

Dato' Izzaddin Idris
President & Group Chief Executive Officer



23 May 2022

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")
EXTRAORDINARY GENERAL MEETING ("EGM") OF AXIATA**

We refer to the Minority Shareholders Watch Group's letter dated 17 May 2022 and are pleased to provide our replies to your queries as follows:-

**Proposed Acquisition and Proposed Mandatory Tender Offer
(MTO)**

1. Investment and synergy realisation risk

There can be no assurance that the anticipated benefits of the Proposals, including the various expected synergistic benefits will be realised or that the Group will be able to generate sufficient returns from this investment to offset the cost of this investment (Page 17 the Circular).

(a) As an experienced telecommunications operator with existing operations in Indonesia and other parts of Asia, how does Axiata plan to address the investment and synergy realisation risk?

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Prior to entering into the Proposed Acquisition, a **thorough financial, technical and legal due diligence exercise on PT Link Net Tbk ("Link Net") has been undertaken** in order to assess the feasibility of the investment in Link Net. In addition, we have **adopted prudent investment criteria** in evaluating the Proposals, whereby the Purchase Consideration of IDR4,800 per share is arrived at having considered the **implied EV to EBITDA multiple of 6.3 times, which is within the range of 6.2 times to 20.3 times of the comparable companies** listed on page 8 of the Circular. We wish to also highlight that the **Purchase Consideration of IDR 8.7 Trillion** (equivalent to approximately RM2.6 billion) **is within the range of indicative values of 66.03% equity interest in Link Net of IDR 8.3 Trillion to IDR 9.6 Trillion** (equivalent to approximately RM2.4 billion to RM2.8 billion), **as ascribed by Deloitte Corporate Advisory Services Sdn Bhd ("DCAS")** in its Expert Report on Fairness of the Purchase Consideration on page 170 Appendix V of the Circular. From our evaluation of Link Net, we have identified the below potential synergies that could possibly be realized:

- i) **Cost savings** in the form of (a) **network capex and opex savings**; and (b) **selling and administrative opex savings**, arising from sharing of network and resources between Link Net and PT XL Axiata Tbk ("**XL**").
- ii) **Revenue increase** for (a) **residential** and (b) **enterprise segment**, arising from collaboration between Link Net and XL to bundle mobile and fixed broadband services as well as improved customer reach via cross selling of various services to their respective customers.

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Our Group have been operating in Indonesia via XL and we have related experience in the fixed broadband business via Dialog Axiata. Dialog Axiata is one of the leading mobile and fixed broadband providers in Sri Lanka and its fixed telecommunications arm serve more than 1 million individuals and corporates, providing services such as broadband internet and fixed telephony. Through these 2 subsidiaries of our Group, we have gained valuable experience and insights to appreciate the dynamics of the Link Net business.

These experience and insights will help us address the risks involved relating to this investment and in realising the synergies for this Proposed Acquisition. Being the majority shareholders of both XL and Link Net, we consider our ability to manage synergies between the two companies is high.

In addition, we will monitor the financial performance of Link Net and work closely with the management team of Link Net to develop appropriate business strategies towards achieving the financial targets of Link Net to ensure that the aspirations towards Link Net are met.

We wish to also highlight that the **existing management team of Link Net has highly capable executives, with an average of 15 to 20 years of related working experience.**

(b) In terms of timing, when does Axiata anticipate any expected synergistic benefits to be realized?

The Proposed Acquisition is expected to create meaningful synergies for Link Net and XL as described in item (1)(a) above, by leveraging their respective positions in telecommunication services.

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In order to realise these potential upsides, **Link Net and XL will work together to unlock the cost and revenue synergies that are mutually beneficial to both companies, with the aim to realise those synergies as soon as we possibly can.** In addition, our Group will continue to evaluate new areas of collaboration for these two entities with the aim to further enhance long-term shareholders value.

(c) What is Axiata's targeted financial return from this investment?

The targeted financial return from the Proposals is above the **Weighted Average Cost of Capital (WACC) of 12%**, the threshold that was adopted in evaluating the Proposals.

2. Gearing level

As at 31 December 2021, the Group's gearing level stood at 1.17 times. After the Proposed Acquisition and Proposed MTO, the Group's gearing level will increase to 1.40 times (Page 22 of the Circular).

Does the Group intend to improve its gearing level in the next few years post-Proposed Acquisition and Proposed MTO? If so, what is the targeted timeframe to reduce the gearing level, and what is the Group's optimal gearing level?

The expected increase in Axiata's gearing level (Gross Debt/Equity) after the Proposed Acquisition and Proposed MTO is premised on the assumption that these will be entirely debt funded.

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In our view, Link Net generates positive cash flow and has delivered an average dividend payout ratio of 53%, translating into an average (absolute) payout of IDR483 billion (~RM140 million equivalent) over the last 3 years, which should help in serving the additional debt taken for this Proposed Acquisition. Axiata has its deleveraging plan which include exploring certain monetization opportunities of other assets and other funding options depending on the economics, market condition and other factors.

Consistent with most peers in the sector, Axiata adopts Gross Debt/EBITDA ratio as the guardrail measure, as this is also the measure assessed by the international credit rating agencies. The Gross Debt/EBITDA ratio is expected to remain below 3.0x after the Proposed Acquisition and Proposed MTO. Axiata is also committed to maintain its investment grade issuance/corporate rating.

We will present all the abovementioned questions and our responses thereto at the Extraordinary General Meeting to be held on Thursday, 26 May 2022.

Thank you.

Yours sincerely,

For and on behalf of

AXIATA GROUP BERHAD

A handwritten signature in black ink, appearing to read 'V. Izzuddin', with a horizontal line drawn underneath it.

DATO' IZZADDIN IDRIS

President & Group Chief Executive Officer