

25 May 2023

Minority Shareholders Watch Group
Level 23, Unit 23-2
Menara AIA Sentral
No. 30, Jalan Sultan Ismail
50250 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 16 May 2023 and are pleased to provide our replies to your queries as follows:-

Operational & Financial Matters

1. **The Axiata 5.0 Vision targets a Cost per GB below USD0.10. Notable headway has been made in this regard with the Cost per GB being reduced from USD0.25 in 2020 to USD0.16 in 2022. Likewise, the Group EBIT margin is trending upward towards its goal of 20%, from 9.0% in 2020 to 15.9%¹ in 2022 (Page 13 of IAR 2022).**

What is the progress in achieving the target of Cost per GB of below USD0.10 and Group EBIT margin of 20%?

When the Group EBIT target was set 4 years ago, it did not take into consideration any M&A impact. As Celcom is now de-consolidated and Axiata has a 33.1% stake in CelcomDigi Berhad (“**CDB**”), our target would need to adjust for this. Taking this into consideration and also the near-term integration cost for CDB to realise its long-term synergies, Axiata expected to sustain the current EBIT margin levels of ~16% for 2024.

The drive towards highly competitive production costs, aka below USD0.10 Cost per GB, continuous relentlessly. Despite inflationary effects, including in particular energy and labour cost increases, considerable reductions of the Cost per GB are anticipated going forward, primarily as result of:

- Asset Utilization Uplift (stretching investments made further)
- OPEX Optimization
- Green Energy Program
- 3G & Legacy Shutdown
- Refined Spectrum Strategy, Planning models & methodologies
- Data Center & Core consolidation
- Vendor Strategy & OpenRAN
- Smart& Lean Ops respectively Automation at Scale

Also the deployment of 5G – anticipated to happen in selected markets during 2023/2024 – will, besides enabling additional consumer and enterprise use cases lead over time to a reduction of the Cost per GB due to higher spectrum efficiency.

2. **The success of Project Resilience in Dialog led to the sharing of learnings and the adoption of a Build Resilience initiative across other operating markets, in preparation for the onset of similar macroeconomic headwinds and implementing proactive measures before any crisis emerges. Project Resilience was underpinned by six leading initiatives – revenue maximisation, optimising and rescaling costs, zero-based budgeting focused on must-haves only, balance sheet restructure to align with macro-economic dynamics, aggressive adoption of analytics and digitisation, and above all, protecting the product, network and service experience for its customers and stakeholders (Page 14 of IAR 2022).**

Among the six leading initiatives, which initiatives are the most important or key drivers that are instrumental to the success of Project Resilience in Dialog? Please enlighten shareholders briefly.

Out of the 6 leading initiatives, the “Optimising & Rescaling Costs” track delivered the lion share of the cumulative savings achievement of Project Resilience. Taking on a zero-based budgeting approach, some of our highest impact initiatives within this track include but are not limited to...

- network simplification & optimisation to curtail cost escalation amidst exponential data traffic growth
- expediting 3G network shutdown for spectrum reform
- localisation of spends to reduce USD exposure
- deploying green energy to address rising energy costs
- in-sourcing select operations
- rationalisation of content bouquet

Many of the above initiatives will continue to deliver positive impact towards Dialog’s business resilience in the long run.

As we speak, the key learnings from Project Resilience at Dialog are also being cross-pollinated and adopted across other Axiata footprint markets, with the goal of help other operating companies to better identify and prepare for any future macroeconomic headwinds. Moreover, we do see this opportunity to improve operational efficiencies irrespective of macro challenges

3. **The Group adopts a ‘Balanced Scorecard’ methodology comprising two distinct components with different weightings, which are the Corporate Scorecard and the Strategic Key Performance Indicators (KPIs). This approach is tailored to dynamically address business and stakeholder requirements while balancing short-term returns and long-term sustainability (Page 14 of IAR 2022).**

What are the major Corporate Scorecard and the Strategic KPIs including Sustainability-related KPIs as well as their weightages, targets and achievements during FY 2022?

