

28 July 2020

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

**Attention : Mr Devanesan Evanson**

Dear Sir,

**AXIATA GROUP BERHAD (“AXIATA” OR “COMPANY”)  
ANNUAL GENERAL MEETING (“AGM”) OF AXIATA**

We refer to the Minority Shareholder Watch Group’s letter dated 20 July 2020. In relation thereto, we are pleased to provide our replies to your queries as follows:-

**Strategy & Financial Matters**

- 1) **The Group’s focus on “Operational Excellence” (OE) in FY19 delivered on a sustainable cost structure Group-wide, enables it to secure RM1.3 billion savings from cost excellence initiatives (Page 13 of Integrated Annual Report - IAR).**

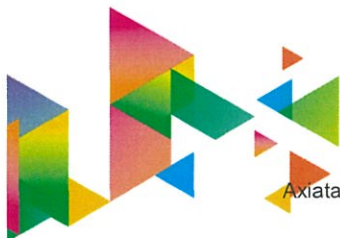
**What are the major cost savings made? Are such substantial savings sustainable going forward?**

Our Cost Excellence program is broadbased and comprise over 250 unique initiatives covering the entire spectrum of our cost base. As you would expect, a large part of our savings comes from Network comprising Opex and Capex, as well as improving operational efficiency (Sales & Marketing, Network Design and IT Operations) and from Digitization/Automation.

Approximately 90% of our savings are sustainable and will be delivered via Year-on-Year unit cost improvements. The balance of 10% comprises cost avoidance, which could be achieved in the future.

- 2) **While Axiata can still grow its mobile business, it believes that to ensure a sustainable high pace of growth, aggressive expansion is required in the areas of Enterprise and the Infrastructure/Tower businesses across the Group (Page 14 of IAR).**

**What was the revenue growth in these two areas in FY 2019? What is the targeted growth for FY2020? What are the major plans/strategies to grow the businesses aggressively?**



## Enterprise

Enterprise is an important area of focus comprising the Small and Medium Enterprise ("SME"), Large Enterprise and Government sectors. As a challenger in most operating markets, Axiata started with an approximate 6% to 7% revenue base and growth rates in FY2019 respectively. The strategy and plans in FY2020 onwards are based on both organic and inorganic initiatives. Axiata aims to accelerate growth with targeted technology partnerships and platform-plays for all three sectors in Enterprise.

## Infrastructure/Tower

edotco recorded an 18% growth for FY2019. For FY2020, we estimate a high single digit/low double digit growth from an organically, expanding both, the build-to-suit and co-location targets.

Separately, the Group is also actively looking at inorganic expansion from the following:

- i) In-country consolidation focusing within our core markets of Malaysia, Bangladesh, Myanmar and Pakistan; and
- ii) New target markets within the region namely, Thailand, Philippines, Laos and Vietnam.

- 3) **In many of today's businesses, the use of Digitisation and Analytics (D&A) is primarily expected to meet the basic standards in order to compete. The Group is, however, now embarking on a programme to leapfrog its competitors by leveraging on D&A to be far more sophisticated in identifying growth opportunities based on data modelling (Page 14 of IAR).**

**What is the status of the programme? What are the growth opportunities identified?**

While it is true that Digitisation & Analytics is a basic requirement to compete, the competitive advantage lies in the execution. Based on the 2019 Digital Telco Index (DTI) which is an independent global benchmarking assessment, **2 of our 6 Telco OpCos were rated in the top quartile globally and are already digital leaders. All our OpCos have been rated above the Global Average.**

These encouraging results were achieved as a result of a comprehensive programme, "Learn-Engage-Advance-Perform" ("LEAP") programme which targets the digital transformation of all business functions across all our OpCos.

The **LEAP programme itself has delivered over 250 unique initiatives** that have allowed our various OpCos to accelerate their digitisation efforts. The growth opportunities involve accelerating the use of analytics in driving product adoption and cost efficiencies as well as safeguarding scarce resources.

Digital Transformation involves a significant back-end IT Transformation across a multitude of Systems & Processes. To this end, **Axiata Digital Labs, Axiata's in-house, multi-country Software Development company has helped increase our agility and speed of transformation while reducing our IT spend.** Meanwhile, **Axiata Analytics Centre,**



our Centre of Excellence for Analytics, has improved our ARPU by 20% in selected customer segments and OpCos.

- 4) **Aspirasi, Axiata's digital business, is rolling out micro-finance and micro-insurance services to support underserved communities achieve their business goals. It hopes to secure a digital banking license in 2020 in Malaysia, to expand its reach to serve marginalised communities (Page 17 of IAR).**

**What have been the milestone-achievements in the roll-out? What is the status of the digital banking license? What is the probability of securing it?**

As shared publicly in press comments by Axiata, we have engaged Bank Negara Malaysia ("BNM") to:

- i) Provide feedback on the Exposure Draft of the Digital Bank Licensing Framework
- ii) Share the track record and operating philosophy of our existing digital businesses; and
- iii) Socialize our initial thoughts and planned approach to a potential Digital Bank's business plan and operating model.

BNM extended the feedback period on the Exposure Draft from the initial date of 30 April 2020 to 30 June 2020 given restrictions imposed during the MCO period. They have indicated that all feedback shared is being considered in the drafting of the final Policy Document. Applications for licensing will be open upon issuance of the Policy Document.

