

## AXIATA GROUP BERHAD (“AXIATA”)

### PROPOSED INVESTMENT IN NCELL PRIVATE LIMITED (“NCELL” OR “TARGET”)

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*(In this Announcement, “RM” refers to Ringgit Malaysia, “US\$” refers to United States Dollars, “NPR” refers to Nepalese Rupee. Unless stated otherwise, the exchange rates of RM1.00:US\$0.2311 and RM1.00:NPR24.7655 based on Bank Negara Malaysia (“BNM”) as at 1200 noon on 15 December 2015 are used throughout this Announcement for illustration purposes.)*

#### 1. INTRODUCTION

On behalf of the Board of Directors of Axiata (“**Board**”), CIMB Investment Bank Berhad (“**CIMB**”) wishes to announce that Axiata Investments (UK) Limited (“**Buyer**”), a wholly-owned subsidiary of Axiata, had on 21 December 2015 entered into a sale and purchase agreement (“**SPA**”) and other ancillary agreements with the parties detailed in section 2 below for the acquisition of the entire issued and paid-up capital of Reynolds Holdings Limited (“**Reynolds**”) (“**Proposed Acquisition**”) for a total cash consideration of approximately US\$1,365.1 million (equivalent to approximately RM5,907.0 million). Reynolds in turn holds 800,000 shares representing 80.0% of the equity interest in Ncell. There will be closing adjustments to the cash consideration of approximately US\$1,365.1 million in accordance with the terms of the SPA (as detailed in section 2.1 of this Announcement). For the avoidance of doubt, the cash consideration together with the said closing adjustments, shall be referred to as the “**Purchase Consideration**”.

The remaining locally-held 20.0% equity interest in Ncell currently held by Niraj Govinda Shrestha (“**NGS**”) will be transferred to Sunivera Capital Venture Pvt. Ltd. (“**Sunivera**”) prior to completion of the Proposed Acquisition. Axiata, Sunivera and Bhavana Singh Shrestha (collectively, “**Signing Parties**”) had also on the same day entered into a shareholders’ agreement for the purposes of regulating the operation and management of Ncell and the relationship between the Signing Parties upon completion of the Proposed Acquisition (“**Shareholders’ Agreement**”).

#### 2. DETAILS OF THE PROPOSED ACQUISITION

The SPA was entered into between the Buyer and the following parties:

- (i) TeliaSonera UTA Holdings B.V. (“**TS UTA**”);
- (ii) SEA Telecom Investments B.V. (“**SEA Telecom**”);
- (iii) TeliaSonera AB, as the guarantor for TS Norway (as defined below);
- (iv) TeliaSonera Norway Nepal Holdings AS (“**TS Norway**”); and
- (v) Axiata, as the guarantor for the Buyer.

##### 2.1 Salient terms of the SPA

TS Norway is the legal and beneficial owner of the entire issued and paid-up share capital of Reynolds of US\$101,000.00 comprising 101,000 shares with a par value of US\$1.00 each (“**Shares**”). TS Norway is held by TS UTA and SEA Telecom (collectively, the “**Sellers**”), which have effective equity interest of 75.5% and 24.5%, respectively. TS Norway has agreed to sell all of the Shares to the Buyer, subject to the terms and conditions of the SPA.

The salient terms of the SPA include, amongst others, the following:

### 2.1.1 Purchase Consideration

The Purchase Consideration of approximately US\$1,365.1 million (equivalent to approximately RM5,907.0 million), which is subject to closing adjustments in accordance with the terms of the SPA that comprises the following:

- (i) an amount equal to approximately US\$1,030.0 million for TS UTA's effective equity interest in Ncell ("**TS UTA Purchase Price**");
- (ii) an amount equal to approximately US\$335.1 million for SEA Telecom's effective equity interest in Ncell ("**SEA Telecom Purchase Price**"); and
- (iii) as adjusted for the difference (which may be a positive or negative amount) between the amounts as at the date of closing of the SPA ("**Closing Date**") and estimated said amounts prior to the Closing Date, of: (1) working capital; (2) gross cash and gross debt and debt like items; (3) connected non-trading debt, (items (1) to (3) collectively, "**Closing Adjustment Amount**"); and (4) specified amount (as determined in accordance with the terms of the SPA) ("**Specified Amount**")\*.

At the closing of the SPA ("**Closing**"), an amount equal to: (i) TS UTA Purchase Price; (ii) SEA Telecom Purchase Price; (iii) estimated Closing Adjustment Amount derived based on estimated relevant amounts ("**Estimated Closing Adjustment Amount**") and (iv) Specified Amount (in accordance with the terms of the SPA), will be paid to TS Norway ("**Closing Payment**"). Approximately US\$160.0 million out of the Closing Payment will be held under escrow in accordance with the terms of the SPA.

After the payment of the Closing Payment on the Closing Date, the Buyer and the Sellers shall agree on a closing statement in accordance to the terms of the SPA to determine the final Closing Adjustment Amount. If the final Closing Adjustment Amount exceeds the Estimated Closing Adjustment Amount, the Buyer shall pay to TS Norway such amount equal to the excess. Conversely, if the Estimated Closing Adjustment Amount exceeds the final Closing Adjustment Amount, TS Norway shall pay to the Buyer such amount equal to such excess. The Specified Amount will also be determined in accordance with the terms of the SPA.

