

# PT XL AXIATA TBK. (XL)

## FY 16

### Disclaimer

This document contains certain financial information and results of operations, and may also contain certain projections, plans, strategies and objectives of XL, that are not statements of historical fact which would be treated as forward looking statements within the meaning of applicable law. Forward looking statements are subject to risks and uncertainties that may cause actual events and XL's future results to be materially different than expected or indicated by such statements. No assurance can be given that the results anticipated by XL, or indicated by any such forward looking statements, will be achieved.

### OVERVIEW

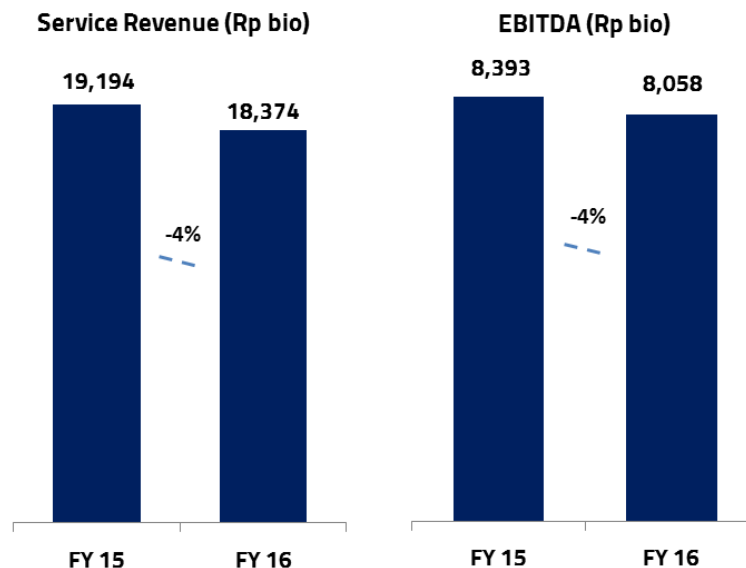
2016 saw the continuation of the Transformation Agenda of XL into a data led business gaining further momentum driving increased adoption of data and attracting smartphone users through enticing offerings. However, the year was challenging given the near term headwinds as XL faced accelerated changing consumer behavior in the substitution from legacy services to data as well as distribution challenges, and brand & network perception gaps. XL has started to address these challenges with early encouraging results. Nevertheless, the strong focus in enhancing XL's data infrastructure through a wider, stronger and better network coupled with diligent cost management and balance sheet restructuring has laid the foundations for a better competitive edge and a stronger 2017 performance.

The focus in 2016 was for XL to establish itself as one of the leading mobile internet service providers with continued network investments to improve quality and coverage. Thus, with the advent of 4G LTE in Indonesia, XL's footprint now spans close to 100 cities and areas across Indonesia with over 8,200 4G BTS. This is further supported by XL's roll-out of 3G on U900 which has significantly improved the quality of XL's Data service on 3G especially outside of Java. With these significant network investments coupled with spectrum advantage, XL has ample capacity to cater for the demand for high-speed internet despite the strong traffic growth seen thus far. This capacity headroom and advantage puts XL in a stronger position to capture the data opportunities moving forward. The improved network and service quality has been recognized by customers with XL's smartphone penetration rising to 63% as it successfully attracts Data savvy customers.

In FY 16, XL also completed its Balance Sheet Management initiatives with the successful closing of both the rights issue and sale and leaseback of towers transactions in the 1H of the year. As a result, XL's gearing has significantly improved to levels prior to the acquisition of Axis which was completed in early 2014. This gives XL the balance sheet strength and flexibility to focus on further network improvements and roll-out.

In 2016, XL's revenue declined due to the shift from Legacy Services to Data, however trends in the 2H of the year were more positive as Data now accounts for 53% of Service Revenue as of Q4 compared to 35% in the same period a year ago. Thus, in 4Q 16, Service Revenue grew for the second consecutive quarter, rising 1% QoQ driven by growth in Data revenue which also led to positive QoQ Gross Revenue growth.

