Dato' Izzaddin Idris
President & Group Chief Executive Officer

14 June 2021

Minority Shareholders Watch Group
Tingkat 11, Bangunan KWSP
No. 3, Changkat Raja Chulan
Off Jalan raja Chulan
50200 Kuala Lumpur

Attention : Mr Devanesan Evanson
Chief Executive Officer

Dear Sir,

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

We refer to the Minority Shareholders Watch Group's letter dated 4 June 2021 and are pleased to provide our replies to your queries as follows:-

Operational & Financial Matters

1. **In Myanmar, Axiata is closely monitoring the current developing socio-political climate, given that the country is part of edotco's operating footprint. (Page 12 of Integrated Annual Report - IAR)**

   How has the socio-political situation affected Axiata's operations in Myanmar including that of edotco? How does the Company plan to mitigate the impact on the Company?

   The current situation in Myanmar has impacted all parties both foreign and domestic. Economic activities have yet to resume as normal given the continuation of the Civil Disobedient Movement which impacted the day-to-day activities in the country covering all sectors of the economy.

Similar to the other tower companies currently operating in Myanmar, edotco Myanmar is also impacted mainly from the fact that our customers are not able to expand their networks, which will have an impact on the overall growth of the sector.

Notwithstanding, all of our existing contracts are long term in nature ranging from 5 years to 10 years, self-sustaining, and profitable.

Our current focus will continue to be, amongst others:

1. Keeping employees and sites safe;
2. Focus on cost improvements through manpower optimization and reducing unproductive expenses;
3. Maintaining our contractual obligations under the various service level agreements;
4. Focus on liquidity via timely billings and collections; and
5. Continuous and constant engagements with all stakeholders including our employees, customers, vendors, and the banks.

Our subsidiary, edotco Group will continue to assess and monitor the situation and developments in Myanmar to ensure that the operations and business can continue sustainably and at the same time with the appropriate contingency plans in place.

We also wish to highlight that the Myanmar investment constitutes approximately 5% of Axiata Group's net assets as at 31 December 2020.

2. **The recently proposed Celcom-Digi merger heralds promising growth opportunities for the Group to further its strategic vision and build the leading Malaysian telecommunications service provider that will contribute significantly to advancing the interests of the nation, consumer and industry. (Page 12 of IAR)**

(a) Will the proposed Celcom-Digi merger position the Axiata Group as the largest telco player in Malaysia? What is Axiata's current market share and expected post-merger market share?

MergeCo (the combined Celcom and Digi businesses) will be considered a leading telecommunications service provider in Malaysia in terms of value, revenue and profit, with proforma revenue of about RM12.4 billion, pre-synergy EBITDA of approximately RM5.7 billion, and an estimated 19 million customers.

We believe that there will be no clear market leader and healthy market competition remains. MergeCo will bring a credible converged player in the market, increasing consumer choice for digital needs. MergeCo will also promote quality competition through higher quality services and continuing to host MVNOs. Given the current intention of continuing with the two brands, consumers will continue to have enough options to choose from.

(b) Will this merger also expedite its aspiration to be the lowest cost producer of data?

We expect the merger to create value from synergy realization and growth opportunities in the home and enterprise segments. This would include driving operational excellence by capitalising on Axiata's and Telenor's processes to accelerate operational efficiency and digitisation, and opex savings from integrating business operations such as IT and sales & marketing.

Furthermore, there will be an opportunity to streamline the combined network operations and extract procurement synergies, leveraging on Axiata's and Telenor's scale and capabilities. Lastly, there is a real possibility of strengthening core distribution whilst lowering the costs associated arising from overlapping store locations, for example.

These we believe are in tandem with Axiata's aspiration to become the lowest cost producer of data, with target of Group's cost per GB to be less than USD0.10 by 2024.