**Note:**

\* *As at the date of this Announcement, there is no confirmation that the approval of Nepal's Department of Industry ("DOI") has been received for the transfer of 4.4% of the issued shares of Ncell to Reynolds ("**4.4% Ncell Shares**"). In the absence of approvals from the DOI to the allotment of the 4.4% Ncell Shares, Reynolds' ownership of such shares cannot be deemed to be completed. Application to the DOI to obtain approval for the transfer of the 4.4% Ncell Shares to Reynolds will be made. A Specified Amount will be deducted from the Purchase Consideration if the said confirmation from the DOI is not provided, in accordance with the terms of the SPA.*

### 2.1.2 Conditions

- (i) The Proposed Acquisition is subject to the following conditions having been satisfied or waived in accordance with the SPA ("**Conditions**"):
  - (a) no Material Adverse Change (as defined in the SPA) having occurred on or prior to the Closing Date;
  - (b) the shareholders of Axiata having approved the acquisition of the Shares by the Buyer on the terms of the SPA;
  - (c) receipt by the Buyer of an approval of BNM to permit the investment in Ncell and the payment and remittance of the Closing Payment;

- (d) the transfer of 20.0% of the fully diluted share capital of Ncell currently held by NGS to Sunivera having completed and Sunivera being the duly registered holder of 20.0% of the fully diluted share capital of Ncell and the transactions under a deed of waiver being consummated; and
  - (e) subsequent to the satisfaction (or waiver in accordance with the terms of the SPA) of the Condition (d), receipt by the Buyer of a waiver from TS Norway, each Seller and NGS of any right to receive, or any other interest in, the dividend declared by Ncell on 21 December 2012 for an amount equal to NPR11,000,000,000 and any other dividend declared by Ncell and/or Reynolds and not paid on or before the Closing Date.
- (ii) If any Condition has not been satisfied or waived in accordance with the SPA by the long stop date of 30 June 2016, all rights and obligations of the parties under the SPA shall automatically terminate, unless otherwise agreed in writing by the parties, without any liability on any party except for the surviving provisions stipulated in the SPA, and any liability for any breach under the SPA which has occurred prior to that termination.
  - (iii) If a Material Adverse Change (as defined in the SPA) occurs at any time after the date of the SPA but prior to Closing, the Buyer may, by written notice to the Sellers prior to Closing, terminate the SPA with immediate effect and with no liability to the Buyer except under the surviving provisions and for any liability for any breach under the SPA which has occurred prior to that termination.
  - (iv) If at any time before or at Closing there is a material breach of certain warranties as stipulated in the SPA, the Buyer may, without prejudice to any other rights it may have in relation to the breach terminate the SPA by written notice to the Seller without any liability to the Buyer except under the surviving provisions and for any liability for any breach under the SPA which has occurred prior to that termination or proceed to Closing.

## 2.2 Basis and justification of the total consideration for the Proposed Acquisition

The Purchase Consideration for the Proposed Acquisition was arrived at on a willing buyer-willing seller basis after taking into consideration, among others, the following:

- (i) the consideration paid is in line with internal assessment of the management based on common valuation methodologies such as enterprise value (“EV”) over earnings before interests, tax, depreciation and amortisation (“EBITDA”) multiples of trading and transaction comparables;
- (ii) the historical performance of Ncell as set out in Appendix I of this Announcement;
- (iii) the earnings potential and growth of Ncell;
- (iv) the rationale of the Proposed Acquisition as set out in Section 4 of this Announcement; and
- (v) the prospects and outlook of the telecommunications industry in Nepal as set out in Section 5 of this Announcement.

The Purchase Consideration for the Proposed Acquisition shall be satisfied in cash and shall be funded via a combination of internally generated funds, debt instruments and external borrowings.

Save for the Purchase Consideration and any liabilities arising as a consequence of consolidating Ncell as a subsidiary of Axiata, Axiata will not be assuming any liabilities pursuant to the Proposed Acquisition.

Further, as Ncell is already operating, there are no additional financial commitments required by Axiata to commence operations.

### 3. INFORMATION ON THE PARTIES

#### 3.1 Information on Ncell

Ncell was incorporated in Nepal under the Laws of Nepal on 21 June 2001 as a private limited company.

Ncell is a mobile telecommunications operator in Nepal, providing mobile voice, data and value-added services. Ncell has 13.0 million mobile subscribers as of 17 July 2015 and a mobile subscriber market share of 48.8% <sup>1</sup>. Ncell has extensive coverage throughout Nepal covering approximately 90.0% of the population of Nepal. Further, its third generation (3G) telecommunication network is available in 20 major cities of Nepal <sup>2</sup>.

*(Source: 1. MIS Report, Shrawan, 2072 (17 July – 17 August, 2015) published by Nepal Telecommunications Authority; 2. Ncell's website at www.ncell.com.np)*

As at 30 November 2015, being the latest practicable date prior to this Announcement (“LPD”), Ncell’s authorised share capital is NPR17,000,000,000 comprising 170,000,000 equity shares of NPR100 each, of which NPR100,000,000 comprising 1,000,000 equity shares of NPR100 each have been issued and fully paid-up.