Despite a lower EBITDA YoY, EBITDA margins improved 100bps to 37.6% in FY 16 compared to a year ago. This is due to XL's continued focus on cost optimisation, such as savings from tower lease renewals, as part of the Transformation, leading to an improved cost profile which drove better profitability in the overall business.



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### Network Investment to Achieve Mobile Internet Leadership

Year 2 of its “3R – Revamp, Rise & Reinvent” transformation agenda, saw a continued focus on the “Rise” phase - moving the XL brand up the value ladder anchored on a superior data infrastructure. Establishing XL as the brand of choice for high-value customers who are typically heavy data consumers requires high-speed and reliable data services.

Network quality is essential to achieve this and thus XL continues to ensure top-notch quality of data experience to its customers with continued roll-out and upgrades of its network. XL’s total BTS count is now above 84,000 BTS with 3G totaling more than 38,000. XL’s 4G-LTE service is now available in close to 100 cities and areas across Indonesia and with over 8,200 4G BTS.

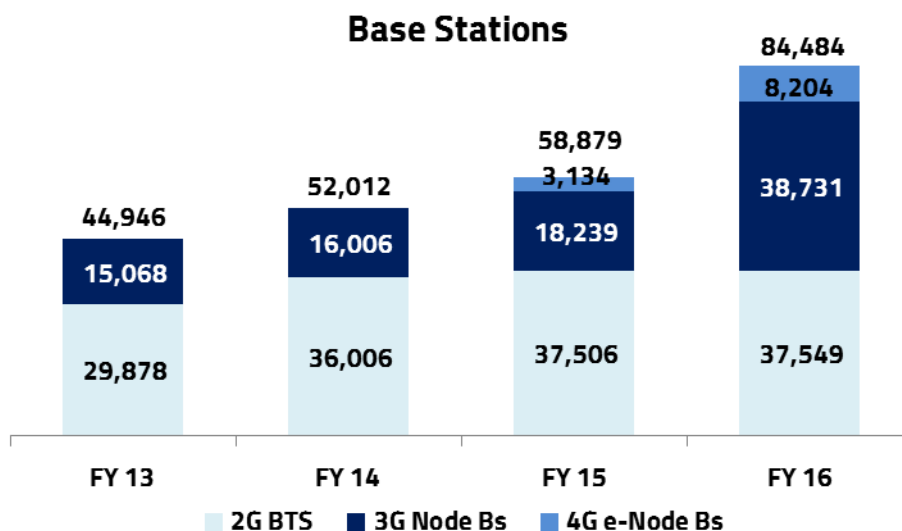
In the 2H of the year, XL had also rolled-out U900 services across the country utilizing the 900MHz frequency for 3G Data services leading to the sharp increase in 3G BTS count this year which are readily upgradable to 4G. This will allow for better 3G Data services for XL’s customers both from improved network coverage as well as in-building coverage in a cost-efficient manner. Data customers will experience 6x better coverage, 2x stronger in-building signal strength and data speeds of up to 21Mbps. This will not only translate to a higher quality data service but better overall voice and SMS experience from optimum use of network capacity from this network layer which well complements XL’s expanding 4G footprint. In addition more than 80% of handset ecosystem is now ready to support the 3G U900.

The main advantage to rolling out U900 is that it will greatly improve XL’s Data network outside of Java significantly narrowing the coverage and quality gap between XL and the market leader in those areas and presents market share opportunities for XL.

These significant network investments for data in both 4G and 3G has meant that even though XL has seen strong traffic growth this year, there is still ample capacity to cater for the rising demand for high-speed internet in Indonesia.

Also in the 2H of the year, XL has pioneered the implementation of 4.5G services which offers speeds of up to 300MBps which is double the theoretical speeds of XL’s existing 4G services of up to 150MBps. This is made possible by XL’s successfully use of “4T4R” technology to increase speed and stability of data services on 4G.

XL also continues to invest in transmission, backhaul, network modernization and upgrades to support the rising data traffic across its network and to deliver stability, expand network capacity and improve quality of its data services.