Axiata Group’s Corporate Scorecard covers both financial and relative performance measures, where we had adopted a 70:15:15 ratio for FY2022:-

- **70% for Absolute Financial Measures i.e. EBIT, Cash Flow, Profit and ROIC:** The Group delivered a double-digit out-achievement against its FY2022 EBIT, Cash Flow and Profit targets. This in turn also translated into an out-achievement in the ROIC target.
- **15% for Relative Revenue Growth** (*against comparable peers in operating markets, where available*): Majority of our Digital Telcos exceeded their targeted growth in Revenue Market Share.
- **15% for Voice of Customers:** All Digital Telcos met or exceeded their assigned VoC targets – with Robi, Dialog, Ncell and Smart holding the top NPS positions in their respective markets.

In terms of **Strategic KPIs**, these are linked to the Group's Long Range Plan and are set with a 3 to 5 year horizon. They encompass the following:-

- **Cost Optimisation & Operational Efficiency @ 20% – Ahead of targets:** All Digital Telcos exceeded their cost optimisation targets – with a cumulative Opex savings of RM0.6 billion and Capex savings of RM1.1 billion realized across the Group.
- **Business Transformation @ 15% – Broadly in line with targets:** Despite a challenging macroeconomic environment and intensifying competition in all markets, the Group's combined efforts translated into the highest ever profit from Celcom since 2015 (amidst merger preparations), enhanced operational performance in XL, improved digital & analytics maturity across all OpCos, secured digital bank license with BHSB and delivered healthy organic + inorganic growth in Edotco.
- **New Growth Areas @ 10% – In line with targets:** Achieved double-digit growth in our Group-wide Enterprise revenue.
- **Stakeholder Management & Sustainability @ 15% – In line with targets:** Our Digital Telcos remained resilient amidst an evolving regulatory landscape, with major milestones such as successful spectrum acquisition in Robi and lower regulatory costs in Dialog and Robi. Additionally, the Axiata Sustainability Framework was introduced in line with our ESG commitments – such as to impact 23 million lives by digital inclusion over the next 3 years and to achieve net-zero carbon emission by 2050. Other key sustainability achievements in FY2022 include but are not limited to...
 - Substantial improvement in our S&P Global Corporate Sustainability Assessment Score by +9 points to 35 (*out of 100*) in 2022, while our FTSE4Good score also improved by +0.2 points to 3.6 (*out of 5.0*) in 2022.
 - As part of the EDISON Alliance with a goal of ensuring affordable access to digital solutions across healthcare, finance and education by 2025, the Group successfully impacted 3.8 million lives in 2022, out of which 1 million was via healthcare, 2.3 million via education, and 0.5 million via financial services.
 - 27% women representation in the senior management team as at December 2022, making good progress towards the goal of minimum 30% women representation by 2025.
- **People & Culture @ 10% – In line with targets:** Major milestones in creating Axiata's Winning Culture with a focus on UI-EP. In addition, the Group made significant milestones on the Diversity, Equity, and Inclusion (DEI) front.

- **Structural Changes @ 30% – In line with targets:** Several major M&A transactions in 2022, most notably the completion of Celcom-Digi merger in Malaysia, acquisition of PT Link Net in Indonesia and regional tower acquisitions by Edotco.

4. **The Enterprise segment scaled up its performance in 2022, charting a year on year (YoY) growth of 19.7%. The Group's concerted efforts in this area have strengthened the Enterprise Business capability and capacity of its OpCos (Page 17 of IAR 2022).**

Was there a double-digit profit growth for the Enterprise segment in FY2022? If so, will the double-digit growth for both revenue and profit be sustainable in FY2023?

The Enterprise business grew by double-digit in FY22 and we expect a similar trend in FY23. The Enterprise profitability and growth remains consistent and sustainable. We don't expect significant changes to the single digit profitability growth.