As at the LPD, the Directors of Ncell are set out below:

- (i) Fredrik Nissen;
- (ii) Peter Lav;
- (iii) Sami Haavisto;
- (iv) Michael Sauer;
- (v) Douglas Lubbe; and
- (vi) NGS.

As at the LPD, the shareholders of Ncell and their respective shareholdings are set out below:

Name	Number of shares	%
Reynolds	800,000	80.0 *
NGS	200,000	20.0
Total	1,000,000	100.0

**Note:**

\* As at the date of this Announcement, there is no confirmation that the approval of the DOI has been received for the transfer of the 4.4% Ncell Shares. In the absence of approvals from the DOI to the allotment of the 4.4% Ncell Shares, Reynolds’ ownership of such shares cannot be deemed to be completed. Application to the DOI to obtain approval for the transfer of the 4.4% Ncell Shares to Reynolds will be made.

Please refer to Appendix I for the summary of financial information of Ncell.

## **3.2 Information on Reynolds**

Reynolds was incorporated in Nevis under the provisions of the Nevis Business Corporation Ordinance 1984 (“**NBCO**”) on 4 July 2001 as a corporation. On 26 June 2009, it was resolved to move the management and operation of the company to Norway and the company was registered in the Norwegian Register of Business Enterprises on 4 July 2009.

Reynolds is a holding company in the TeliaSonera AB group and the company’s activities comprise ownership of investments primarily in Nepal and also arrangement of financing and other related activities. It owns 80.0% of the equity interest in Ncell.

As at the LPD, Reynolds’ issued and paid-up share capital is US\$101,000 comprising 101,000 equity shares of US\$1.00 each.

As at the LPD, TS Norway is the sole shareholder and director in the Board of Directors of Reynolds.

## **3.3 Information on TS Norway and the Sellers**

### **3.3.1 TS Norway (legal and beneficial owner of Reynolds)**

TS Norway was incorporated under the laws of Norway in 2008 as a private limited liability company. TS Norway is an investment holding company in the TeliaSonera AB Group owning 100.0% equity interest in Reynolds. The company’s activities comprise ownership of investments primarily in Nepal and also arrangement of financing and other related activities.

As at the LPD, the Directors of TS Norway are set out below:

- (i) Peter Lav;
- (ii) Espen Tøndel;
- (iii) Henning Øvrebø;
- (iv) Halfdan L. Holte;
- (v) Michael Sauer;
- (vi) Hans Henrik Holven; and
- (vii) Finn Erik Engzelius.

As at the LPD, TS Norway is an indirect subsidiary of TeliaSonera AB (through TS UTA which owns 75.5% of TeliaSonera Asia Holding B.V. which in turn wholly owns TS Norway). TeliaSonera AB is a telephony company and mobile network operator listed on both the Stockholm Stock Exchange (StockholmsBörsen) and the Helsinki Stock Exchange.

### **3.3.2 TS UTA (Seller)**

TS UTA was incorporated in the Netherlands under Dutch law as a private company with limited liability. TS UTA is an investment holding company owning 75.5% equity interest in TeliaSonera Asia Holding B.V. As at the LPD, TS UTA is an indirect wholly-owned subsidiary of TeliaSonera AB, who is the guarantor for TS Norway.

### **3.3.3 SEA Telecom (Seller)**

SEA Telecom was incorporated under the laws of the Netherlands on 30 July 2008 as a limited liability company. SEA Telecom is an investment holding company owning 24.5% equity interest in TeliaSonera Asia Holding B.V. The ultimate beneficial owners behind SEA Telecom are a group of individuals who have a long standing association with the Visor Group.

#### 4. RATIONALE FOR THE PROPOSED ACQUISITION

The rationale for the Proposed Acquisition are as below:

**(i) Strategy: Rare opportunistic footprint expansion**

The Proposed Acquisition is in line with Axiata's position as a regional market player in Emerging Asia. This is in line with Axiata's merger and acquisition priorities of an opportunistic footprint expansion, being both attractive strategically and financially to Axiata group. The Proposed Acquisition also meets all of Axiata's merger and acquisition criteria of (1) brownfield investment; (2) management control; (3) growth market; (4) attractive valuation; (5) earnings accretive; and (6) within target footprint.

**(ii) Market: Favorable Nepal telecom market**

Nepal's gross domestic product ("GDP") has grown by a compound annual growth rate ("CAGR") of 4.2%<sup>1</sup> over the past six years from 2008 to 2014, with its young demographics and strong telecom market fundamentals presenting attractive growth opportunities for Axiata. According to BMI Research, circa 68.0% of the Nepalese population of approximately 28 million is below the age of 35<sup>2</sup>. Further, the mobile market in Nepal is a predominantly two-player market, with mobile unique subscriber penetration of 51.1% and mobile broadband penetration of 21.5%<sup>2</sup>. Nepal also experienced 33.1% CAGR in internet service subscribers from 2012 to 2014<sup>3</sup>.

*(Sources: 1. Central Bureau of Statistics, Nepal; 2. BMI Research; 3. MIS Reports published by Nepal Telecommunications Authority in Mangshir, 2071 (17 November – 15 December 2014) and Magh, 2069 (February, 2013))*

**(iii) Company: High quality asset and number one player**

Ncell is a number one player in mobile subscriber market of Nepal with over 13.0 million mobile subscribers, representing 48.8% mobile subscriber market share as at 17 July 2015<sup>1</sup>, which can be attributed to Ncell's quality of service, brand and customer care. Ncell has a revenue CAGR of approximately 19.9%<sup>2</sup> between financial year ended ("FYE") 15 July 2013 and FYE 16 July 2015 with EBITDA margin of 62.2%<sup>2</sup> in FYE 16 July 2015.

