Management Discussion and Analysis

Delivered earnings in line with guidance amid a challenging market environment; the high demand for data and unmatched customer experience continued to drive financial and operational progress.

DELIVERED EARNINGS IN LINE WITH GUIDANCE

- Service Revenue
  RM8.5 billion
- Normalised EBITDA
  RM4.5 billion
- Normalised Profit After Tax
  RM2.0 billion
- Normalised Free Cash Flow
  RM1.6 billion
- Cash Dividends
  RM1.5 billion

HIGH PERFORMING DATA NETWORK

- **88%**
  industry-leading 4G LTE population coverage with consistent 4G download speeds
- **7x LTE**
  traffic growth; consistent great Internet experience
- **95%**
  4G data sessions at 3Mbps or higher; sufficient for seamless HD video streaming

COMMITTED TO DELIVER UNMATCHED CUSTOMER EXPERIENCE

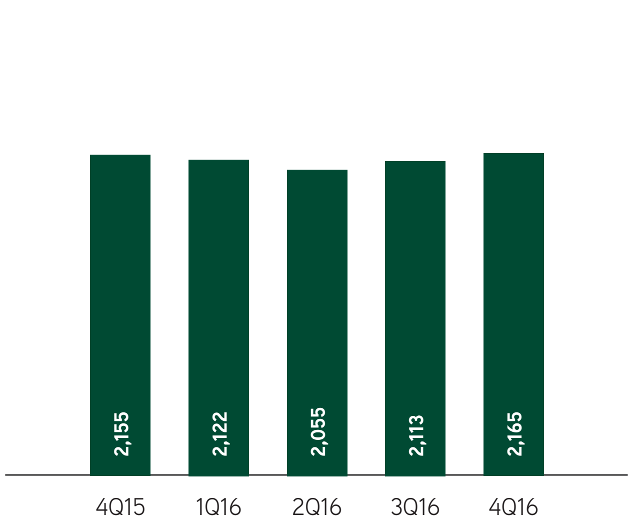
- **90%**
  first contact resolution across all customer service touchpoints
- **60%**
  customer interactions over digital and self-care platforms

Financial Review

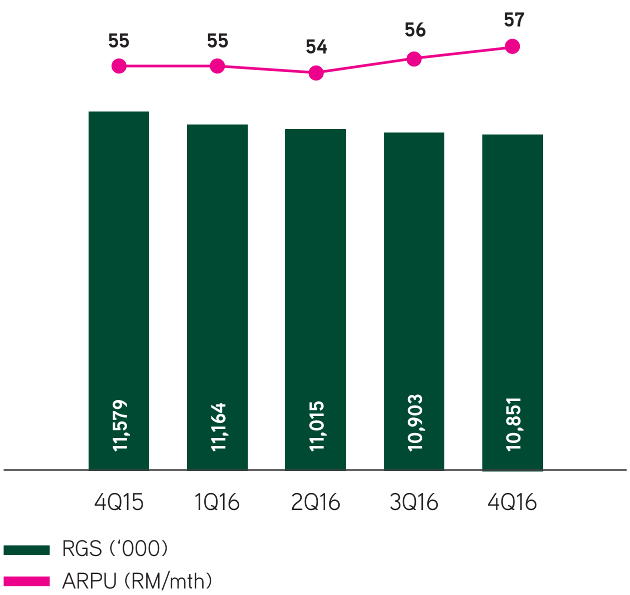
For financial year ended 31 December 2016, despite facing a challenging year, we are pleased to report that we achieved good results and delivered earnings in line with guidance. Service revenue stood at RM8,455 million, relatively stable year-on-year. High demand for data and unmatched customer experience continued to drive positive financial and operational progress.

We saw solid performance in mobile data revenue, up 27% year-on-year. This was driven by continuous strong uptake of mobile Internet. Among our 11 million revenue generating subscriptions ("RGS"), 74% are mobile Internet users and 76% are smartphone users.