- 5) **COVID-19 is the biggest driver to date to fuel digitisation, as people rapidly familiarise themselves with the tools necessary to effectively work from home (Page 18 of IAR).**

**To what extent has Axiata's business been impacted during the COVID-19 pandemic? How is it preparing itself to face the new business landscape?**

Overall, markets which enforced more stringent lockdown/restricted movements, experienced more significant revenue impact during that duration. Markets which have strict lockdown are Malaysia, Sri Lanka, Bangladesh and Nepal, while the movements are less restricted in Indonesia and Cambodia. Across the aforesaid 4 countries, the lockdown period started in mid-March and the easing of restrictions was from end-May onwards.

During the lockdown, revenue was impacted on two fronts:

- i) Accessibility to sales and services due to closure of retail outlets and customer contact centres, which has impacted purchases of physical reloads, SIM cards and devices. However, this is cushioned by an uptick in digital reloads such as via mobile wallet (e.g. Boost in Malaysia, eZ Cash in Sri Lanka, bKash in Bangladesh) and our own telco app (e.g. Celcom Life & Yoodo in Malaysia and myXL and AxisNet in Indonesia).
- ii) Foregone revenue arising from the mandated free data/bonus recharge i.e. free 1GB/day in Malaysia, 120% bonus recharge in Nepal and double 4G bonus to 100% in Sri Lanka.

There was a steep increase in network traffic during COVID-19 lockdown, which was managed by obtaining temporary licenses from the vendors. However we do not expect this to lead to a significant long-term shift in traffic growth rate, as consumers return back to work/school post-lockdown and the free data offer comes to a conclusion. Nevertheless, we do see overall habits changing which would keep data traffic elevated.

In terms of network investment, the main change in future network dimensioning is to address higher capacity requirement in some sub-urban / residential areas as online-enabled remote activities become more prevalent, e.g. work from home and e-learning.

As for IT / Digitization investment, we expect this to be brought forward, as consumers become more comfortable conducting transactions via online channels in the "new norm". We need to ensure our online channels could work seamlessly with the surge in users and most transactions could be conducted online, eliminating the need for consumers to call or visit physical stores.

Also, acceleration in digitization may lead to optimizing "traditional" investments, e.g. expansion of own retail stores, contact centre expansion.

- 6) **Axiata's Enterprise business will be well placed to equip SMEs with the digital tools and platforms they need in the new normal, such as software to conduct online meetings and Cloud applications to access files online, as well as the knowledge and skills to adapt to working and conducting businesses digitally (Page 19 of IAR).**

**What has been the growth in this area during the COVID-19 pandemic? What is the expected growth rate going forward?**

The COVID-19 pandemic has accelerated the adoption of digital tools, especially in the SME market. However, this segment has affected the most economically, notwithstanding the targeted Government stimulus programmes. The infection and recovery curves are at various stages across our operating markets, with forecasts and growth rates for SMEs following the economic recovery closely in each of these segments.

- 7) **In regard to operating revenue, sales of devices has declined significantly from RM1,273.5 million in FY 2018 to RM664.4 million in FY 2019 (Page 84 of Governance and Audited Financial Statements 2019 – GAFS).**

**What were the main reasons for the sharp decline in the sales? What are the measures taken to address the decline? What is the outlook for FY2020?**

Across the mobile industry, device sales on its own typically contribute a very minimal margin, and in many cases, negative margin to the bottom-line. In line with our "Shifting Gear" strategy towards profitable growth and cash generation in 2019, the Group emphasised its on-ground focus towards driving growth in its profitable Core Service Revenue segment which has resulted in a healthy 5.1% Year-on-Year growth in the Group's Revenue ex-Device and a 10.9% Year-on-Year growth in EBITDA. Nonetheless, devices remain an integral part of our Digital Telcos' product offerings which we intend to continue at a sustainable and commercially viable level.

dh.



- 8) Outstanding provision for impairment for the following items increased significantly from FY 2018 to FY 2019 (Note 35, Page 146 of Governance and Audited Financial Statements 2019 – GAFS):

	FY 2019 (RM mil.)	FY 2018 (RM mil.)
Contract assets	51.9	33.5
Trade receivables	702.8	568.1
Other receivables	183.6	115.5

**What were the reasons for the significant increases? What is the nature of contract assets and other receivables? How much of the impaired amounts have been recovered to-date? What is the probability of recovering the remaining impaired amounts?**

The total provision from the trade receivables and contract assets of RM754.7 million in 2019 (2018: RM601.6 million) represents approximately 3% and 2.5% of revenue respectively. These are considered reasonable percentages of the expected credit losses (ECL) for our operating companies. Under the stringent requirement assessment of ECL (under MFRS 9), OpCos are using forward looking information such as GDP and CPI index in their respective countries to adjust the loss allowance rate applicable for their receivables and contract assets.

Under MFRS 15 "*Revenue from contract with customers*", contract assets refers to the right to consideration in exchange for goods or services transferred to the customers. In other words, it represents the amount owing by the postpaid subscribers or customers for the services performed up to the reporting date. Other receivables mainly refers to the amount owing by other receivables, in which the income is not principal revenue in nature and normally classified as other income in the financial statements.

Coupled with the unprecedented events of COVID-19 in FY2020, the amount that have been recovered to date is low compared to total provision amount. However, continuous measures are being taken by the respective OpCos in recovering the debts through their credit collection process.

Thank you.

Yours faithfully,  
For and on behalf of  
**AXIATA GROUP BERHAD**



**DATO' IZZADDIN IDRIS**  
Deputy Group Chief Executive Officer