

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

We are pleased with our overall performance in 2018 which was delivered in line with our guidance, in a rational competitive environment and in a maturing mobile market. We have seen a shift from prepaid to postpaid, accentuated by bundling-based competition and SIM consolidation.

Our solid performance was largely driven by positive growth for postpaid and fibre, coupled with effective and focused marketing initiatives and cost optimisation efforts across the organisation. Our focus remained on providing attractive and innovative products and solutions, superior connectivity and worry-free experiences to our customers.

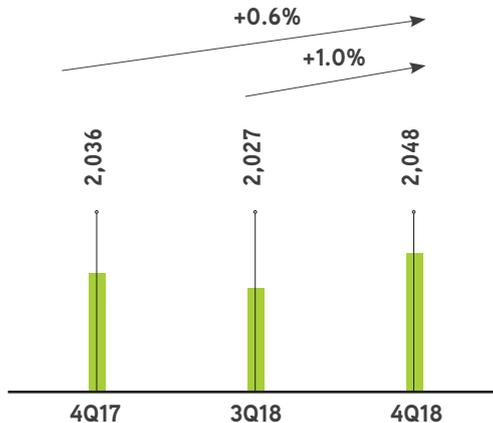
FINANCIAL REVIEW

Although we saw a decrease in total revenue generating subscribers (RGS) in the first half of the year, the introduction of new and innovative offerings as well as revamped products helped to boost performance in the last quarter. We ended the year with a total RGS base of 9.87 million, marking a nominal decrease from 10.00 million at end 2017. Our total blended ARPU, meanwhile, increased from RM56 a month to RM58 a month.

Postpaid

Our Postpaid subscriber base continued to increase, from 2.85 million as at end 2017 to 3.14 million as at end 2018. This was driven primarily by our Hotlink Postpaid Flex and our focus on the Family segment through products, such as MaxisONE Share and Zerolution360, our new innovative device membership programme. Along with a higher RGS base, our ARPU remained relatively stable at RM93 a month, as compared to RM96 a month at end 2017. Data usage continued to surge by a marked 49% from 7.5GB a month at end 2017 to 11.2GB a month, in line with greater digitalisation of the Malaysian lifestyle.

SERVICE REVENUE (RM m)