SERVICE REVENUE (RM mn)

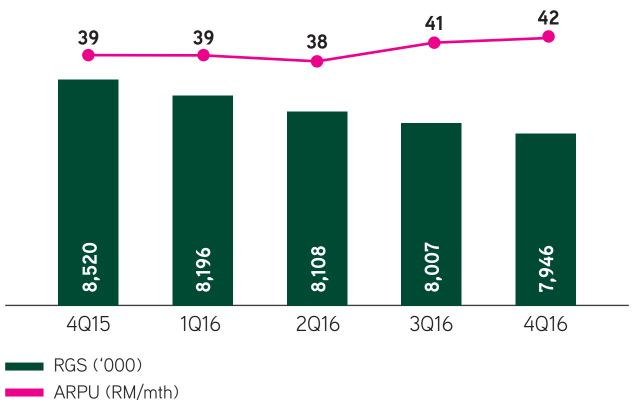


TOTAL RGS AND BLENDED ARPU

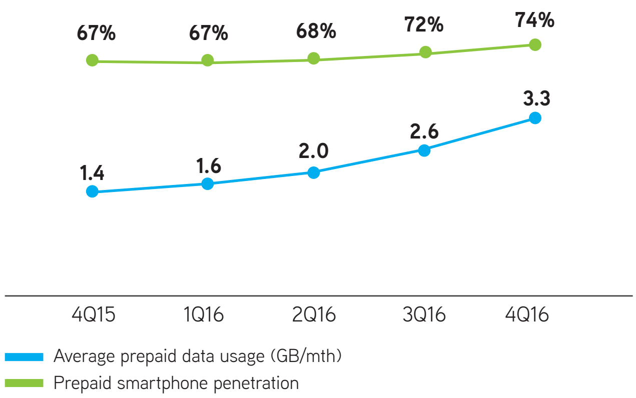


Management Discussion and Analysis

PREPAID RGS AND ARPU



PREPAID DATA USAGE AND SMARTPHONE PENETRATION

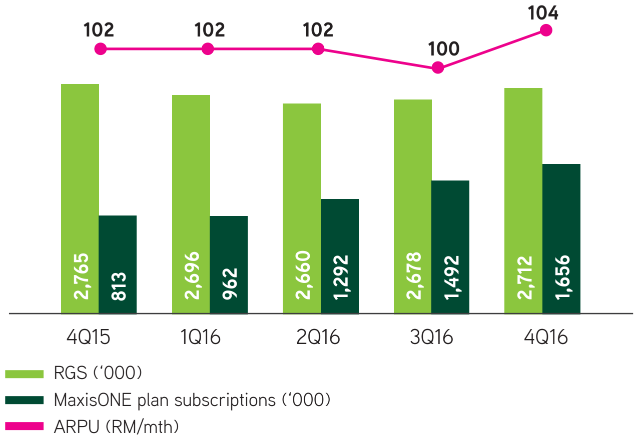


Prepaid revenue registered a 3.7% year-on-year decline to RM4,018 million against RM4,173 million a year ago. This decline was mainly driven by aggressive price competition led by free high-speed Internet and aggressive discounting in the migrant segment. These resulted in high levels of rotational churn which in turn impacted the Group's overall subscription base.

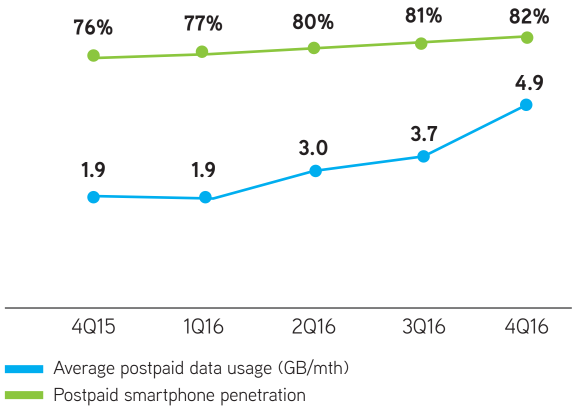
In April, to strengthen our position as the market leader in 4G prepaid, we launched Hotlink FAST that gave customers free data on weekends, for life. Since its launch, Hotlink FAST has surpassed 1.5 million users with high mobile Internet usage. This is reflected in our prepaid ARPU which has improved to RM40 per month (Year 2015: RM38). The increase was driven mainly by continued traction on mobile Internet usage which more than compensated for the decline in voice and SMS usage.

Data usage continued to grow significantly across all segments of our prepaid base. Mobile Internet now accounts for more than 40% of prepaid revenue, up from 33% a year ago. We closed the year with more than 6.6 million mobile Internet users, with average data consumption of 3.3GB per month, up from 1.4GB per month a year ago. Smartphone penetration has reached 74% of our prepaid subscription base.

POSTPAID RGS AND ARPU



POSTPAID DATA USAGE AND SMARTPHONE PENETRATION



Management Discussion and Analysis

Postpaid revenue stood at RM3,931 million, up 0.2% year-on-year supported by the continued traction of our flagship MaxisONE plan.