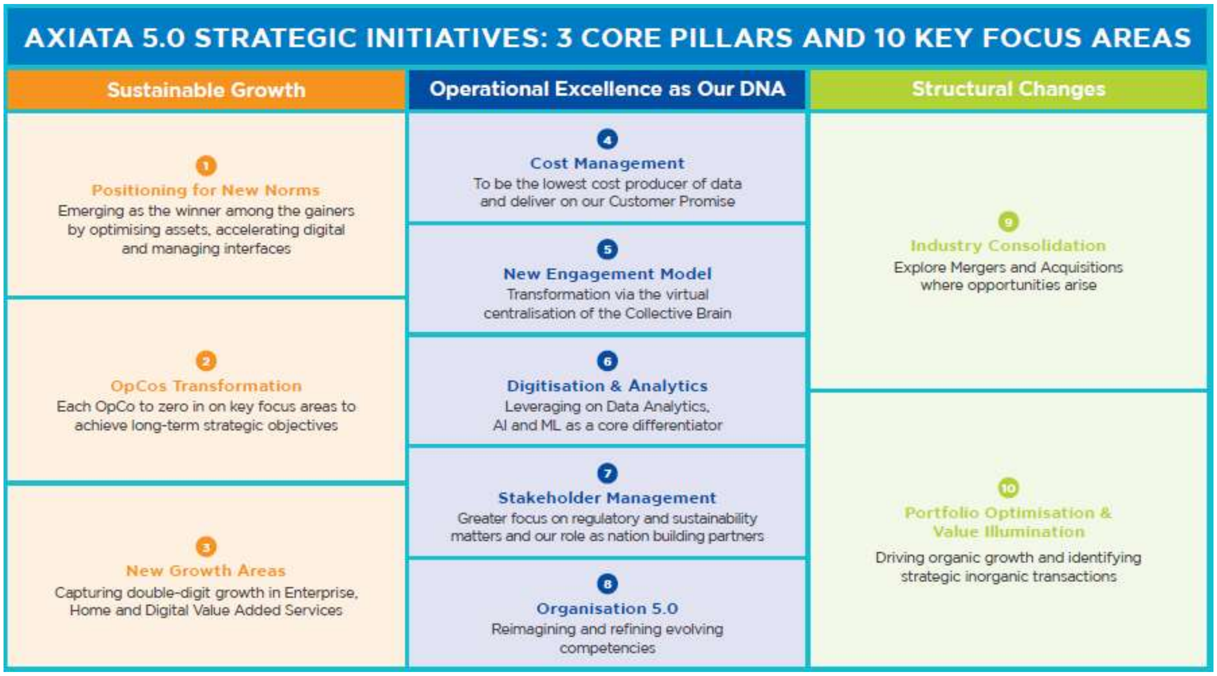
3. **Another key value creation proposition the Group has identified for its shareholders and investors involves shifting from a "moderate growth and moderate dividend" investment proposition to a High Dividend Company. (Page 12 of IAR)**

   What targets/indicators is the Group looking at or aspiring for in terms of moderate growth and moderate dividend? Would the Group be considering increasing significantly the dividend payout ratio from its current rate of at least 30% of its consolidated normalised PATAMI?

   In line with changing industry cycle and market outlook, Axiata aspires to reposition itself as a High Dividend Company, placing greater emphasis on cash and profit to deliver high dividends. Axiata targets a dividend per share of more than 20 sen by 2024 (compared to 8 sen – 9.5 sen in last five years).

   Supporting this target is our vision of Axiata 5.0, which focuses on executing 10 Key Focus Areas to deliver high and sustainable dividends for our shareholders.

The Axiata 5.0 vision can be summarized by the following chart :-



Other 2024 aspirational targets include:

1) To reduce Group's cost per GB to < USD0.10
2) Increase Group EBIT margin to >20%
3) Return on Invested Capital to Exceed Weighted Average Cost of Capital (ROIC > WACC)

The Board remains committed to our Dividend Policy where the Company intends to pay dividends of at least 30% of its consolidated normalised PATAMI and endeavours to progressively increase the payout ratio over a period of time, subject to a number of factors including business prospects, capital requirements and surplus, growth/expansion strategy, considerations for non-recurring items and other factors considered relevant by the Board.

During last year, capital management guardrails and dividend policies have been established across all subsidiaries so that they operate at an optimal capital structure which will help ease out cash otherwise trapped in subsidiaries.

4. **A study of its underlying performance demonstrates that the Group is on point with its Group-wide initiatives for digitisation, Collective Brain and Operational Excellence which drove results in several areas. All OpCos except Ncell and edotco delivered better than expected results. (Page 16 of IAR)**

   (a) What specifically are these results and in which areas did they materialise?

   <u>Digitisation</u>

   i) Axiata drives Digitisation through its Learn, Engage, Accelerate and Perform (LEAP) program and measures its results through the Digital Telco Model (DTM). The DTM tracks approximately 30 key metrics correlated to digitisation that drives operational efficiencies.

   ii) An example of a key initiative is the driving of more recharges through our online channels to manage cost efficiencies better. This has resulted in digital recharge rate of many of our OpCos achieving more than 4pp increase.