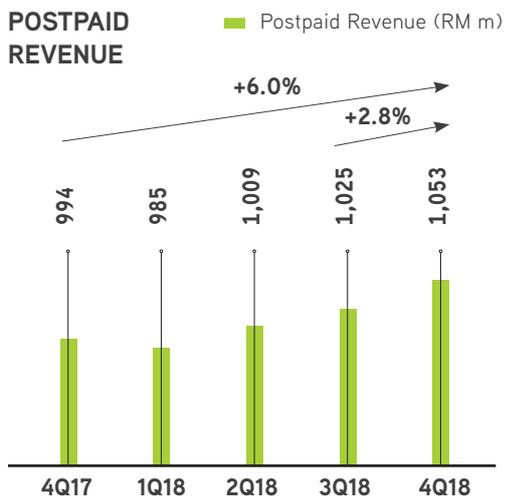


TOTAL RGS & BLENDED ARPU

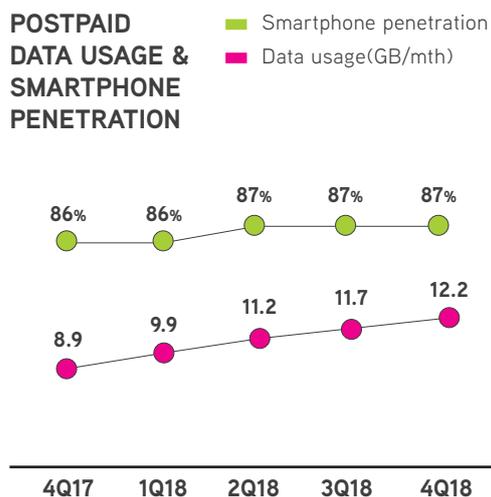


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POSTPAID REVENUE



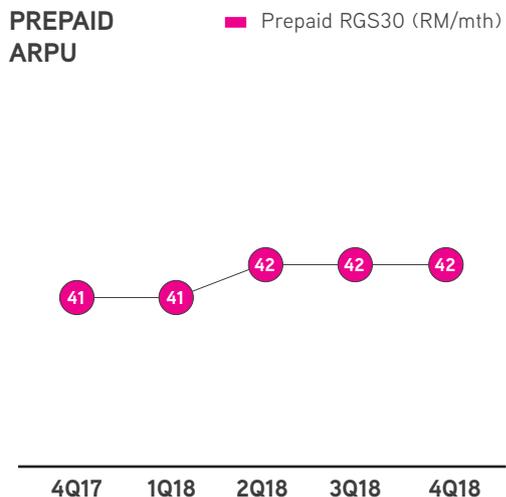
POSTPAID DATA USAGE & SMARTPHONE PENETRATION



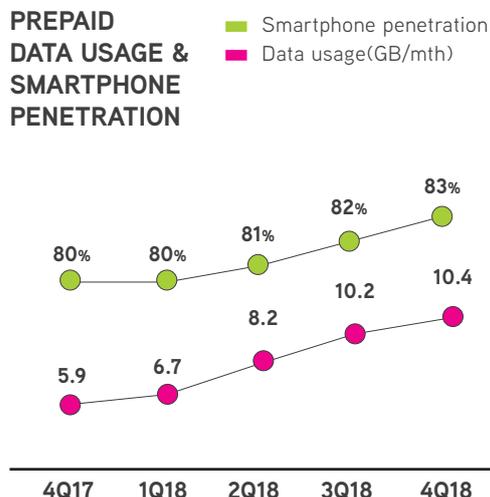
Prepaid

Although the number of Maxis prepaid subscribers continued to drop as a result of migration to postpaid and SIM consolidation, the 6% year-on-year decrease was significantly less than the 11.9% drop recorded in 2017. We continued to entice customers with attractive plans such as HotlinkMU, which has attracted over 2 million customers and growing rapidly, as well as our successful Hotlink RED App. Despite aggressive bundling-based competition, we recorded a consistent ARPU of RM42 a month by driving customer value with our rewards programme and attractive personalised promotions, such as the HotlinkMU G1GA Sale.

PREPAID ARPU



PREPAID DATA USAGE & SMARTPHONE PENETRATION



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Home Fibre

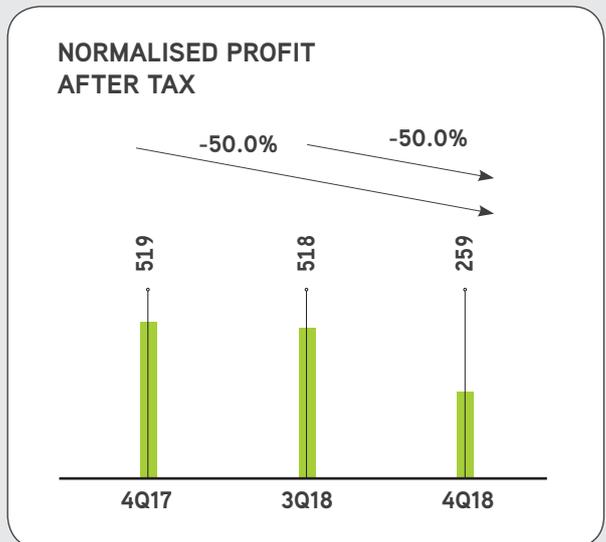
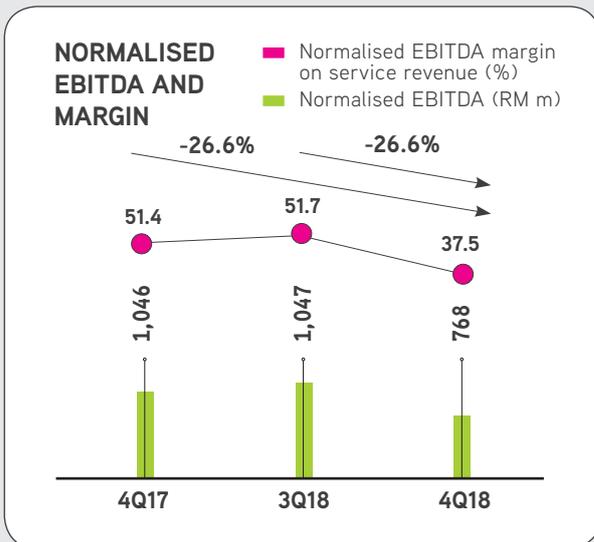
Strategically focused on the growing Home Fibre segment, we embarked on Fibrenation, a campaign with a mission to fiberise all households in Malaysia. Taking a first-mover position, we reduced the broadband access rate. We were the first to introduce affordable plans at reduced prices. This had a positive effect and we increased our customer base by 32%. We followed this up by enhancing and opening up our MaxisONE Prime to all rate plans to give customers a truly converged and unlimited data experience.