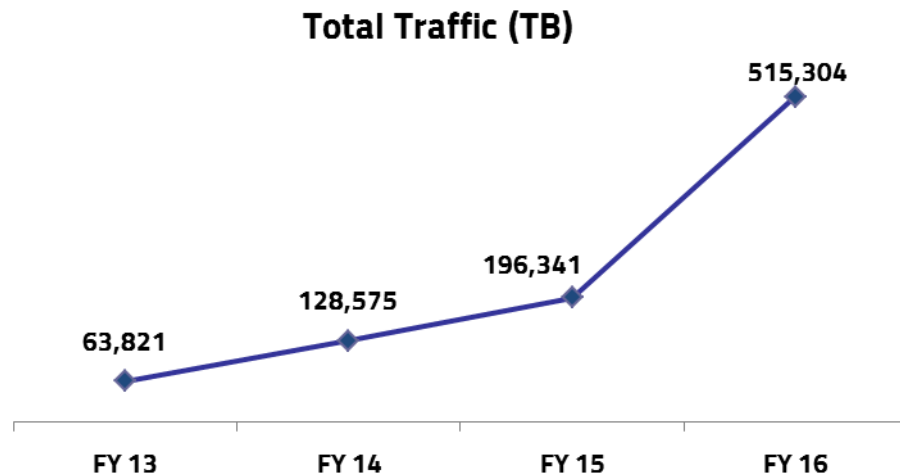
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## Data-driven growth

On the back of the strengthened network and attractive data offerings, XL's smartphone penetration has risen 21 percentage points to 63% compared to the same period in the previous year as more data savvy customers prefer the XL network. This means that XL now has 29.0 million smartphone subscribers at the end of FY 16, a 64% YoY increase from the same period a year ago.

The growth in smartphone customers is meaningful as the average data consumption of smartphone users has also increased significantly, more than double compared to the previous year. Contributing to this is the increased sophistication of XL's smartphone customers driving up usage on XL's 4G-LTE network where traffic has increased by almost 30x since the commercial launch of 4G services in November 2015.

Total traffic across XL's network has seen a 162% YoY increase in FY 16 compared to the same period previous year mainly driven by growth in Data traffic which has risen compared to a decline in traffic from Legacy Services. As of the end of FY 2016, XL ended the quarter with Data users at 65% of the subscriber base.



## Innovative Products, Increased Postpaid Traction & Mobile Broadband

During the year, XL launched many innovative products to entice customers including:

- XL's first Data-led combo package, **Combo Xtra** which is an attractively-priced plan combining a basic internet quota (on 2G/3G/4G) bundled with an "any-net" minutes allocation as well as a bonus 4G quota.
- Brought the combo optionality to XL's flagship Data product, with the launch of **HotRod XTRA** which combines a basic internet quota on 2G/3G/4G as well as an "Any-Net" minutes quota.
- As part of XL's ongoing handset bundling efforts, the **Smartphone XTRA Hemat** plan was introduced which offers customers a smartphone bundled with a **Combo Xtra** plan for a stipulated period.
- **XL Pass** which allows customers to buy a time-based pass in order to use their **HotRod** or **Combo Xtra** internet quota while travelling to other countries – targeted at high-end customers who travel frequently.
- To encourage and increase customer awareness of distribution through modern channels, XL offered bonuses for customers who reload at convenience stores such as **Alfamart**.

XL continues to see strong traction on **XL Prioritas**, which is XL's revamped Postpaid product, through significant customer additions and higher ARPU YoY. In addition, high-value customers have responded well to the premium-positioned brand and better service experience. During the year, **XL Prioritas** has launched:

- **PRIO Plans** which offer offers simplified, data-centric plans with 4G LTE quotas as part of a bundle with free "Any-Net" voice minutes.

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- **PRIO Broadband** which offers High Speed Broadband through Mi-Fi for customers who are big consumers of data.

At the end of the year, XL also launched a Mobile Broadband (MBB) solution for customers termed as **XL Go** which utilizes a Mi-Fi device or router on XL's leading 4G LTE network offering high speeds and allows customers to connect multiple devices. There are a variety of packages suitable for different types of use with **XL Go** for individuals while **XL Home** is for families and **XL Biz** for Small and Medium Enterprises (SMEs). These offer sizeable Data quotas on XL's leading 4G LTE network to capture demand for MBB solutions given the low Fixed Broadband penetration in Indonesia.