*(Source: 1. MIS Report, Shrawan, 2072 (17 July – 17 August, 2015) published by Nepal Telecommunications Authority 2. Audited accounts of Ncell for the past financial years)*

**(iv) Synergy: Group synergy opportunities**

Ncell can leverage on Axiata group's operating track record in emerging markets with low average revenue per user. The importance of overseas foreign workers to the Nepalese economy represents opportunities in intra-ASEAN international calling and mobile-remittance.

Furthermore, the Proposed Acquisition will allow Ncell to tap on Axiata group's expertise in network and technology rollout, marketing, product development, human capital building and procurement in emerging markets.

**(v) Valuation: Attractive valuation**

The Proposed Acquisition is valued at an implied EV over EBITDA multiple of 5.0 times (based on last 12-month results as of July 2015), which is lower compared to Axiata's multiple of 8.3 times (based on last 12-month results as of 30 September 2015) and comparable companies' multiples in South Asia and South East Asia of 5.7 times and 8.4 times respectively (based on last 12-month results as of 16 December 2015).

**(vi) Financials: Immediate accretion**

For illustrative purposes, based on the latest audited consolidated statements of comprehensive income of Axiata for the FYE 31 December 2014 and unaudited management accounts of Ncell for the corresponding financial year, Ncell's results are accretive to Axiata's revenue, EBITDA margin and profit after tax and minority interest ("PATAMI"), with uplift of approximately 9.1%, 1.8% points and 11.1%, respectively. The Proposed Acquisition is not expected to affect Axiata's dividend policy.

**(vii) Portfolio: Better balanced portfolio**

The Proposed Acquisition is expected to increase Axiata group's resilience with a more diversified portfolio. Based on the latest audited consolidated statements of comprehensive income of Axiata for the FYE 31 December 2014 and unaudited management accounts of Ncell for the corresponding year, Ncell would contribute 8.7%, 12.8% and 19.3% to Axiata's revenue, EBITDA and PATAMI. Moving forward, post completion of the Proposed Acquisition, Ncell is expected to be the largest contributor to Axiata outside Malaysia in terms of PATAMI. Furthermore, it is expected that Axiata's dividend paying capacity will be further supported by Ncell's contribution in future. Based on the audited accounts of Ncell for the FYE 16 July 2015, Ncell has free cash flow of approximately NPR22 billion.

## **5. INDUSTRY OVERVIEW AND FUTURE PROSPECTS**

### **5.1 Overview of the Nepalese economy**

Nepal is located in South Asia, with a population of 28 million people <sup>1</sup> and a GDP of NPR670.0 billion <sup>2</sup> as of 2014. Agriculture is the principal economic activity of Nepal, providing 32.0% <sup>2</sup> of its GDP. With circa three million of its population working overseas <sup>3</sup>, remittances from overseas contributes circa 28.0% of Nepal's GDP. Growth in private consumption is mainly supported by the continued strong rise in remittance influx. In addition, transport, communications and storage contribute to 8.8% of its GDP <sup>2</sup>.

*(Sources: 1. World Development Indicators: Population Dynamics published by World Bank, 2. Central Bureau of Statistics, Nepal; 3. Labor Migration for Employment, A Status Report for Nepal:2013/2014 published by Ministry of Labour and Employment, Nepal)*

The catastrophic 7.8 magnitude earthquake on 25 April 2015 and its aftershocks are estimated to have slashed GDP growth in fiscal year ("FY") 2015 (ended 15 July 2015) by over 1.5% from the 4.6% Asian Development Outlook ("ADO") 2015 projection a month before. Although the earthquake struck Nepal in the tenth month of FY 2015 (May 2015), the impact on growth seems to be sizable, especially on the large services sector, which is now estimated to have grown by only 3.9%, compared with 6.0% in the scenario with no earthquake.

The deceleration of remittance inflows from Nepal's many overseas workers in the first three quarters of FY 2015 initially weakened the external position, but the surge in transfers in the last quarter in response to needs created by the earthquake, and the slowdown in imports immediately after the earthquake, fueled a robust current account surplus.

In FY 2016, a subpar monsoon will constrain agriculture growth, while the expected delay in getting reconstruction started, coupled with economic dislocation and damage to infrastructure, will curtail industry and services growth. Accordingly, GDP growth will likely be held moderately below the ADO 2015 projection. In FY 2016, inflation is expected much higher as price pressures mount owing to the expected drop in the agricultural harvest, higher demand as the pace of reconstruction picks up, and persistent supply bottlenecks. Larger imports combined with a more normal increase in remittances will likely push the current account into a small deficit.