We continue to invest in accessing available fibre networks from all access providers in Malaysia and building our own where possible. This will allow us to make our affordable fibre plans available to more customers. In 2018, we signed a Letter of Understanding with Sacofa for Maxis to have full access to Sacofa's HSBB Network Services in Sarawak, which will enable us to offer our existing fibre plans to even more homes and businesses in the state.

Enterprise

Executing our new Enterprise strategy meant that a number of end-to-end solutions were launched in the Enterprise segment, designed specifically to meet the digitalisation and ecommerce needs of our corporate customers, and especially SMEs. These included our Business Fibre Plans, Maxis ONERetail, ONEBusiness Smart and ONEBusiness Flexi. We are targeting specific verticals with customised packages that meet their unique requirements while enhancing the customer experience through digital initiatives. During the year, we also entered into a partnership with Gamuda Land for the provision and deployment of network infrastructure and services to one of its key township developments.

For more details on Our Products and Enterprise Solutions, please refer to pages 58 to 63.

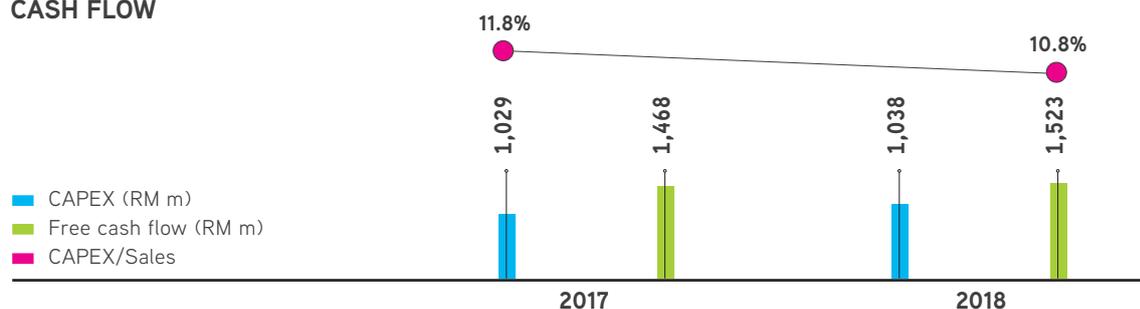


Normalised EBITDA and EBITDA margin on service revenue declined to RM3,843 million and 47.6% respectively (Year 2017: RM4,195 million and 50.7%). These were impacted mainly by the reduction in service revenue, early investments for Enterprise growth and Home Fibre segment, and one-off expenses for productivity programmes. The results are in line with our guidance.

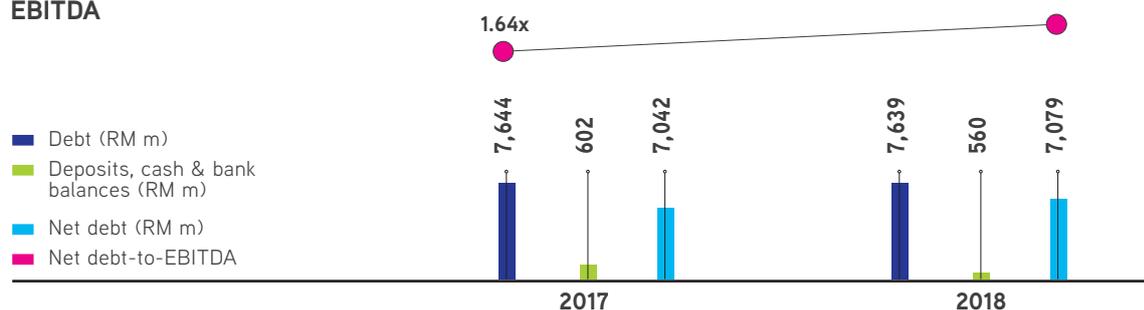
Normalised profit after tax was lower at RM1,768 million compared to RM2,074 million a year ago, in line with the development in EBITDA.