### Digital Initiatives

XL has outlined Digital Initiatives to unleash Indonesia's mobile internet market potential

Below are some selected activities that were achieved in FY 16:

- **Digital Entertainment** – To support 4G LTE, the team now has more than 500K downloads for Tribe video mobile application and 800K downloads for Yonder music mobile application.
- **XL Cloud** –By end of FY 16, XL Cloud managed to have 290 customers in which more than 30% of them are big corporate customers.
- **m-ADS** – There are 250 partners with total ads delivered in FY 16 more than 2.4 bio ads
- **Internet of Things (XL IoT)** – Connections increased by 3% compared to last quarter. In total, there are now 395,000 IoT connections at the end of FY 16.
- **Sisternet** – In Q4 16, the team successfully launched the new concept of Sisternet. The new platform is based on the philosophy of Sisternet to become a women platform to create sustainable ecosystem for the target users to use Digital Solutions for their interest in Fashion, Beauty, Food & Beverages, Education and Hobby. After the revamped project, the registered users grow by 400%.
- **XL Tunai** – The total number of XL Tunai subscribers at the end of FY 16 totaled 1.8 million users. In addition, there are now 212 merchants with 110 million transactions done during the year.
- **elevenia** - By the end of the year, elevenia now has more than 55,000 sellers. It is a 20% increment compared to the seller number at the end of the previous quarter, 3Q 16. The monthly average visitors also increased by 21% compared to the last quarter.

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### FINANCIAL MEASURES

#### Income Statement

Financial Statement (in Rp Billion)	FY15	FY16	Growth
<b>Gross Revenue</b>			
Service Revenue	19,194	18,374	-4%
Others*	2,645	1,959	-26%
<b>Cellular Telecommunication Service</b>	<b>21,839</b>	<b>20,334</b>	<b>-7%</b>
<b>Other Telecommunications Services</b>	<b>1,121</b>	<b>1,078</b>	<b>-4%</b>
<b>Gross Revenues</b>	<b>22,960</b>	<b>21,412</b>	<b>-7%</b>
Less: Discount	(84)	(70)	-16%
<b>Gross Revenue Net of Discount</b>	<b>22,876</b>	<b>21,341</b>	<b>-7%</b>
Interconnection and other direct expenses	2,321	1,927	-17%
Salaries & Employee Benefits (Permanent & Temporary)	1,089	1,157	6%
Sales and Marketing Expense	1,127	1,433	27%
Infrastructure Expenses	9,286	8,269	-11%
Supplies and Overhead expenses	660	498	-24%
<b>Total OPEX</b>	<b>14,483</b>	<b>13,283</b>	<b>-8%</b>
<b>EBITDA</b>	<b>8,393</b>	<b>8,058</b>	<b>-4%</b>
<b>EBITDA Margin</b>	<b>37%</b>	<b>38%</b>	<b>1%</b>
Depreciation & Amortization	7,135	8,046	13%
<b>EBIT</b>	<b>1,258</b>	<b>12</b>	<b>-99%</b>
Other Expenses			
Finance income/(cost) - net	(1,466)	(1,590)	8%
Forex gain/(loss) - net**	(2,135)	408	N/A
Share of results from jointly controlled entity	(147)	(255)	73%
Others	1,860	1,610	-13%
<b>Total Other Income/(Expenses)</b>	<b>(1,888)</b>	<b>173</b>	<b>N/A</b>
<b>Income (Loss) before income tax</b>	<b>(630)</b>	<b>186</b>	<b>N/A</b>
Income Tax (Expense) Benefit	605	190	-69%
<b>Profit (Loss) for the period</b>	<b>(25)</b>	<b>376</b>	<b>N/A</b>
<b>Earnings (Loss) Per Share (full amount) (Rp)</b>	<b>(3)</b>	<b>35</b>	<b>N/A</b>