Underspending of the budget has been a persistent problem, especially in capital spending, for which just 70.0% of planned expenditure is generally realised. The government's capacity for expenditure has to be drastically enhanced to ensure that reconstruction is fast and efficient. The total cost of recovery from the earthquake is estimated at about US\$7.1 billion (a third of GDP), about US\$5.2 billion to repair damage to buildings and infrastructure and the balance to cover economic losses from forgone income. Development partners have pledged about US\$4.0 billion in grants and concessional loans, to be disbursed over five years. Allocations for reconstruction are about US\$910.0 million in FY 2016. The government is simplifying procedures for capital spending and has established the National Reconstruction Authority to speed implementation. Even with a modest increase in borrowing to finance reconstruction projects, fiscal sustainability is likely to be maintained.

*(Source: Asian Development Outlook 2015 Update, Asian Development Bank)*

## **5.2 Overview of the Nepalese mobile telecommunications industry**

As of 17 July 2015, Nepal had a total of 28.3 million mobile and fixed line voice subscribers with a combined penetration rate of population of 107.0%. Mobile subscriptions accounted for the majority with 26.7 million subscribers and a penetration rate of 100.6%. Nepal's mobile market has continued to show growth, with a CAGR of 17.7% from 2012 to 2014 and a year-on-year increase of 20.9% from 22.1 million (penetration rate: 83.2%) to 26.7 million (penetration rate: 100.6%) as of 17 July 2015. The mobile telephony service market is largely dominated by two operators – Ncell and Nepal Doorsanchar Company Limited ("**Nepal Telecom**") – with subscriber market share of 48.8% and 46.2% respectively (combined market share of 95.0%) as of 17 July 2015.

Mobile data or internet services subscription have relatively lagged behind, with a total of 11.7 million subscribers and a penetration rate of 44.1% as of 17 July 2015. Mobile data or internet services subscribers increased by 33.1% year on year from 8.8 million (penetration rate: 33.2%) to 11.7 million (penetration rate: 44.1%). Ncell and Nepal Telecom are also the dominant operators in the internet services market with market share of 41.0% and 56.6% respectively (combined market share of 97.6%) as of 17 July 2015.

The penetration rates for both mobile services and mobile data or internet services subscriptions in Nepal are under-penetrated compared to Malaysia's cellular phone and broadband penetration rate of 144.8% and 91.7% respectively as of the second quarter of 2015<sup>2</sup>.

*(Sources: 1. MIS Reports published by Nepal Telecommunications Authority in Shrawan, 2072 (17 July – 17 August, 2015), Bhadra, 2071 (September, 2014) and Magh, 2069 (February, 2013); 2. Communications and Multimedia: Pocket Book of Statistics, Q2 2015 published by Malaysian Communications and Multimedia Commission)*

## **5.3 Prospects of Axiata post the Proposed Acquisition**

Post the Proposed Acquisition, Axiata's position in the Emerging Asia will be further reinforced, with interests in Nepal, Bangladesh, Sri Lanka, Pakistan and India in addition to other markets in Emerging Asia.

Premised on the prospects of Ncell, and the outlook of Nepalese economy and mobile telecommunications industry, the Board is of the opinion that the Proposed Acquisition is expected to contribute positively to the future earnings of the Axiata and support its long-term strategies and objectives, hence enhancing value for shareholders in the future.

*(Source: Management of Axiata)*



## 6. RISK FACTORS OF THE PROPOSED ACQUISITION

The Proposed Acquisition would subject Axiata to risks inherent in the telecommunications industry. The following are the key risk factors relating to Ncell's business as well as the Proposed Acquisition:

### (i) Investment risk

There is no assurance that the anticipated benefits of the Proposed Acquisition will be realised or that Axiata will be able to generate sufficient returns from this investment to offset the costs of this investment. There is also no assurance that the expected financial performance of Ncell could be achieved post completion of the Proposed Acquisition. Moreover, a substantial portion of Ncell's revenue is contributed by international long distance calls ("ILD"). Given the current growing trend in mobile data and internet, there can be no assurance that Ncell's ILD business will not be adversely impacted, thereby affecting its financial performance.

### (ii) Completion risk

The completion of the Proposed Acquisition is conditional upon the Conditions under the SPA as set out in section 2.1.2 of this Announcement being fulfilled or waived. There can be no assurance that such Conditions will be fulfilled or waived within the timeframe stipulated in the SPA. Nevertheless, Axiata anticipates that this risk can be mitigated by proactively engaging with the relevant authorities and third parties to obtain all the necessary approvals and documents required for the completion of the Proposed Acquisition within the timeframe stipulated in the SPA.

### (iii) Political, economic and regulatory conditions

The performance of Ncell could be materially impacted by the changes in the political, economic and regulatory conditions in Nepal and St Kitts and Nevis. The various political, economic and regulatory conditions could range from changes in political leadership, introduction of new regulations, war, economic downturn, changes in interest rates and foreign exchange regulations.

### (iv) Regulations on taxation

The performance of Ncell could be materially impacted by the changes in the taxation conditions in Nepal and St Kitts and Nevis. Changes in taxation related laws, regulations or government policy in Nepal and St Kitts and Nevis could result in increased tax expenses to Ncell's business and/or shareholders of Ncell, including Axiata.

### (v) Changes in the telecommunications industry

The telecommunications industry is subject to rapid and ongoing technological changes. Emerging and future technological changes may adversely affect the viability or competitiveness of Ncell's business in Nepal. There is no assurance that Ncell will be successful in responding in a timely and cost-effective way to such developments. If Ncell is unable to modify or modernise its network infrastructure or product offering to remain competitive, such developments could have a material adverse effect on Ncell's business and financial condition.

