

23 May 2024

Minority Shareholders Watch Group (MSWG)

Level 23-2, Menara AIA Sentral
No. 30, Jalan Sultan Ismail
50250 Kuala Lumpur

ATTN: Mr. Ismet Yusoff, Chief Executive Officer

Dear Sir,

RE: Reply to the MSWG questions for the 27th Annual General Meeting of CelcomDigi Berhad

Firstly, we thank you for the letter dated 19 May 2024, and noting your questions raised in the interests of all minority shareholders and all other stakeholders of the Company. We append below the response to your queries as highlighted in your letter.

1. *“As a result of successfully achieving our first-year integration milestones, we realised gross synergies of over RM300 million in 2023.” (Page 19 of Annual Report 2023 “AR2023”)*

“We delivered on integration and synergy targets, with a deepened focus on managing the impact of our business to our ecosystem and the environment.” (Page 20 of AR2023)

Please elaborate on the integration and synergy targets achieved in FY2023, particularly the RM300 million in synergy savings.

CelcomDigi’s response

Key initiatives executed in 2023 include:

- Re-negotiation of contracts, consolidation of volumes and resources, network and IT consolidation;
- Elimination of redundancies, optimisation of resources (e.g. energy consumption, office supplies and facilities maintenance); and
- Harmonisation of operations / processes across the organisation to optimise operational efficiencies.

2. *“We are accelerating integration activities and institutionalising operational excellence to realise RM8 billion synergies in net present value.” (Page 24 of AR2023)*

- a) How does CelcomDigi plan to further accelerate integration activities to realise the targeted RM8 billion in net present value synergies?
- b) How does CelcomDigi ensure that the integration process does not compromise service quality and customer experience?

CelcomDigi’s response

- a) Apart from network integration being one of the key initiatives to deliver the RM8 billion NPV synergies, there’s an ongoing effort in identifying new and additional synergy opportunities that contribute towards operational efficiencies.

b) Our integration efforts are centred around uplifting customer experience, hence whilst network integration targets are met, customers are now able to enjoy in the post-consolidation areas, an improved download speeds by between 20% and 26%, and better signal strength by between 13% and 16%. In addition, continuous monitoring of our network is being conducted as part of our promise in upholding and enhancing our network quality.

3. *"The Government announced that the country's 5G deployment will transition from a Single Wholesale Network (SWN) to a Dual Network Model. The transition to commence upon DNB achieving 80% 5G population coverage."* (Page 31 of AR2023)

"CelcomDigi commenced a full-scale three-year programme to integrate and modernise legacy Celcom and Digi networks, creating the largest 4G network in Malaysia with the latest LTE and 5G-ready technologies." (Page 62 of AR2023)

"The total FY2023 dividend payout amounted to RM1,549 million, reflecting a 99% dividend payout ratio, which exceeds the company's dividend policy of a minimum of 80% of net profits." (Page 59 of AR2023)

a) We welcome the Company's commitment to consistent shareholder returns. However, with a 99% dividend payout ratio, considering the potential for significant capital expenditure (Capex) as set out above, how does CelcomDigi balance consistent shareholder returns and financing its Capex?

b) What is the expected total capex spending to integrate and modernise legacy Celcom and Digi networks?

CelcomDigi's response

a) CelcomDigi has a solid balance sheet, which highlights our financial capabilities and flexibility to continue funding our investments and operational obligations. The Company manages its operational commitments by focusing on free cash flow optimisation through the implementation of various working capital initiatives aimed at deleveraging the balance sheet while simultaneously minimising new debt requirements and keeping the Net Debt/EBITDA ratio within healthy range of below 2.5 times.

b) We have launched full-scale integration and modernisation programme in June 2023, committing an investment of RM4 billion in capex to build Malaysia's leading digital network with an end state of 18,000 5G-ready sites.

4. The Company continues to depart from Practice 5.2 of the Malaysian Code on Corporate Governance ("MCCG"), which states that at least half of the board should comprise independent directors. For large companies, the board comprises a majority of independent directors.

As a large company, only four of the Company's ten directors are currently independent. In explaining the departure, CelcomDigi mentioned that it recognises the importance of having a majority of independent directors to promote objective board decisions. Although currently less than half of the Board comprises independent members, its robust framework, policies, and procedures safeguard against any influence on Board decisions, whether internal or external. Despite the current composition, the Board remains committed to upholding principles of independence and transparency.