Normalized Profit (Loss) (In Rp Billion)	FY15	FY16	Growth
Profit (Loss) for the year	(25)	376	N/A
Unrealized forex (gain)/loss	2,189	(315)	-114%
Accelerated depreciation***	76	1,158	977%
(Gain)/Loss from Capital Lease	(1,622)	(1,288)	-21%
Severance Payment	-	96	-
Tax Impact	(566)	(235)	-59%
<b>Normalized Profit (Loss) for the year</b>	<b>51</b>	<b>(209)</b>	<b>-510%</b>
<b>Normalized Earnings (Loss) Per Share (full amount) (Rp)</b>	<b>6</b>	<b>(20)</b>	<b>-427%</b>

\*Others mainly comprises Cellular Interconnect and International Roaming Services

\*\*Hedging gain/ (loss) will be accounted under Forex gain/ (loss) – net

\*\*\*Accelerated Depreciation in 2016 was, Q2: Rp372bio; Q3: Rp183bio; Q4: Rp603bio

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### Operational Results

In FY 16, XL recorded gross revenue of Rp 21.4 trillion, a decrease of 7% YoY.

- Cellular Telecommunication Service revenues decreased by 7% YoY to Rp 20.3 trillion and contributed 95% to total revenue. Service Revenue declined 4% YoY to Rp 18.4 trillion as growth in Data service revenue was not enough to offset the decline in Legacy Services revenue. Revenue from Others declined by 26% to Rp 2.0 trillion mainly due to lower interconnect revenue which is due to lower incoming off-net traffic.
- Other telecommunications services revenue, which comprises mainly of leased towers, leased lines and national roaming, decreased by 4% to Rp 1.1 trillion mainly driven by foregone tower leasing revenue. Other telecommunications services revenue contributed 5% to total revenue during the year.

### Operating Expenses

Total operating expenses decreased by 8% YoY to Rp 13.3 trillion.

- Interconnection and other direct expenses decreased by 17% YoY. This was mainly due to lower interconnect costs (for both voice and SMS) as a result of lower off-net traffic as well as from a renegotiation of fees under a contract with Research in Motion (RIM).
- Salary and Employee Benefits increased by 6% YoY. The increase was mainly due to severance payments for staff and accruals for the new LTI (2016-2020) program.
- Sales and Marketing expenses increased by 27% YoY. The higher sales and marketing expenses is due to lower expenses in 1Q 15 prior to the implementation of the transformation agenda and higher expenses in FY 16 due to focus on 4G-LTE, U900, better trade visibility and competitiveness in the traditional distribution channels as well as postpaid campaigns.
- Infrastructure expenses decreased by 11% YoY. This is mainly due to lower tower rental costs as XL has renewed some of its tower lease contracts that have come up for renewal.

### EBITDA

In FY 16, EBITDA decreased 4% YoY to Rp 8.1 trillion due to slower revenue growth in FY16. Positively, XL recorded higher EBITDA margins of 37.6% up 100 basis points YoY. The increase was mainly due to efforts on cost optimisation initiatives such as tower lease renewal savings which drove better profitability and contributed to the improvement in EBITDA margins.

### Depreciation and Amortization Expenses

Depreciation and amortization expenses grew by 13% YoY mainly due to accelerated depreciation charges taken during the year due to network modernization relating to the 4G LTE rollout and U900 upgrades.

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### Other Expenses/Income

Other Income rose to Rp 173 billion in FY 16, due to a forex gain of Rp 408 billion in FY 16 as opposed to a forex loss of Rp 2.1 trillion a year ago. Higher net interest costs (up 8% YoY) are a function of the refinance of XL's debt to IDR.

### Profit (Loss) for the period

In FY 16, XL recognized a Rp 376 billion net profit compared to a Rp 25 billion net loss a year ago mainly due to the gain recognized from the sale and leaseback transaction of towers and forex gains.

