17 June 2010

Minority Shareholder Watchdog Group
Tingkat 11, Bangunan KWSP
No. 3, Changkat Raja Chulan
50200 Kuaal Lumpur, Malaysia

Attention : Mdm Rita Benoy Bushon

Dear Madam,

AXIATA GROUP BERHAD ("AXIATA" OR "COMPANY")
ANNUAL GENERAL MEETING ("AGM") OF AXIATA

We refer to the Minority Shareholder Watchdog Group ("**MSWG**")'s letter dated 14 June 2010. In relation thereto, we are pleased to provide our reply to your queries as follows:-

Operations and Financial Performance

1. **We note the EBITDA margin for the Group was 39.3%, helped by Celcom and XL which were at 44.6% and 44.7% respectively. However, it was below the market leader. What would be the Group's overall medium to long term ways to improve EBITDA margin, amidst the competitive environment?**

   Group EBITDA margin of 39.3% is a composite consolidated number derived from the results of operating companies ("**OpCos**") having operations in different countries' and/or environment. Thus, Group EBITDA margin is not comparable versus other Malaysian operators. In Malaysia, Celcom in 2009, grew its EBITDA by 11% year-on-year ("**YoY**") and improved its margin by 0.4% to 44.6%, outperforming against DIGI's margin of 43.3% and better than Maxis which had -1% YoY EBITDA growth and dropped in margin by 1.7%. Similarly, XL was leading its Indonesian competitors in 2009 with EBITDA growth of 21% and EBITDA margin improved by 3% YoY to 44.7%, outperforming Telkomsel and Indosat which registered YoY growth of 14% and negative growth of -5.5% respectively.

   Group EBITDA improvements were the result of the initiatives of Cost Management Programme and variety of market programmes to improve revenue contribution from its subscribers' base.

2. **Mobile data business experienced a year-on-year growth with non-voice services contributing about 30% revenue of Celcom (2008: 22%). At XL front, revenue from data services increased by 269.2%. Would the Board be considering this business segment disclosure, given the significant contribution of the voice and non-voice businesses?**

   Non-voice services revenue is made up of a few elements such as SMS, data services, value-added services (VAS), pay-per-use (PPU) and so on. The Group recognized the need for visibility in this area of business, thus, contribution of non-voice businesses for certain OpCo was included as part of the presentation made during the analysts and investors briefing session. The presentation materials were published in Axiata public website. In short, the information on non-voice business segment has already been made public.

3. **It was reported that the Group incurred net impairment losses of RM83.6 million (2008: RM12.8 million), primarily for PPE due to the write down of certain telecommunication network assets in which the assets were written down to its recoverable values, net of reversal of impairment losses of RM5.2 million (2008: RM16.0 million) in relation to capital work-in-progress made on a subsidiary's long outstanding projects which were now completed.**

   (a) Which is the subsidiary involved and why was this project long outstanding?

   (b) Given the long outstanding work-in-progress, was the impairment loss due to costs over-runs?

   a) The subsidiary referred to is Celcom where these projects were completed after receiving necessary approvals from the relevant authorities that resulted in the write-back of impairment loss provision in the year. The impairment loss provision was made in the prior years based on the appropriate accounting policies and prudent accounting practice.

   b) The impairment loss was contributed mainly by Dialog's impairment of old and replaced network assets resulting from the completion of its mobile network modernisation project during the year. The impairment in Dialog contributed approximately 77% of total net impairment losses of the Group.

   The breakdown of impairment losses of RM83.6 million are as follows:-

Dialog network modernization	RM64.8 million
XL Capital Work-in-progress impairment	RM11.9 million
Others (net of Celcom reversal of impairment loss RM5.2 million)	RM6.9 million

4. **Allowance for doubtful debts (net of bad debt recoveries) surged to RM163.4 million from RM95.1 million.**

   (a) What is the allowance for doubtful debts and its breakdown, in terms of OpCos?

   (b) What steps are being taken to mitigate the risks of bad debts?

   a) The breakdown of allowance for doubtful debts of RM163.4 million are as follows:-

Celcom – postpaid receivables	RM117.1 million
XL – postpaid receivables	RM14.2 million
Dialog – postpaid receivables	RM26.1 million
Others	RM6.0 million

   b) Management has taken measures to manage the credit risk faced in the postpaid subscribers' portfolio. The measures taken include requirement for cash deposits, bankers' guarantee, credit assessment process and approval, setting credit limit and receivables monitoring procedures undertaken by management of each Opco as highlighted in the Financial Risk Management Policy of the Group.

Balance Sheet and Strategies

5. **The President & Group CEO's Business Review reported that Axiata aims to assert its leadership in mobile broadband and mobile data services, whilst consolidate and significantly strengthen its overall portfolio. This may include divestment of the Group's non-core or sub-scale businesses in other countries.**

   (a) Could the Board enlighten the shareholders present on its divestments of non-core businesses?