As our customers continued to use more data on our 4G LTE network, we continued to proactively ensure that our customers have ample data quota for work and play. In April and November this year, we launched enhanced MaxisONE plans where we executed massive upgrades of data quota for existing and new customers, which were combined with an attractive sharing proposition for families. We also added a weekend data allocation as it became more evident that customers are using their smart devices especially for entertainment and video streaming. We believe customers cannot resist a good deal. As a result, more than 800,000 MaxisONE plan customers have been added, and now the base has doubled to 1.7 million, with a monthly ARPU of RM138, which is much higher than the overall blended postpaid ARPU of RM102 per month.

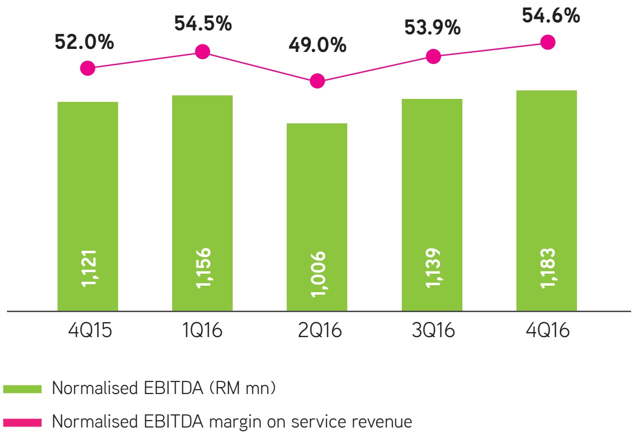
Similarly, we have also enriched our MaxisONE Business and FlexiShare plans with similar upgrades for businesses. Our SME customers also enjoy various solutions such as mPOS, mDrive, managed M2M and Maxis Pay that allows them to simplify, optimise and grow their businesses.

In terms of data consumption, our postpaid customers are consuming an average of 4.9GB per month which is 2.6x higher from a year ago. Customers on LTE devices are consuming even more data, recording an average monthly usage approaching 6.0GB per month. Smartphone penetration of our postpaid base stood at 82%.

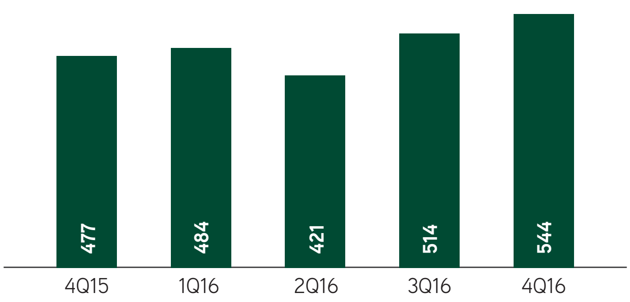
Enterprise Fixed revenue grew 13.0% year-on-year to RM286 million and this was achieved on the back of higher demand for bandwidth capacity, especially for leased lines, dedicated Internet and broadband services.

Integrated Services recorded year-on-year revenue growth of 28.7% to RM220 million. Underpinning our solid performance was continued operational improvement, particularly in the area of customer fulfilment which resulted in the steady growth in Home Connections, rising from 118,000 to 145,900 in the last 12 months. To provide customers with technical help in setting up their home Internet the right way, we launched the Maxpert service. This service has seen very high customer satisfaction levels and will continue to underline our service differentiation.

NORMALISED EBITDA AND MARGIN



NORMALISED PROFIT AFTER TAX (RM mn)

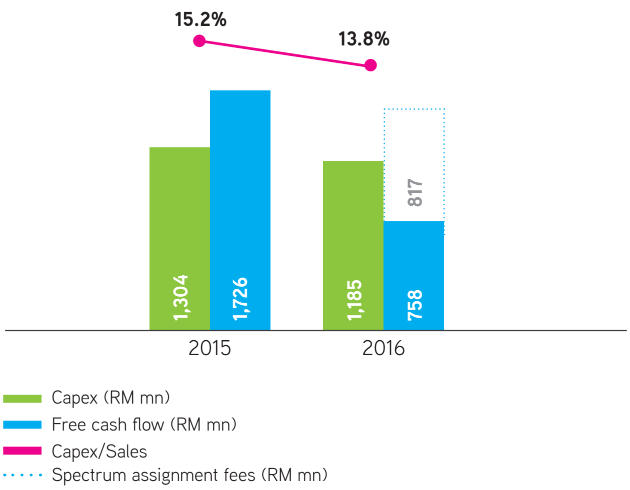


Normalised EBITDA was marginally higher at RM4,484 million year-on-year. This was driven mainly by savings from cost optimisation programmes. Consequently, normalised EBITDA margin stood at 52.1% against 51.5% in the preceding year.