Management Discussion and Analysis

CAPEX AND FREE CASH FLOW



NET DEBT-TO- EBITDA



Capital expenditure (Capex) in 2018 was RM1,038 million. We continued to invest to maintain our superior network, offering the best in coverage and quality. We maintained our lead as the fastest 4G LTE network, recognised by industry experts. The Fibrenation launch also saw us investing heavily in our fibre network to maintain a high quality customer experience. We also made investments in the Enterprise space to ensure we are well equipped to handle the requirements of our customers, in digitalisation and internal productivity. Investment in our network and IT platforms is critical for Maxis to deliver our promise of an “unmatched personalised experience”.

Free cash flow was stronger, increasing 3.7% year-on-year to RM1,523 million (Year 2017: RM1,468 million) mainly due to a new productivity programme and enhanced working capital management initiated during the year.

Net debt-to-EBITDA increased from 1.64x in Year 2017 to 1.86x on the back of lower EBITDA as mentioned above.



Management Discussion and Analysis

At Maxis, we focus on continuously enhancing our value propositions which have enabled us to consistently create significant economic value. This, in turn, has been distributed to our key stakeholder groups, as illustrated below.

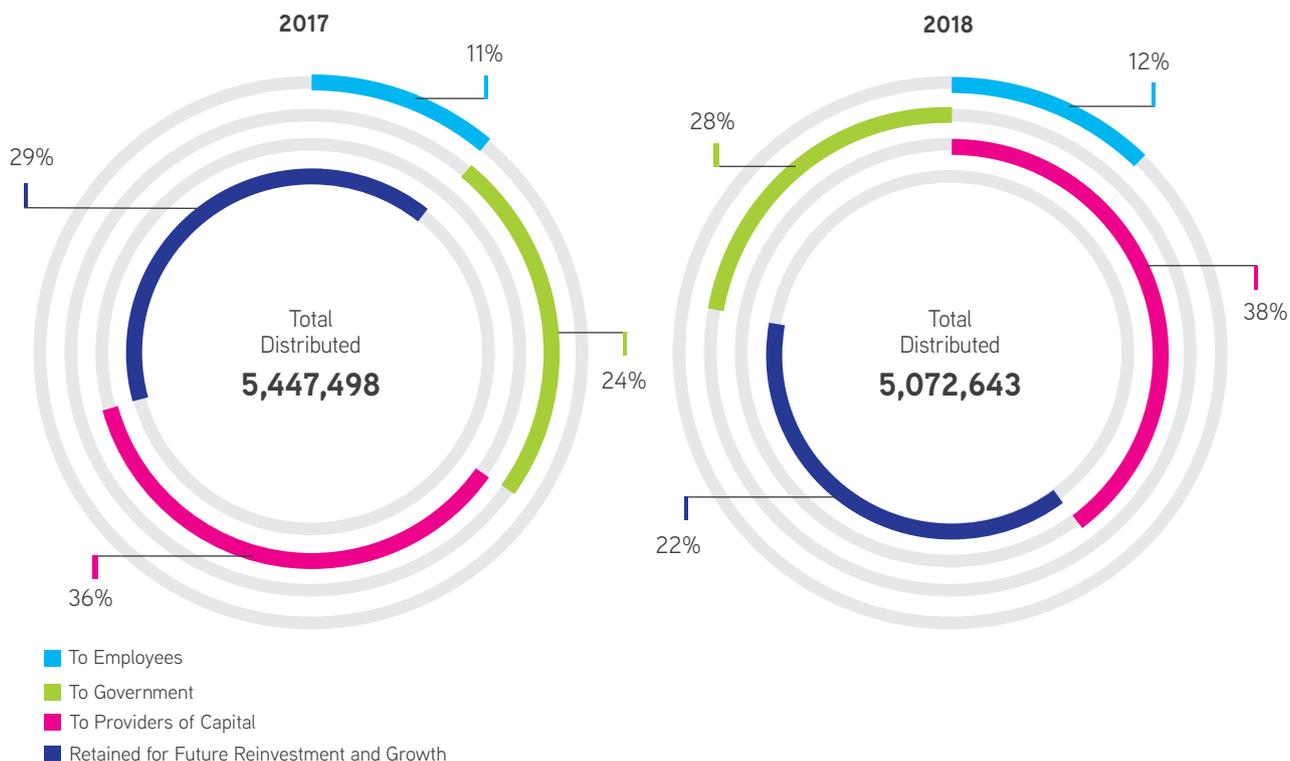
| | 2018 RM'000 | 2017 ⁽¹⁾ RM'000 |
|--|------------------|-------------------------------|
| VALUE DISTRIBUTED | | |
| To Employees | 606,226 | 576,098 |
| To Government | 1,423,524 | 1,322,699 |
| To Providers of Capital | 1,952,077 | 1,977,128 |
| Retained for Future Reinvestment and Growth | 1,090,816 | 1,571,573 |
| TOTAL DISTRIBUTED | 5,072,643 | 5,447,498 |
| VALUE GENERATED | | |
| Revenue | 9,192,436 | 9,419,290 |
| Less: Operating Expenses (excluding distributions to employees and government) | (4,391,203) | (4,305,025) |
| Operating Profit Added for Distribution | 4,801,233 | 5,114,265 |
| Government Grants and Other Income | 226,635 | 272,251 |
| Finance Income | 44,775 | 60,982 |
| TOTAL VALUE ADDED FOR DISTRIBUTION | 5,072,643 | 5,447,498 |