5. **Axiata has aligned the Group's Network Transformation Programme and future network strategy with industry evolution trends, particularly 5G and IR 4.0. (Page 17 of IAR 2022).**

Briefly explain the Group's major achievements in regard to 5G and IR 4.0. What are the outstanding major tasks to be carried out and what is the timeline?

All the Mobile Network across our subsidiaries are now 5G ready. We have also conducted extensive proof of concept on 5G across our footprints, to ensure that we'll be able to provide consumers with superior 5G experience, once the suitable 5G spectrum is available. We will deploy 5G network extensively in our markets on the right spectrum such as 2600 MHz and 3500 MHz. In addition, 5G will also enable a variety of novel Consumer and Enterprise use cases, which go hand-in-hand with IR 4.0 aspirations in our markets. We're working closely with our partners to enable these use cases, such as on 5G City Joint Innovation in Indonesia, and development of cost-effective 5G solutions across industries, including manufacturing and oil & gas across Malaysia, Sri Lanka, Bangladesh, Nepal, and Cambodia.

6. **Among the activities and processes carried out in FY2022 to create value are achieving cost excellence with RM1.7 billion in savings, including RM1.1 billion from capex savings and RM0.6 billion from opex savings and Collective Brain savings of RM1.4 billion (Page 39 of IAR 2022).**

- (a) **What are the major opex components that have substantial savings? Will these savings be sustainable going forward?**
- (b) **Please elaborate on what Collective Brain savings are. Will there be such savings going forward and what is the expected amount?**

The savings cover all opex buckets including Network, IT, S&D, Marketing, Bad Debts and Customer Experience. Most of the savings are structural in nature and we will continue to derive these benefits over time, while we only recognize savings for the year.

Collective brain savings are primarily on network and IT and derived from design reviews and optimization on dimensioning and just in time investments along with negotiation savings from network and IT with suppliers driven by APC.

Some of these savings are expected to continue into the future with multi year deals with suppliers, and continuing efforts to look for such opportunities in the future. We have taken a target of 1 Bn RM of absolute savings in FY 23 across all categories and are confident of reaching the target.

7. **The Group posted strong operational performance in FY2022 with revenue and EBITDA growth, contributed by all OpCos except Dialog in Sri Lanka and Ncell in Nepal (Page 58 of IAR 2022).**

Are Dialog in Sri Lanka and Ncell in Nepal expected to have significant improvement in operational performance in FY2023? What is the outlook for both OpCos?

Whilst the macro-economic conditions in SL has improved, the country is still grappling with high inflation of ~40%. As such we do see this to pressure Dialog's EBITDA margins, arising from higher energy cost and staff allowance. However, Dialog has again kicked off a company-wide cost rescaling initiative and aims to deliver ~LKR13.8billion in savings this year.

As for Ncell, it continues to face structural headwinds to growth its data revenue, whilst ILD revenue continues its decline. Whilst embarking on a 'Cash preservation' mode for Ncell, we continue to explore alternative strategic options for this opco, in line with our capital allocation framework.

8. **Provision for impairment on financial assets at Group level rose sharply to RM118.2 million in FY2022 from RM39.1 million in FY2021 (Page 58 of GAFS 2022).**

What specifically are these financial assets and why is there such a huge impairment? What is the probability of reversal of the impairment?

The impairment on financial assets is mainly impairment on trade receivables. FY22 and FY21 are presented on continuing operations basis. With the completion of acquisition on Link Net, the impairment on trade receivables in Link Net is consolidated in 2022, effective from 1 July 2022, whereas in 2021, there is nil recognized. In addition, Celcom Group is excluded in the continuous operations basis, hence bringing down the 2021 impairment on trade receivables. Besides that, the challenging macroeconomic situation in frontier markets has resulted in slower collection trends resulting in higher credit risk, particularly in Dialog Sri Lanka, EDOTCO Bangladesh and EDOTCO Myanmar.

These provision for impairment on trade receivables can be reversed based on actual collection and as the collection trends improve in the above-mentioned countries.

9. **Associates - share of results (net of tax) of losses increased substantially to (RM56.8 million) in FY2022 from (RM1.7 million) in FY2021 (Page 58 of GAFS 2022).**

Which are the major contributors to the losses and why?