Furthermore, Ncell operates in a market largely dominated by two players, i.e., Ncell and Nepal Telecom (as detailed in section 5.2 of this Announcement). Notwithstanding the above, there are possibilities of new entrants entering into the market. If there should be a third telecommunications player emerging in Nepal, Ncell's current market share may be reduced, thereby affecting its financial performance.

**(vi) Regulations and licences**

The operation of mobile telecommunications business and provision of related services in Nepal are subject to certain approvals, licences, registrations and permissions granted by the Government of Nepal and regulated by the Nepal Telecommunications Authority. Changes in laws, regulations or government policy in Nepal or in relation to the licences to the mobile telecommunications industry in Nepal or in relation to the licences or spectrum allocations held by Ncell or its competitors, could adversely affect Ncell's businesses. Changes to the other regulations and the regulation of telecom rates in interconnect and international termination price could adversely affect Ncell and the telecommunications industry.

Any breach of the terms and conditions of the licences or spectrum allocation by Ncell or failure to comply with the applicable regulations on Ncell's part may result in their being fined or their licences being cancelled by the Nepal Telecommunications Authority or the Government of Nepal. Any revocation or unfavourable amendments to the terms of the licences, failure to renew them on comparable terms or failure to obtain spectrum allocation in a timely manner could have a material adverse effect on Ncell's businesses and performance in their existing and new circles.

**(vii) Technological risk**

Increased smartphone adoption, wireless technology, satellite-based communications services, private and public radio networks, voice over internet protocol, personal tablets and other communications services which have the technical capability to handle telephone calls or provide portable broadband internet access compete with Ncell's businesses. Continued growth of such technologies, emerging and future technological changes and new services may adversely affect the viability or competitiveness of Ncell's businesses. This may have additional financial implications for Ncell as it may need to increase its capital expenditure to implement new network technologies at a faster rate than previously planned.

**(viii) Regulations on foreign investment**

Axiata's acquisition of Ncell will be subject to the foreign investment policies of the Government of Nepal. In addition, the ability of Axiata to repatriate the profits arising from its acquisition of Ncell will depend largely on the relevant legislation relating to the repatriation of profits prevailing at the point of repatriation.

**(ix) Foreign exchange risk**

The operating and reporting currency of Ncell is mainly denominated in NPR. As the financial results of Axiata are reported in RM, any fluctuation of the NPR against the RM may impact the profits the financial position of Axiata, or both.

There can be no assurance that fluctuations in foreign exchange rates will not have a material and adverse effect on Axiata's financial performance. Nevertheless, Axiata will assess the need to utilise financial instruments to hedge its foreign exchange exposure to mitigate both transaction and/or translation exchange risk exposure.

**(x) Restrictions on foreign shareholding**

The limit on foreign shareholding in the telecommunications industry imposed by the Government of Nepal is 80.0% of the total issued share capital. Such limit may prevent Ncell from raising further capital outside Nepal through the issuance of equity or convertible securities to fund any future expansion, if any.

**(xi) Impairment risk**

Axiata may recognise goodwill arising from the Proposed Acquisition, the amount of which will depend on the fair value of the assets and liabilities acquired as at the completion date. Any fair value adjustments allocated to the identifiable assets and liabilities, and the effect of amortisations of the fair value adjustments (including the amortisation of the intangible assets identified), if any, from the Proposed Acquisition may materially and adversely affect Axiata's financial position.

**7. POLICIES ON FOREIGN INVESTMENT AND REPATRIATION OF PROFITS OF NEPAL AND ST KITTS AND NEVIS, AND NEVIS**

**7.1 Nepal**

Foreign exchange regulation

All foreign exchange transactions are regulated through Foreign Exchange Regulation Act, 1962 ("**FERA**") by Nepal Rastra Bank (Central Bank of Nepal) ("**NRB**"). FERA regulates certain payments, the dealing in foreign exchange and securities and transactions which has an indirect impact on foreign exchange and the import and export of currencies.

Capital and profit repatriation

Investment in capital (equity), loan and technology transfer by a foreign investor has to be approved by the DOI pursuant to Foreign Investment and Technology Transfer Act of Nepal. Accordingly, the foreign investor must get approval from the DOI for capital, loan and technology injection in the company in Nepal. Repatriation of dividend, interest on loan and repatriation of capital may not be granted if such investment is made without obtaining prior approval from the DOI.

NRB had issued guidelines for the investment in capital and in loan from foreign investor on 3 April 2012 which was subsequently replaced on 22 January 2013, 6 May 2013 and 11 September 2013. Rate of interest on foreign loan shall not exceed London Inter-Bank Offer Rate ("**LIBOR**") plus 5.5%.

As per the notice issued by NRB on 20 November 2015, the interest rate on foreign loan should not exceed one-year LIBOR plus 2.0% (previously one-year LIBOR plus 5.5%) and debt-to-equity ratio should not exceed 60:40, where such loan is procured from the associated person.

Corporate tax

Nepal resident companies are subject to income tax on their worldwide income. Non-resident companies are only subject to Nepalese income tax on their Nepal source income. Resident companies are those that have been:

- (i) incorporated in Nepal; or
- (ii) have effective control and management in Nepal.