   <u>Collective Brain</u>

   i) Essentially, the Collective Brain is a virtual platform or forum which enables OpCo leaders and subject matter experts to work collectively to discuss, plan, strategise and decide as well as provide guidance in the execution of initiatives across several business dimensions including 1) Network and IT, 2) Product & Pricing (Consumer & SME), 3) Enterprise, 4) Sales & Distribution, 5) Customer Care, and 6) People & Organisation.

ii) Under Network, IT and procurement, we have set ourselves an ambitious target to achieve cumulative savings of between RM3 billion to RM4 billion by 2024.

iii) In 2020, Group's Cost per GB fell by 35%, putting us on a positive trajectory towards achieving the target of less than USD0.10 per GB by 2024.

Operational Excellence

i) Apart from the Collective Brain initiative, our Cost Excellence Programme delivered RM1.8 billion of cost savings and avoidance in 2020 whereas the cumulative sum is more than RM5 billion over the last 4 years.

ii) Of the savings/avoidance achieved, approximately 42% were operating expenditure in nature whilst the balance of 58% were capital expenditure which were achieved across several functional areas with network operations contributing the most.

iii) Other areas included customer operations, sales and marketing, new subscriber acquisition channel commissions and digitisation.

iv) Vendor negotiations and discounts were the largest contributor to savings. Increasing contribution of almost 40% arising from automation, digitisation and sustainable efficiency improvements.

(b) What were the main reasons that Ncell and edotco were unable to deliver better than expected results? What is the outlook for both?

i) Ncell's performance in 2020 was dampened mainly due to its spectrum deficit compared to the competition which suppressed its market competitiveness (especially in terms of quality of service), compounded by prolonged Covid-19 lockdown and lower active subscriber base.

ii) With the award of the much awaited 900MHz spectrum in April 2021, we believe Ncell will be able to compete more effectively through better network performance and cost structure, which will in turn improve its data monetisation capabilities.

iii) Coupled with double-digit growth from the Home and Enterprise segments, exciting product innovations and better go-to-market resilience via digitisation, the outlook for Ncell looks promising.

iv) For edotco, its business in 2020 was impacted by deferred orders for new rollouts in view of the pandemic, coupled with proactive measures on receivables particularly for several Tier-2 customers.

v) Moving into 2021, edotco remains focused on cementing its market leadership through inorganic growth in the form of sale and leaseback initiatives, bite-sized M&A deals and opportunistic entries into new markets. However, edotco anticipates that the risks associated with the recent developments in Myanmar to remain for some time.

5. **Whilst revenue excluding device (ex-device) slipped marginally by 1%, EBITDA rose 1.1% to RM10.7 billion on the back of EBITDA growth at Dialog, Robi and Smart, outpacing revenue ex-device growth with operating expenditure (opex) savings of RM745 million. This resulted in a 0.8 percentage points improvement in EBITDA margin to 44%. (Page 16 of IAR)**

   (a) What is the industry's average EBITDA margin and what is the Group's target, if any?

   Axiata's EBITDA margin of 44% in 2020 is one of highest amongst peers which include Maxis, TM, Vodafone, Singtel, Ooredoo, Telenor, Time dotcom and Digi.

   Our 2021 Headline KPIs include for EBITDA to grow by low single digit percentage.

   (b) What were the respective EBITDA growth rates for Dialog, Robi and Smart and are these growth rates sustainable?

   In 2020, EBITDA growth for Dialog, Robi and Smart are 9%, 12% and 7%, respectively (on constant currency basis).

   For 2021, our expectations for the EBITDA of the 3 aforementioned OpCos to grow by low to mid-single digit percentage.

6. **Consisting of over 400 unique Group-wide initiatives, Axiata's Cost Excellence programme delivered a total of RM1.8 billion in cost savings in 2020, of which 58% were capex savings and 42% were opex savings. Its rigour and focus in this area over the last four years have resulted in the Group exceeding the RM5.0 billion savings target one year ahead of schedule, and the Cost Excellence programme has been critical in driving Axiata's momentum towards achieving its target to become the lowest cost producer of data in all its operating markets. (Page 16 of IAR)**

   (a) What are the components of opex that have registered significant savings (please state amounts and percentages saved)? Is there potential for greater savings, going forward?

   Optimizing network operating expenditure with an annual spend of RM3.1 billion is a priority. We have kept our spend in network operations flat despite the investments in new technologies and increased number of base stations required for meeting customer demand.