Note:

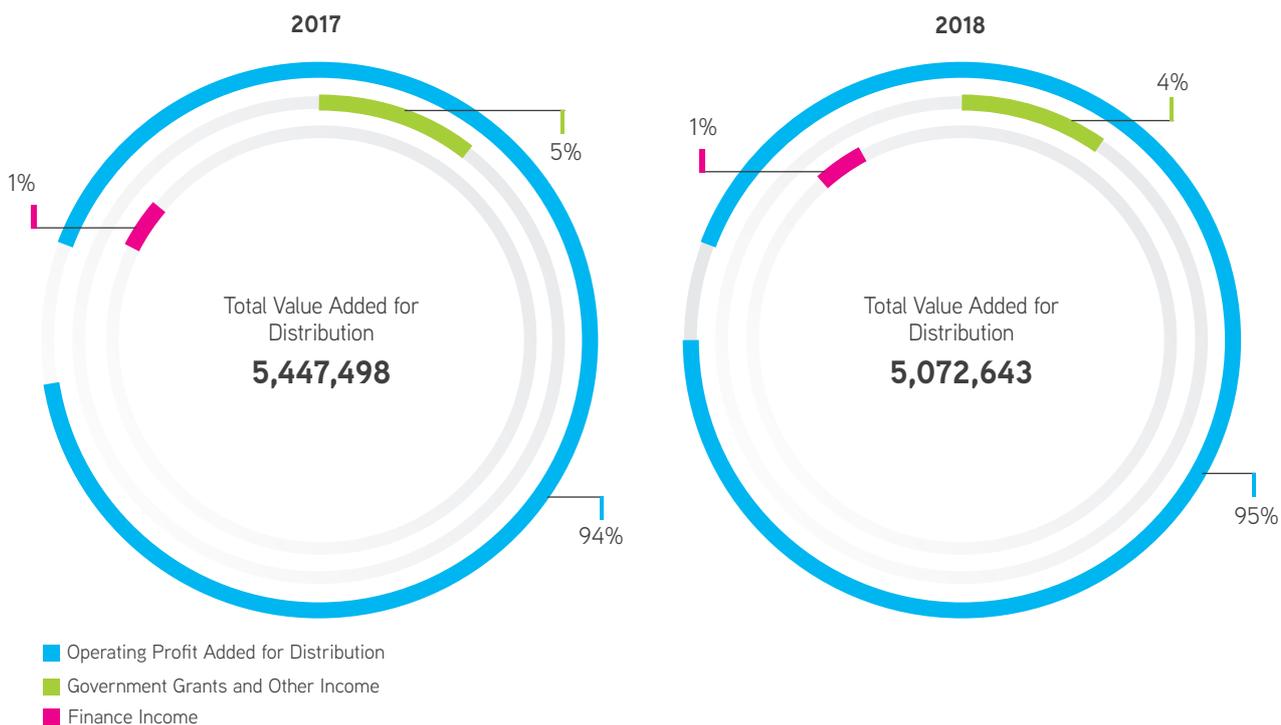
⁽¹⁾ The comparative results were restated due to MFRS 15 adoption.