### Balance Sheet

Balance Sheet (In Rp Billion)	FY15	FY16	Growth
<b>Current Assets</b>			
Cash and cash equivalents	3,312	1,400	-58%
Others	6,840	5,407	-21%
<b>Total Current Assets</b>	<b>10,152</b>	<b>6,807</b>	<b>-33%</b>
<b>Non-Current Assets</b>			
Fixed assets - net of accumulated depreciation	33,427	33,183	-1%
Intangible asset	6,326	6,108	-3%
Goodwill	6,681	6,681	0%
Others	2,258	2,117	-6%
<b>Total Non-Current Assets</b>	<b>48,693</b>	<b>48,089</b>	<b>-1%</b>
<b>Total Assets</b>	<b>58,844</b>	<b>54,896</b>	<b>-7%</b>
<b>Current Liabilities</b>			
Current maturity of long term loans and bonds	3,922	3,645	-7%
Others	11,826	10,832	-8%
<b>Total Current liabilities</b>	<b>15,748</b>	<b>14,477</b>	<b>-8%</b>
<b>Non-Current Liabilities</b>			
Long term loans and bonds	16,134	11,026	-32%
Shareholder loan	6,898	-	-100%
Others	5,973	8,184	37%
<b>Total Non-Current Liabilities</b>	<b>29,004</b>	<b>19,210</b>	<b>-34%</b>
<b>Total Liabilities</b>	<b>44,753</b>	<b>33,687</b>	<b>-25%</b>
<b>Equity attributable to owners of the parent entity</b>			
Share capital & additional paid-in capital	6,487	13,208	104%
Retained earnings	7,605	8,002	5%
<b>Total Equity</b>	<b>14,092</b>	<b>21,209</b>	<b>51%</b>
<b>Total Liabilities and Equity</b>	<b>58,844</b>	<b>54,896</b>	<b>-7%</b>

In FY 16, total assets were Rp 54.9 trillion, 7% lower compared to the previous year due to lower cash balances and a decrease in other current assets relating to the sale and leaseback of towers to Protelindo.

- Current assets was down 33% in FY 16 compared to the end of FY 15 due to a 58% decrease in cash which was used to pare down debt and a 21% decrease in other assets which was due the sale and leaseback of towers to Protelindo.
- Non-current assets decreased slightly by 1% YoY.

Total liabilities decreased by 25% YoY as a result of the repayments of loans including the repayment of the shareholder's loan from Axiata.

- Current liabilities decreased 8% compared to FY 15 mainly due to the decrease in other current liabilities.

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- Non-current liabilities decreased by 34% due to the repayment of the shareholder loan from Axiata as well as a 32% decrease in long-term loans and bonds through loan repayments

### Capital Expenditure

Capital Expenditure (In Rp Billion)	FY15	FY16	Growth
Capitalized capex	4,848	6,474	34%
Paid capex	4,146	5,584	35%
Commitments entered into*	4,115	7,386	79%

\* The USD portion was converted to IDR using closing rate of December 2015 and 2016. The Rupiah exchange rate against the USD as of December 2015 and 2016 were Rp13,795/USD and Rp13,436/USD, respectively.

### Cash Flow

Cash Flow (In Rp Billion)	FY15	FY16	Growth
Net cash flow generated from operating activities	7,506	7,312	-3%
Net cash flow used in investing activities	(4,605)	(3,849)	-16%
<b>Free cash flow</b>	<b>2,901</b>	<b>3,463</b>	<b>19%</b>
Net cash flow used in financing activities	(6,556)	(5,369)	-18%
Net increase/(decrease) in cash and cash equivalents	(3,655)	(1,906)	-48%
<b>Cash and cash equivalents at the beginning of the period</b>	<b>6,951</b>	<b>3,312</b>	<b>-52%</b>
Effect of exchange rate changes on cash and cash equivalents	16	(6)	-140%
<b>Cash and cash equivalents at the end of the period</b>	<b>3,312</b>	<b>1,400</b>	<b>-58%</b>

Net cash flow generated from operating activities decreased by 3% to Rp 7.3 trillion mainly due to a decrease of 7% in cash receipts from customers.

Net cash flow used in investing activities decreased by 16% to Rp 3.9 trillion due to the proceeds from the sale and leaseback transaction.

Net cash flow used in financing activities was Rp 5.4 trillion a 18% decrease from FY 15 due to the proceeds of the rights issue and tower sale.



