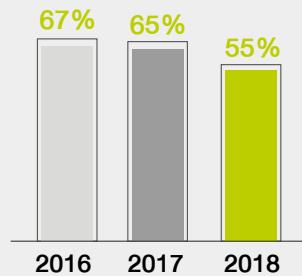
Net debt to EBITDA (times)

Managed gearing level within an appropriate range for future growth.



Return on Equity

Continued to create return to shareholders



FINANCIAL RATIOS

For the years ended 31 December

Consolidated financial statements	2016	2017	2018
Liquidity Ratio			
Current Ratio (time)	0.47	0.50	0.48
Quick Ratio (time)	0.33	0.36	0.35
Operating cash flow to current liability (time)	0.89	0.94	0.95
A/R turnover (time)	12.27	11.11	10.16
Collection period (day)	29	32	35
Inventory turnover (time)	6.12	7.29	6.88
Day sales period (day)	59	49	52
A/P turnover (time)	5.17	5.69	6.25
Payment period (day)	70	63	58
Cash Cycle (day)	19	19	30
Profitability Ratio			
Gross profit margin ratio (%)	45.45%	41.51%	39.09%
Operation income ratio (%)	25.88%	25.61%	23.61%
Other operating income ratio (%)	0.37%	0.48%	0.51%
Free cash flow to EBIT (%)	16.59%	35.70%	62.97%
Net profit margin (%)	20.16%	19.07%	17.47%
Return to Equity (%) Average	67.25%	64.59%	54.92%
Return to Equity (%) As at end	71.80%	59.65%	51.47%
Efficiency Ratio			
Return on total assets (%)	13.41%	10.75%	10.33%
Return on fixed assets (%) ^{/1}	29.23%	23.19%	21.79%
Total assets turnover (time)	0.67	0.56	0.59
Financial Policy Ratio			
Debt to equity ratio (time)	5.45	4.63	4.04
Interest coverage ratio (time)	13.90	12.45	11.94
Debt service ratio (time)	3.35	4.40	2.88
Dividend payout ratio (%)	98%	70%	71%
Data on per Share Capital			
Net book value per share (Baht)	14.36	16.96	19.40
Net Profit per share (Baht)	10.31	10.12	9.98
Dividend per share (Baht)	10.08	7.08	7.08
Percentage Growth on			
Total Assets (%)	51.67%	3.05%	2.27%
Total Liabilities (%)	74.81%	0.29%	(0.34%)
Revenue from services & sales (%)	(2.01%)	3.66%	7.69%
Selling & administrative expenses (%)	48.20%	(15.78%)	4.85%
Net Profit (%)	(21.67%)	(1.92%)	(1.31%)

^{/1} excluding spectrum licenses

KEY DEVELOPMENTS TOWARDS SUSTAINABLE GROWTH

Network Innovation



- Officially signed a roaming agreement with TOT on 2x15 MHz of 2100MHz spectrum, serving the proliferation of 4G and 3G data usage.
- Acquired 2x5 MHz of 1800MHz spectrum license enabling AIS to be the operator holding the largest bandwidth in the industry. With the acquired spectrum, AIS has contiguous 2x20 MHz of 1800MHz, resulting in 15–30% speed increase for 4G data users.

- Collaborated with Nokia, Huawei, and ZTE to test 5G technology on 26.5–27.5GHz spectrum. The objective of the collaboration is to encourage business sector to get accustomed to and see the benefits of 5G technology, during which commercial use cases are being developed.



- Expanded AIS NEXT G network and feature, a the combination of AIS 4G ADVANCED and AIS SUPER WiFi technology, to be compatible with both Android and iOS. NEXT G network can render 1 Gbps of mobile speed, the fastest in the industry.



- Expanded end-to-end NB-IoT network and platform across the country by collaborating with partners from various industries such as Property Perfect and Samsung to develop Smart Home solutions as well as with Thammasat University to launch public bicycle service “Mobike” and to provide university’s area & resource management system.