The standard corporate tax rate for companies is 25.0%.

Specific payments to non-residents are subject to Nepal withholding taxes as follows:

<u>Type of Payment</u>	<u>Withholding Tax Rate (final)</u>
Dividend	5.0%
Interest	15.0%
Technical assistance and service fees	15.0%
Royalties	15.0%

### Dividend

All dividends paid by resident companies are subject to a 5.0% dividend tax, which is final withholding. The repatriation of dividends by mobile operators in Nepal to its foreign shareholders is subject to recommendation or approvals from DOI, Nepal Telecommunications Authority and NRB in Nepal. In particular, the repatriation of dividends is subject to the recommendations of the DOI and the Nepal Telecommunications Authority, and to the approval of NRB in Nepal.

### Capital gains tax ("CGT")

There are no separate rates for CGT for the entity and capital gains are taxable as normal business income. CGT for corporate bodies and non-residents is 25.0% whereas in the case of resident individual person, CGT shall apply at the rate of 10.0%. The company (whose shares are being disposed off) is responsible for the collection and deposition of advance CGT at the rate of 10.0% in the case of resident individuals and 15.0% in any other case. No stamp duty will be levied on the transfer of shares of an unlisted company in Nepal.

## **7.2 St Kitts and Nevis, and Nevis**

### Foreign exchange control

There are no foreign exchange controls in St Kitts and Nevis or Nevis with respect to Reynolds.

### Tax residency

Reynolds is incorporated in Nevis as a Nevis business corporation and is not engaged in any business activities. In view that Reynolds is not undertaking a business in St Kitts and Nevis or Nevis, Reynolds is not considered a tax resident of St Kitts and Nevis or Nevis.

Under the current corporate structure, Reynolds is a tax resident company of Norway by virtue of its central management and control being exercised in Norway.

### Repatriation of dividend

There are no regulatory approvals with respect to Reynolds, which are required in order to repatriate dividends from St Kitts and Nevis or Nevis to other countries.

In accordance with the NBCO, a company which does no business in St Kitts and Nevis or Nevis shall not be subject to withholding taxes.

### Dividend

In view that Reynolds has no business in St Kitts and Nevis or Nevis, Reynolds would then meet the tax exemption condition stated in Section 122 of Part XIV of the NBCO. Hence, dividend income received from Ncell would not be subject to tax in St Kitts and Nevis or Nevis.

There is no requirement to submit tax return in St Kitts and Nevis or Nevis as Reynolds would not be considered tax resident of St Kitts and Nevis or Nevis.

### CGT

There is no CGT in St Kitts and Nevis or Nevis. As such, if Reynolds disposes of its investment in Ncell in the future, there would be no CGT in St Kitts and Nevis or Nevis.

### Exit tax

After completion of the Proposed Acquisition, if Reynolds ceases to be a tax resident of Norway, this would trigger exit tax in Norway where the assets and liabilities held by Reynolds are deemed to be transferred out of Norway. The exit tax would be calculated on the difference between the tax value and the fair market value of the assets and liabilities at the time of exit. Any gains would be subject to 27.0% tax.

## **8. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION**

### **8.1 Issued and paid-up share capital and substantial shareholders' shareholdings**

The Proposed Acquisition will not have any effect on the issued and paid-up share capital and substantial shareholders' shareholdings in Axiata as the Proposed Acquisition does not involve any issuance of ordinary shares in Axiata.

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## 8.2 Net assets (“NA”), NA per share and gearing

For illustrative purposes, the proforma effects of the Proposed Acquisition on the NA, NA per share and gearing of Axiata group, based on the latest audited consolidated statement of financial position of Axiata group as at 31 December 2014 are set out below:

	Audited as at 31 December 2014	After the Proposed Acquisition <sup>(1)</sup>
	RM'000	RM'000
Share capital	8,582,017	8,582,017
Share premium	2,398,794	2,398,794
Retained earnings	9,831,649	9,807,239 <sup>(2) (3)</sup>
Capital contribution reserve	16,598	16,598
Merger reserve	346,774	346,774
Hedging reserve	(131,518)	(131,518)
Employee share option scheme and restricted share awards reserve	176,628	176,628
Actuarial reserve	(9,934)	(9,934)
Currency translation differences	(466,476)	(466,476)
Total equity attributable to owners of the Company/NA	<u>20,744,532</u>	<u>20,720,122</u>
Number of shares in issue ('000)	8,582,017	8,582,017
NA per share (RM)	2.42	2.41
Borrowings (RM'000)	13,893,335	18,786,335 <sup>(4)</sup>
Gearing (times) <sup>(5)</sup>	0.67	0.91

### Notes:

<sup>(1)</sup> The proforma effects have been arrived at using the exchange rate of RM1.00:NPR28.9990 and RM1.00:US\$0.2861 based on BNM's rate as at 1200 noon on 31 December 2014, assuming the Proposed Acquisition had been completed on that date.

<sup>(2)</sup> After deducting the estimated expenses of RM24.4 million for the Proposed Acquisition.