Normalised profit after tax was marginally higher at RM1,963 million compared to RM1,960 million a year ago as higher depreciation and amortisation charges offset the impact of higher EBITDA and lower tax expenses. For financial year 2016, normalised profit after tax excludes net of tax impacts of RM71 million asset impairment and contract obligations provision reversals (Year 2015: Nil), RM16 million unrealised foreign exchange gains (Year 2015: RM70 million unrealised foreign exchange losses) and RM37 million accelerated depreciation (Year 2015: RM143 million). Year-on-year, the lower accelerated depreciation was a result of the near-completion of our network modernisation programme.

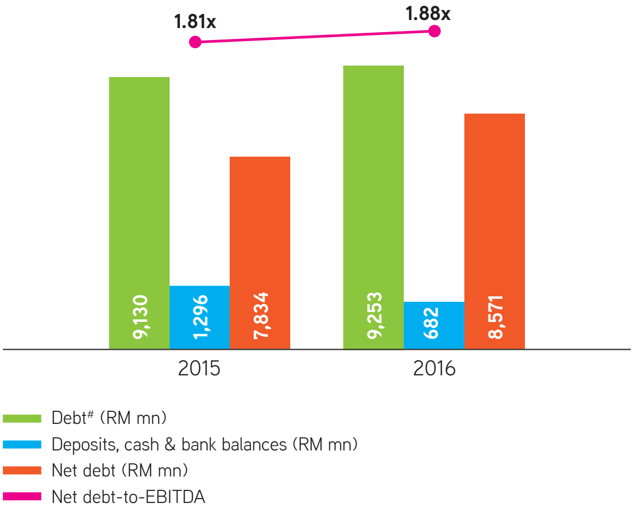
Management Discussion and Analysis

CAPEX AND FREE CASH FLOW



Free cash flow (CF) : CF from operating activities - CF from investing activities - Interest paid - Finance lease repayment

NET DEBT-TO-EBITDA



Includes derivative financial instruments designated for hedging relationship on borrowings; excludes vendor financing

Capital Expenditure (Capex) in 2016 was RM1.2 billion, mainly spent on 4G LTE network to provide customers with the best digital experience. We now have 4.7 million LTE devices, up from 2.8 million a year ago. Average 4G LTE usage has also continued to grow and is approaching 6.0GB per month, significantly higher than the average consumption of 2.5GB per month a year ago. In addition, we are pleased to report that even with seven times 4G LTE traffic growth in the last 12 months, our 4G LTE quality remained stable and superior. We closed the year with an industry-leading 4G LTE network which has reached 88% of the population, covering more than 220 cities and towns.

Free cash flow normalised for spectrum assignment fees was relatively stable year-on-year.

Net debt-to-EBITDA rose to 1.88x from 1.81x in the preceding year. The increase in net debt by RM737 million to RM8,571 million was mainly the result of borrowings to finance the RM817 million spectrum assignment fees for the 900MHz and 1800MHz bands.

Dividend payout for 2016 totalled approximately RM1.5 billion, comprising four interim dividends of RM375.5 million. The payout of 20.0 sen net per share represents a dividend yield of 3.3% based on the closing share price of RM5.98 as at end 2016.

For further details, please refer to the consolidated statements of financial position, consolidated statements of changes in equity and related notes to the consolidated financial statements.

2017 Outlook

For the financial year ending 31 December 2017, we expect service revenue, absolute EBITDA and base capital expenditure at similar levels to financial year 2016. To stay competitive, we will continue to enhance and strengthen our value propositions to customers whilst focusing on providing the best connectivity.

1. The Chairman's and CEO's statements should be read together with the Management Discussion and Analysis
2. The 2015-2016 Sustainability Report is available at http://www.maxis.com.my/en/about-maxis/corporate-responsibility/sustainability-reports.html to provide further details on non-financial indicators
3. This report by Maxis Berhad ("Maxis") contains forward-looking statements. Forward-looking statements can be identified by the use of forward-looking terminology such as the words "may", "will", "would", "could", "believe", "expect", "anticipate", "intend", "estimate", "aim", "plan", "forecast" or similar expressions and include all statements that are historical facts. These statements are based on assumptions and reflect Maxis' current views with respect to future events and are not a guarantee of future performance. As such, Maxis provides no representation or assurance in respect of these statements and disclaims all liability whatsoever (whether in negligence or otherwise) for any loss, damage, costs or expenses however arising out of or in connection with these statements and this report