Management Discussion and Analysis

VALUE DISTRIBUTED



VALUE GENERATED



Management Discussion and Analysis



At Maxis, we have developed a sustainable long-term growth strategy that focuses on keeping us relevant and differentiated.

INVESTOR RELATIONS

Creating Long-Term Shareholder Value

For the financial year 2018, Maxis rewarded our shareholders with approximately RM1.56 billion cash dividends comprising four interim dividends of 5 sen per share. The total dividend payout of 20 sen per share represents a dividend yield of 3.7% based on the closing share price of RM5.35 as at 31 December 2018. The proposed dividend payout is aligned with our dividend policy.

Dividend Policy

Our full dividend policy, as stated in our IPO Prospectus dated 28 October 2009, is reproduced here for reference: "The declaration of interim dividends and the recommendation of final dividends are subject to the discretion of the Board and any final dividend for the year is subject to shareholders' approval. It is the Company's intention to pay dividends to shareholders in the future. However, such payments will depend upon a number of factors, including Maxis' earnings, capital requirements, general financial condition, the Company's distributable reserves and other factors considered relevant by the Board.

Maxis intends to adopt a dividend policy of active capital management. It proposes to pay dividends out of cash generated by its operations after setting aside necessary funding for network expansion and improvement and working capital needs. As part of

this policy, the Company targets a payout ratio of not less than 75% of its consolidated PAT under Malaysian Generally Accepted Accounting Standards (GAAP) in each calendar year, beginning financial year ending 31 December 2010, subject to confirmation of the Board and to any applicable law, license and contractual obligations and provided that such distribution would not be detrimental to its cash needs or to any plans approved by its Board. Investors should note that this dividend policy merely describes the Company's present intention and shall not constitute legally binding statements in respect of the Company's future dividends which are subject to modification (including reduction or non-declaration thereof) at the Board's discretion.

As the Company is a holding company, its income, and therefore its ability to pay dividends, is dependent upon the dividends and other distributions that it receives from its subsidiaries. The payment of dividends or other distributions by the Company's subsidiaries will depend upon their operating results, financial condition, capital expenditure plans and other factors that their respective board of directors deem relevant. Dividends may only be paid out of distributable reserves. In addition, covenants in the loan agreements, if any, for the Company's subsidiaries may limit their ability to declare or pay cash dividends."

The payout ratios in the financial year 2016, 2017 and 2018 were 74.6%, 70.4% (restated) and 87.7% respectively.

Management Discussion and Analysis

GUIDANCE

Our guidance for the financial year ending 31 December 2019, after implementation of MFRS16, is for service revenue and EBITDA to decline by low-single digit and mid-single digit respectively; for core network capital expenditure to be around RM1.0 billion plus capex supporting new growth opportunities in broadband and enterprise business (RM1.0 billion over 3 years); and as a result we expect operating free cash flow to be at a similar level to FY2018.

OUTLOOK

Over the past few years, the telco industry globally and in Malaysia has become increasingly challenging along with greater competition, changing regulations and evolving customer behaviours. 2019 will be no different as Malaysia continues to transform into a digitally enabled nation. Already we are seeing key themes from previous years continue to be apparent. The new Government and regulatory environment offers opportunities for Maxis to provide both fibre to the home and fibre to business services, and this opens up the opportunity of enterprise solution services.

Customer Trends

Firstly, revenue growth in the mobile connectivity market is still repressed by data package competition which drives down the price per GB. This poses a challenge for all operators as the cost of providing and maintaining a great customer experience continues to rise in tandem with consumption. To ensure that we address these challenges, we make focussed investments in our network and customer channels in order to fulfil our promise of an Unmatched Personalised Experience in all our interactions. This also creates an opportunity as we have customers who are digitally savvy, equipped with smartphones and a generous bundling of more mobile Internet data and services, and who are ready for new value added services and solutions.