   (b) On 27 August 2008, Axiata announced the proposed mandate for the proposed disposal of XL's Towers of up to 10,000 towers. However on 13 February 2009, the proposed disposal was deferred. What is the status and progress of this proposed disposal?

   a) Axiata's non-core business and its financial contribution to the overall results of the Group are very minimal. Directionally, Axiata plans to dispose its non-core or sub-scale businesses more to enable management to focus on the core mobile businesses within the Group. However, such disposal must be undertaken at the opportune time and at the highest value possible. Axiata aims to dispose of its non-core businesses within the next 1 year. Appropriate disclosure will be made when this is undertaken.

   b) The proposed sale of XL's towers ("**Proposed Tower Sale**") was deferred because the offers received from tenders on the Proposed Towers Sale were not financially attractive. The more viable alternative for XL was to increase the tenancy of its towers which in itself has become an increasingly profitable business for XL. As a result, at this juncture, XL is no longer proceeding with the Proposed Tower Sale. XL shareholders had on 16 November 2009 approved the withdrawal and revocation of the Proposed Tower Sale and a media release on this was submitted to Bursa Malaysia Securities Berhad on 18 November 2009.

6. **The Company reported that it has a small investment in Iran which could subject Axiata to sanctions imposed by the US Department of Treasury's Office of Foreign Assets Control, the United Nations and the European Union.**

   (a) How significant is the Group's investment in 49% associate, Mobile Telecommunication Company of Esfahan in Iran?

   (b) What is the Board's proposed risks mitigation plan(s) so as to minimise the adverse impact on the Group's reputation and its businesses as well as prospects?

   a) The Group's investment in 49% associate, Mobile Telecommunication Company of Esfahan (MTCE) in Iran is a small part of of the Group's net assets. As at 31 December 2009, the total book value of this associate is less than 0.2% of Group net assets and profit contribution is about 0.3% Hence, it is viewed as not significant.

   b) In view of the insignificance of the investment in Iran against the entire portfolio of Axiata's assets and/or investments, the Board is of the view that no specific risk mitigation measures are required with regard to 'country risks' associated with Iran.

7. **It was widely reported that Axiata's 19.0% associate, Idea Group would undertake a cash call to recapitalize given the soaring bid price for 3G spectrum in India. Could the Board clarify on this news so as to help shareholders present to better understand the situation?**

   Idea has sufficient debt capacity and internal funds to finance the cost of their newly acquired 3G spectrum license. At this juncture, the detail execution plan with regard to the roll out of the 3G spectrum by Idea is still being worked out by management of Idea. On this note, it is still premature to provide any advice on the funding details or whether a cash call would be required.

8. **In 2009, Celcom's total capex was around RM770 million and major domestic Celcos would range between RM700 million to RM1.24 billion.**

   (a) What would be the Group's OpCos guided capex in 2010?

   (b) What is the Group's plan(s) on the 4G LTE (Fourth Generation Long Term Evolution) technology?

   a) As published in the presentation materials to analyst of Axiata's Q1'2010 results which is made available on Axiata's website, the Group CAPEX guidance would be RM3.6 billion in 2010.

   b) Axiata have been, and will continue to deploy and operate state of the art wireless networks using the GSM family of technologies. The technology roadmap began with GSM, moving on to HSPA, HSPA+ and LTE. LTE trials have been conducted by M1 with very positive results. The Group will pursue LTE as and when spectrum is made available.

<u>**Corporate Governance Matters**</u>

9. **It was reported that the Board was planning a holistic review of the Board's composition and balance in 2010, taking into account the various feedback and current and future needs of the Group, including diversity in terms of skill-sets, ethnicity, gender and nationality which would be necessary for a regional group like Axiata. Could the Board further enlighten the shareholders on how soon this would occur taking into cognizant of the two less Board members as compared to last year?**

   The Board led by the Board Nomination Committee has recently completed this process and resolved on the right size and the criteria of candidates that the Board is looking at. The process for identification of candidates is currently ongoing and this includes engaging the services of third party recruitment specialist and/or consultant to assist the Board. The process is targeted to be completed by 3Q'2010. In the meantime, with the present Members, the Board is sufficiently equipped to manage its role as the required expertise is still present and all legal requirements are met.

10. **MSWG is promoting corporate governance best practices in PLCs. In this regard, we hope the Board would give due consideration to address the following issues:-**

    (a) Disclosing the costs incurred for the internal audit function in respect of the financial year, pursuant to the Main Market Listing Requirements' Appendix 9C, Part A (30); and

    (b) Establishing a dividend policy and disclosing it in the Annual Report.

a) As disclosed in the Annual Report, the internal audit function is provided internally under the purview of the Group Internal Audit. A total of RM7.9 million was incurred on internal audit function in Axiata subsidiaries and Corporate Centre in 2009. 87% of the total expenses were manpower costs. The remaining 13% were incidentals and other costs. All internal audit activities were performed in-house except for two co-sourcing activities for a Revenue Assurance review at a subsidiary and a merger and acquisition audit at Axiata Corporate Centre at a total cost of RM290,000.00. These co-sourced audits were performed by in-house internal auditors together with external subject matter experts.

b) The Board is currently reviewing the Company's existing dividend policy as published in the prospectus dated 25 April 2008 and any update to the dividend policy will be communicated in the third quarter of this year. Accordingly, we will consider disclosing such dividend policy in the Annual Report from next year onwards.

Thank you.

Yours faithfully,
For and on behalf of
AXIATA GROUP BERHAD

DATO' SRI JAMALUDIN IBRAHIM
Managing Director/President & Group Chief Executive Officer