Products and Services to Meet Digital Lifestyle



- Launched “NU Mobile”, a new fully-online SIM, to serve digital users. SIM purchase and identification as well as payment are all conducted online. NU Mobile emphasizes on convenience, easiness, and worry-free to enhance full service digitization without relying on physical channels.



- Expanded into potential growth areas of enterprise by acquiring CS Loxinfo (CSL) which will strengthen AIS's position in the enterprise market by leveraging customer base, product and service, and staff expertise to serve end-to-end digital solutions such as cloud service, data center, managed service including consultancy for enterprise customers for 24 hours.



- Invested in Rabbit LINE Pay (RLP) joint venture, holding 33.33% of equity stake, to provide a domestic mobile payment platform for both AIS and general consumers. AIS also collaborated with Singtel to launch a cross-border mobile wallet platform “VIA” with an aim to facilitate RLP users in purchasing goods and services from the participating stores in Singapore without the need of money exchange.



- Expanded distribution channels targeting specific customer segments by collaborating with leading modern trade and IT partners such as Tesco Lotus and Jaymart. This provides customer access to AIS's products and services of both mobile and fixed broadband while enhancing brand awareness through partners' branches across the country.

AWARDS AND RECOGNITION

Awards for Organization and Branding

“Thailand’s Most Admired Brand & Company” awarded by Thailand’s Most Admired Brand 2018 for being the most trusted company of 2018 by consumers.

The Superbrands 2017 Award for the 14th year in a row for the best quality brand in the communication and technology industry, with an emphasis on a trusting consumer base.

No.1 Brand Thailand 2018 Award for the most popular Mobile Operator, presented by Marketeer magazine.

Thailand’s Most Social Power Brand 2018 Award for the brand with the most social media influence among Mobile Operators from BrandAge Magazine and Wisesight.

Award for the most popular stock amongst technology-based businesses for the second year in a row, presented by the newspaper Kao Hoon.

Awards for Products, Services and Marketing

The 2018 Thailand IoT Solutions Provider of the Year Award and 2018 Thailand Cloud Services Innovative Company of the Year Award from the 2018 Frost & Sullivan Thailand Excellence Awards in responding to customer needs with integrated NB-IoT network and Ecosystem, the first provider in Thailand, as well as the development of the Cloud Platform for enterprises.

The Contact Center of the Year Award and CEO of the Year Award from Asia Pacific Customer Service Consortium (APCSC) for the outstanding quality of our products and customer service.

Royal Award for “Marketing Excellence” as well as three other awards for excellence in goods and services, innovation, and human resources management by the

Thailand Management Association and Sasin School of Management, Chulalongkorn University.

Award for the company with the fastest response on social media by The Best Brand Performance Awards by Platform “Pantip” for fast replies to customers’ problems on the website Pantip.

The Best Brand Performance Awards by Category “Telecom” for excellent communication with customers through social media and ever-increasing follower count.

Awards for Human Resources Management

Winner of the IDC’s Digital Transformation Awards 2018 Talent Accelerator for the use of data analytics to improve efficiency, turning into a Data-Driven Organization in just one year.

Winner of the Organization with the Healthiest Workplace from AIA’s Thailand’s Healthiest Workplace.

Awards for Societal and Sustainability

Distinguished Award for Innovation from the Thailand ICT Excellence Awards 2018 for using creativity to design ICT business systems to support and benefit organizations.

The “Thailand Sustainability Investment” Award for the 4th year in a row by the Stock Exchange of Thailand, given to businesses committed to considering the environment, society and good corporate governance to create a sustainable business for the future.

The award for best marketing campaign for corporate social responsibility from the “Sarnrak Kon Keng Hua Jai Krang” project and the “Think Before Social: mobile phones will make or break us, it’s our choice” campaign, organized by the marketing association of Thailand.