Furthermore, the Company stated that the Board Nomination and Remuneration Committee (BNRC) will continue to review the board's composition to ensure alignment with best practices and regulatory requirements.

The Corporate Governance Report for FY 2022 also mentioned that the Company shall comply with Practice 5.2 of MCCG within three years.

- a) Please provide an instance where the robust framework, policies, and procedures safeguard against any influence on Board decisions.
- b) How many candidates for the position of independent directors have been interviewed to date? What prohibits the companies from appointing the candidates identified?

CelcomDigi's response

- a) CelcomDigi has established a robust framework supported by comprehensive policies and procedures to ensure the integrity of our Board decisions. Our Conflict of Interest Policy mandates that all Board members disclose any potential conflicts before deliberations begin and our Related Party Transaction (RPT) Manual mandates all RPTs to be reviewed and approved by the RPT committee, the Board Audit Committee and Board in accordance with the authority limits as set out in the manual. These policies and manuals are further reinforced by our Code of Conduct and Board Charter, which emphasize transparency and accountability in our governance practices.

Throughout the year, our Board convened 18 meetings to address various matters, including amongst others the re-appointment of directors, remuneration of fees, and evaluation of a network rationalisation process post-merger. In instances involving related party transactions or conflict of interest, conflicted Board members adhered to our established procedures by recusing themselves from deliberation and voting. Subject to the limits of authority, all conflict of interest and related party transactions were reviewed by the RPT committees and Board Audit Committee, and there were no issues recorded that were detrimental to the Company. The related party transactions and conflict of interest situations were deemed fair, reasonable, conducted on arm's length terms and in the best interest of the Group and the Company.

- b) Following the recent merger, CelcomDigi is concentrating on effectively integrating the two merged businesses and delivering on the announced synergies. The Board is prioritising a careful and methodical integration process to ensure stability and effectiveness before appointing new independent directors. Throughout the first-year post-merger, the Board has placed a high priority on assessing the effectiveness and independence of both the Board and its committees.

The Board Nomination and Remuneration Committee conducted a comprehensive annual evaluation that covered various aspects, including Board leadership and committees' effectiveness. This evaluation included Directors' self and peer assessments, a skills matrix assessment, and an evaluation of the independence of the Independent Non-Executive Directors (INEDs). The findings concluded that the Board and its committees are functioning effectively, with the INEDs maintaining their independence, ensuring unbiased oversight and decision-making.

Additionally, there were no instances of any individual or group of directors dominating the decision-making process, and no director had unfettered powers in this regard. There have been no instances to date where an independent director abstained or voted differently from the majority during board decisions. This balance has ensured that the Board's decisions are unbiased and solely in the best interest of shareholders as a whole. While the Company has not yet interviewed candidates for independent director positions, it remains committed to enhancing its governance through strategic succession planning.

5. In response to climate and environmental risks, the Company is committed to achieving Carbon Neutrality by 2030 and Net Zero by 2050, in alignment with the Science Based Target Initiative (SBTi) (Page 34 of AR2023)

What are the potential challenges or obstacles that CelcomDigi foresees in meeting its Carbon Neutral by 2030 target, and if so, what mitigation strategies are in place?

CelcomDigi's response

CelcomDigi has set clear focus areas to support our commitment to advocate responsible business practices across our value chain, addressing material ESG matters such as digital inclusion, privacy and data protection, human rights, as well as the impacts of climate change on our business and society.

We foresee and map multiple climate risks which exist for CelcomDigi and the ICT sector broadly to meet our Carbon Neutral target by 2030. Some of these challenges include managing the growing data demand from our customers, the optimal adoption of emission reduction solutions (factoring in socioeconomic impact and commercial viability), building capabilities to respond to emerging climate-related threats, and ensuring a 'just transition' with our suppliers and partners.

However, our climate risk assessment also clearly points to our sector having the opportunity to identify emission reducing digital solutions with the potential to avoid emissions and drive significant enablement impact across other sectors.

Our focus in the near term will be on improving efficiencies, reducing emissions in our value chain, and adopting feasible digitalisation solutions including AI, automation, virtual models and renewable energy transition.

We value your questions and trust that the above response provides clarity to the queries raised. Please do not hesitate to contact us further, should you have any further clarifications.

Thank you.

Signed for and on behalf of **CELCOMDIGI BERHAD**



LUCY TAN MOI TSU
Chief Financial Officer