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### Description of Debts

The detail of debts as of 31 December 2015 and 2016 are as follows:

Description	(in Original Amount)		Year of Maturity
	FY 15	FY 16	
USD Loan (mn)	US\$ 88	US\$ -	Amortizing annually, final repayment in 2016
	US\$ 500	US\$ -	Bullet repayment in 2017
	US\$ 50	US\$ 50	Bullet repayment in 2018
	US\$ 300	US\$ 300	Bullet repayment in 2019
	<b>US\$ 938</b>	<b>US\$ 350</b>	
IDR Bank Loan (bn)	Rp 800	Rp -	Amortizing annually, final repayment is in 2016
	Rp 3,725	Rp 3,050	Amortizing annually, final repayment is in 2017
	Rp 2,400	Rp 1,950	Amortizing annually, final repayment is in 2018
	Rp 5,650	Rp 4,000	Amortizing annually, final repayment is in 2020
	<b>Rp 12,575</b>	<b>Rp 9,000</b>	
IDR Sukuk (bn)	Rp 494	Rp -	Series A - Due in 2016
	Rp 258	Rp 258	Series B - Due in 2018
	Rp 323	Rp 323	Series C - Due in 2020
	Rp 425	Rp 425	Series D - Due in 2022
	<b>Rp 1,500</b>	<b>Rp 1,006</b>	
Unamortized Loan Issuance Cost (bn)	<b>Rp (61)</b>	<b>Rp (37)</b>	
<b>TOTAL INTEREST BEARING DEBT (in Rp. Bn)*</b>	<b>Rp 26,953</b>	<b>Rp 14,671</b>	

\* The USD portion was converted to IDR using closing rate of December 2015 and 2016. The Rupiah exchange rate against the USD as of December 2015 and 2016 were Rp13,795/USD and Rp13,436/USD, respectively.

Gearing Ratios (x)	FY15	FY16	Growth
Debt/Equity	1.9	0.7	(1.2)
Net Debt/Equity	1.7	0.6	(1.1)
Debt/EBITDA	3.2	1.8	(1.4)
Net Debt/EBITDA	2.8	1.6	(1.2)

During FY 16, XL made repayment of debts amounting to Rp 4,069 billion (including repayment of the first tranche of sukuk due in 2016 amounting to Rp 494 billion) and USD 588 million.

As of 31 December 2016, all of XL's external USD loans are fully hedged until maturity.

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### OPERATING MEASURES

	FY15	FY16	Growth
Total Traffic (Petabyte)	191.7	503.2	162%
Total BTS	58,879	84,484	43%
2G	37,506	37,549	0%
3G	18,239	38,731	112%
4G	3,134	8,204	162%
Number of Employees (permanent & contract with permanent position)	2,033	1,892	-7%
Postpaid users (000)	437	533	22%
Prepaid sim cards (active and grace / million)	41.5	45.9	11%
Total user base (million)	41.9	46.5	11%
ARPU blended (Rp 000)	34	35	3%
Postpaid revenue/sub (Rp 000)	107	116	8%
Prepaid revenue/sim card (Rp 000)	34	34	0%

### ACHIEVEMENT

- XL was recognized as *"The Fifth Best Managed Company in Indonesia"* by renowned financial magazine, FinanceAsia, in its annual poll of Asia's Best Companies.
- XL received the *"Indonesia's Most Trusted Company"* award in the Indonesian Good Corporate Governance Awards and Conference 2015.
- XL won the *"Best Data Plan"* for its high-speed 4G-LTE internet packages at the Indonesian Cellular Awards 2016.
- XL IOT received the *"Best M2M Services"* award at the 13<sup>th</sup> Annual Cellular Awards 2016 held by the Cellular Media Group in Indonesia.

### CONSOLIDATED GUIDANCE

2017

Revenue growth	In-line with market
EBITDA margin	High 30's
Cash out capex	Not exceeding Rp 7.0 trillion

### ABOUT XL

PT XL Axiata Tbk. is one of the major cellular providers in Indonesia. PT XL Axiata Tbk. is (66.4%) owned by Axiata Group Berhad ("Axiata" or "the Group") through Axiata Investments (Indonesia) Sdn Bhd and public (33.6%), and is part of Axiata. The Group's mobile subsidiaries and associates operate under the brand name 'Celcom' in Malaysia, 'Dialog' in Sri Lanka, 'Robi' in Bangladesh, 'Smart' in Cambodia, 'Ncell' in Nepal, 'Idea' in India and 'M1' in Singapore.

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