FY2022 share of results of losses (net of tax) of Associates has increased significantly due to recognition of share of results of CelcomDigi Berhad, effective 1 Dec 2022. The share of results of losses of CelcomDigi Berhad is mainly due to merger-related expenses, accelerated depreciation and finance costs as a result of harmonization of accounting policies and estimates within CelcomDigi Group post merger and amortisation of purchase price allocation which was based on preliminary valuation.

10. Penalty charge at Group level amounted to RM71.5 million in FY2022 (FY2021: Nil) (Page 120 of GAFS 2022).

What is the penalty charge for? What measures have been taken to prevent or mitigate the risk of such penalty from being incurred in future?

The penalty charge is for the use of microwave equipment from year 2016 to 2021, imposed by Ministry of Posts and Telecommunication of Cambodia on Smart Axiata in Cambodia.

To mitigate future occurrence, the Smart's regulatory and technical rollout teams have introduced processes to track all installations of network equipment with accurate records on a timely manner. At the same time, the management of Smart is improving the engagement model with the regulators to avoid/mitigate potential non-compliance and penalty charges.

Sustainability Matters

- 1. The Group's sustained efforts in advancing its ESG performance continue to be recognised by various international ESG rating agencies. This year, its FTSE4Good score improved from 3.4 in 2021 to 3.6, while its S&P Global Corporate Sustainability Assessment score has risen by nine points to 35/100 over the last two years. This is attributable to its commitment to developing clear climate targets and aligning with the Science Based Targets initiative (SBTi) (Page 5 of SNCR 22).**

Moving forward, what are the major gaps or areas of improvement which the Group can focus on to improve its ratings/scores considerably?

Major areas of improvement that the Group has identified and would be focusing on to improve its ESG ratings whilst also aligned to its sustainability agenda moving forward include the following:

- Continue strengthening on climate strategy including commencing SBTi validation on Axiata's climate targets, and establishing scope 3 emission baseline and reporting
- Continue on Axiata's TCFD disclosure for climate-related risks and opportunities as supported by its three-year Roadmap
- Improve disclosure and initiatives for environmental-related matters for waste and water; and
- Strengthen disclosure and initiatives pertaining to people and human rights.

- 2. Performance scorecards applicable to leaders at Group and OpCo level have sustainability-related key performance indicators (KPIs) embedded that are linked to**

climate action. Sustainability initiatives have overall linkage to financial performance (Page 6 of SNCR 22).

What are the major sustainability initiatives and KPIs which have more direct linkage to financial performance? What were their targets and achievements for FY2022?

For Axiata Group, sustainability-related KPIs are parked as **Stakeholder Management & Sustainability @ 15%**. Please refer to Question #1 above as well as development of Axiata's Net-Zero Carbon Roadmap to achieving net-zero no later than 2050 (as per GSMA ambition).

The major achievements encompass, among others:

- Refreshed Axiata Sustainability Framework comprising of four pillars, identified targets and prioritised United Nations Sustainable Development Goals;
- Enhanced sustainability governance structure where Axiata has formalised a Board Sustainability Committee to strengthen and oversee matters relating to sustainability;
- Rolled out Axiata's Net-Zero Carbon Roadmap comprising of a three-objective strategy in May 2022; and
- Commenced the adoption TCFD recommendations via a three-year Roadmap and inaugural disclosure.

Similar to Group, OpCos also carry Strategic KPIs for Stakeholder Management & Sustainability that range from 5 – 15%. They are based on the materiality for each OpCo.

We will present all the above-mentioned questions and our responses thereto at the 31st Annual General Meeting to be held on Friday, 26 May 2023.

Thank you.

Yours sincerely,
For and on behalf of
AXIATA GROUP BERHAD

A handwritten signature in black ink, appearing to read 'V. Sood', with a long horizontal stroke extending to the left.

VIVEK SOOD
Group Chief Executive Officer and Managing Director