Secondly, customers who previously owned multiple SIMs to leverage the unique benefits of each mobile service provider are now enjoying single SIM, value-rich offerings. Maxis has executed a successful SIM consolidation campaign. In addition, we focused on offering products and services that will bring in the most value to our customers. In anticipating



the ever-changing needs of our customers, we tapped into our experience of personalising bundles that matched their digital lifestyle across the different prepaid segments – customer data analytics at its best!

Furthermore, the prepaid-postpaid migration continues unabated along with more entry-level postpaid plans flooding the market. As the gap narrows between these two segments, we see customers making the jump for convenience and attractive device ownership propositions. For these new experience seekers, we needed to create a more tailored product experience to bridge the gap between a worry-free prepaid experience and the customisability of prepaid.

In tandem with the prepaid-postpaid shift, customers are demanding more family-oriented offerings and a wider array of digital services. This is exciting as we are experiencing a new era of connectivity – convergence. This occurs at a time of continuing maturity of the market where multi-play propositions that bundle connectivity, content and services will become a staple in the way we connect.

As convergence enables the delivery of these multi-play propositions, we see customers owning more connected devices, such as wearables and smart home solutions. In the home, the rapid evolution of technology has given rise to a plethora of IoT-enabled appliances and 4K smart televisions, which help deliver high quality content to the consumer. On the go, we are seeing connected wearable technology making inroads into Malaysia.



Management Discussion and Analysis

Not only are consumers at home demanding for converged Internet, so are businesses. Malaysia is experiencing the digitalisation and mobilisation of businesses as we head into a digital economy. Internet-enabled business solutions that leverage apps, IoT, cloud and eCommerce to interact with customers are becoming a norm – requiring not only converged propositions, but an end-to-end managed service platform that Maxis is able to provide.

Higher consumption of Internet-enabled services is resulting in an unprecedented rise in demand for high-speed and affordable fibre Internet. As such, we have taken the approach to lead the market in bringing the best converged experience to our customers to provide total mobile and fixed connectivity solutions. We will also continue our focus on offering a differentiated device ownership programme and multi-platform experience packages.

Regulations

The new Government is energising the market with greater openness in connectivity initiatives which will create waves of positive change in Malaysia, accelerating its digitalisation. In addition, the newly passed Malaysian Standard Access Pricing (MSAP) and National Fiberisation and Connectivity Plan (NFCP) will provide Malaysia with the catalyst it needs to bring connectivity to everyone. We are the only mobile player that has negotiated a commercial agreement for fibre access and we are leveraging that into a first mover advantage. We are also seeing increasing investments into the digital economy. Initiatives such as these will accelerate Malaysia's growth and development. We welcome this increase in regulatory certainty and a more level playing field.

Emerging Markets

Meanwhile, rapid digitalisation of our industries is increasing demand and uptake of digitally enabled enterprise services. The digitalisation of businesses not only affects the way they operate, but the entire value chain – from products to customers. With technologies such as IoT, blockchain and artificial intelligence (AI) making waves into our shores, many opportunities are opening up for telcos to play in this space.

The changes are not, however, without challenges. The influx of new technologies necessarily brings with it an equally large influx of disruptors. We are already seeing the adoption of over-the-top (OTT) applications by our customers. This will not only continue, but expand across different verticals and industries, creating opportunities and threats. The impact of messaging-type OTT players as a threat is largely accounted for as our customers have had smartphones and access to bundled voice, SMS and data services for years. The impact of new content and value added OTT applications creates an upside opportunity for us.

We are also experiencing the entry of non-traditional players into the industry, driving new competition. As a result, players are venturing into adjacencies in order to sustain growth and differentiate themselves.

At Maxis, we have developed a sustainable long-term growth strategy that focuses on keeping us relevant and differentiated. Our aim is to prioritise the provision of innovative and relevant solutions, enriching Malaysian businesses that are transforming digitally while enabling individuals who seek digital experiences. Internally, we will continue to build and grow new revenue streams, digitalise core processes and deliver on our ambition to be Malaysia's leading converged communications and digital services provider.

Notes:

1. The Chairman's and CEO's statements, the Business Model and Material Matters sections should be read together with the Management Discussion and Analysis section.
2. 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 and does not take into consideration unforeseen circumstances and factors beyond Maxis' control. 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.