   Apart from network operations, reductions were seen in Sales & Marketing (~RM540m), IT (~RM150m) and other costs (~RM140m) on the back of digitization, automation and aggregation of spends and negotiations with our partners. These individual cost heads have achieved sustainable reductions of 10%-35% of baseline spends if compared to FY2017 and will result in recurring benefits over the longer term.

   The global cost benchmarking exercise that have been undertaken on a regular basis provide a benchmark to serve as a comparison with many peer groups both regionally and locally.

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Based on our internal estimates there is still scope to create greater efficiencies in several of our expenditure which augurs well for our future profitability.

(b) What is the financial indicator/ratio to determine the lowest cost producer of data? What is the timeline for Axiata to achieve this target?

We have set a target of less than USD0.10 (or 10 cents) per GB by 2024 and have strengthened our governance mechanisms towards diligently and accurately track progress as well as achievements/ results.

7. The Group believes that the resulting cross-OpCo harmonization and standardisation, particularly in Network and IT, will result in better scale for procurement optimisation. In view of its potential, the Group has set itself an ambitious target to achieve cumulative savings of between RM3 billion to RM4 billion by 2024 as a result of its Collective Brain initiative under Network and IT spend. (Page 22 of IAR).

Which specific areas are expected to achieve significant savings? How would these savings be effected/implemented?

Under the Collective Brain involving a new procurement model, Axiata has managed to streamline and combine all the requirements of the Group and concluded common sourcing for a substantial part of the Group Network capex, including Radio Access Network and Core Network. This amounts to roughly 80% of our total capital expenditure in a typical year. This process is being expanded to cover other network and IT components.

We have effectively managed to harmonize the scope and harness the buying power of the Group. Significant part of the savings target are expected to come from the network capital expenditure that is more and more being influenced by IT categories as the industry moves towards standardization, virtualization and automation.

The benefits are not only on the cost side as this initiative will enable the migration of traditional voice traffic to Voice over LTE (VoLTE) thereby assisting the acceleration of our 3G sunset plans.

Lastly, the consolidation and standardization of the network spend also prepares us for a successful 5G launch when the time is right, all of this ultimately translating into a better customer experience.

8. Share of results (net of tax) of Associates recovered from a loss of RM647,000 to a profit of RM17.862 million. (Page 48 of Governance and Audited Financial Statements - GAFS)

Which Associates contributed the profit? What are the reasons for the turnaround? What is the outlook for FY2021?

The contributor is Sacofa Sdn Bhd (Sacofa), an associate company of Celcom with the principal activity of providing telecommunication infrastructure and services. The better financial performance is mainly due to:

i) one -off adjustment of RM9mn, which adversely affected the FY2019 results.
ii) under recognition of FY19 results by RM6 million in FY20
iii) better operational performance by RM3 million year on year

We continue to monitor the performance of all our associates although it is to be noted that the total contribution of associates is immaterial to the Group's PAT.

Corporate Governance Matters

1. **Group profit after tax and minority interest declined significantly by 75% to RM365 million in FY2020 from RM1,458 million in FY2019.**

   However, total remuneration of executive directors at Group level increased sharply by 92.7% to RM19.213 million in FY2020 from RM9.973 million in FY2019. (Page 87 of GAFS).

   Kindly justify the executive directors' remuneration in the context of the Group's deteriorating performance.

   The total remuneration of the Executive Directors ("**EDs**") is based on a compensation structure of fixed cash component, short term incentive ("**STI**") and long-term incentive ("**LTI**"). STI is payable subject to current year performance of the company and individual and LTI is based on aggregate performance of 3 years for each LTI grant to determine vesting of the share awards which may vest with performance multiplier.

   The increase from FY2019 to FY2020 is mainly due to the following:

   i) Two (2) Executive Directors in FY20 instead of a single ED in FY19 due to the appointment of Dato' Mohd Izzaddin Idris as Executive Director/Deputy Group Chief Executive Officer on 24 January 2020 transitioning to the role as President & Group CEO on 1 January 2021.

   ii) One off share-based expense under LTI due to the multiplier effect of 963,350 shares vested on 28 February 2020 under Grant 1(a), 2017 Axiata Group Performance-Based Long-Term Incentive Plan (LTIP). The vesting was based on the 3-year aggregated performance of Tan Sri Jamaludin Ibrahim and underlying performance of the Group from 2017 to 2019.

We will present all the abovementioned questions and our responses thereto at the 29th Annual General Meeting to be held tomorrow, Tuesday, 15 June 2021

Thank you.

Yours sincerely,

IZZADDIN IDRIS