<sup>(3)</sup> It will be subject to changes at a later stage due to goodwill/negative goodwill which may arise from the purchase price allocation exercise, and adjustments arising from contingent consideration and indemnities. The final determination of the purchase price allocation will be based on established fair value of the assets acquired, including the fair value of the identifiable intangible assets, liabilities assumed as of the acquisition date, in accordance with Malaysian Financial Reporting Standard (“MFRS”) 3 Business Combinations. The excess of the purchase price over the fair value of the NA acquired is allocated to goodwill, or vice versa be reflected as discount on acquisition. In accordance with paragraph 45 of MFRS 3 Business Combinations, the acquirer has measurement period of not exceeding one year from the date of acquisition. The acquirer may adjust the provisional amounts recognised for a business combination to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

<sup>(4)</sup> For illustrative purposes, including bank borrowings of US\$1,400.0 million (equivalent to approximately RM4,893.0 million) to finance the Proposed Acquisition which includes the potential positive closing adjustments of approximately US\$250.0 million.

<sup>(5)</sup> Computed based on total borrowings divided by NA.

### 8.3 Earnings and earnings per share (“EPS”)

The actual impact of the Proposed Acquisition on the consolidated earnings and EPS of Axiata moving forward will depend on, among others, market and industry conditions and the successful integration of Ncell’s operations to Axiata. Nevertheless, the Proposed Acquisition is expected to contribute positively to the future earnings of the Axiata group immediately after completion.

For illustrative purposes, assuming the Proposed Acquisition has been completed as at 1 January 2014, the proforma Revenue, EBITDA, PATAMI and EPS of the Axiata group for FYE 31 December 2014 are set out below:

	<b>Audited FYE 31 December 2014</b>	<b>After the Proposed Acquisition <sup>(1)</sup></b>
	<b>RM’000</b>	<b>RM’000</b>
Revenue <sup>(2)</sup>	18,711,777	20,406,033
EBITDA <sup>(3)</sup>	6,998,575	7,996,674
PATAMI <sup>(4)</sup>	2,348,665	2,609,799
EPS (sen) <sup>(5)</sup>		
- Basic	27.4	30.5
- Diluted	27.2	30.3

**Notes:**

<sup>(1)</sup> The proforma effects have been arrived at using the exchange rate of RM1.00:NPR28.9990 and RM1.00:US\$0.2861 based on BNM’s rate as at 1200 noon on 31 December 2014, taken also as an average rate for the year, for illustrative purposes.

<sup>(2)</sup> For illustrative purposes, proforma revenue is derived from Axiata’s audited revenue for FYE 31 December 2014 plus revenue of Ncell from its management accounts for FYE 31 December 2014, and after deducting estimated intercompany transactions of approximately RM73.7 million.

<sup>(3)</sup> For illustrative purposes, EBITDA is derived from the reported EBITDA of Axiata group for FYE 31 December 2014 plus the estimated EBITDA of Ncell from its management accounts for FYE 31 December 2014.

<sup>(4)</sup> For illustrative purposes, after deducting the estimated interest expense from additional borrowings, loss of interest income, transaction costs and non-controlling interests portion arising from the Proposed Acquisition.

<sup>(5)</sup> Calculated using the weighted average number of shares in issue by Axiata as at 31 December 2014.

### 9. APPROVALS REQUIRED

The Proposed Acquisition is subject to the following approvals being obtained:

- (i) the approval of Axiata’s shareholders for the Proposed Acquisition;
- (ii) the relevant approvals from the Foreign Exchange Administration Department of BNM; and
- (iii) any other relevant authorities and parties, if required.

**10. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED**

None of the Directors and major shareholders of Axiata and/or persons connected to them have any interest, direct or indirect, in the Proposed Acquisition.

**11. DIRECTORS' STATEMENT**

The Board, having considered all aspects of the Proposed Acquisition (including but not limited to the rationale and prospects discussed in sections 4 and 5 above), is of the opinion that the Proposed Acquisition is in the best interests of Axiata and its shareholders.

**12. PERCENTAGE RATIO APPLICABLE TO THE PROPOSED ACQUISITION PURSUANT TO PARAGRAPH 10.02(G) OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD ("LISTING REQUIREMENTS")**

The highest percentage ratio applicable to the Proposed Acquisition pursuant to paragraph 10.02(g) of the Listing Requirements is approximately 36.3%.

**13. ADVISERS**

CIMB has been appointed as the Principal Adviser to Axiata for the Proposed Acquisition.

J.P. Morgan Malaysia Ltd. has been appointed as the International Financial Adviser to Axiata for the Proposed Acquisition.

**14. SUBMISSION TO THE AUTHORITIES AND ESTIMATED TIMEFRAME FOR COMPLETION**

Barring any unforeseen circumstances, the applications to the relevant authorities for the Proposed Acquisition will be submitted within three months from the date of this Announcement.

Barring any unforeseen circumstances and subject to all approvals being obtained, the Proposed Acquisition is expected to be completed by first half of 2016.

**15. DOCUMENTS FOR INSPECTION**

The SPA, Shareholders' Agreement and other ancillary agreements, if any, will be available for inspection at Level 5, Corporate Headquarters, Axiata Tower, 9 Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur, Malaysia during normal business hours from Mondays to Fridays (except public holidays) for a period of three months from the date of this Announcement.

**This Announcement is dated 21 December 2015.**



**SUMMARY OF FINANCIAL INFORMATION**

A summary of the financial information of Ncell for the past three financial years ended 15 or 16<sup>(1)</sup> July is set out below:

For FYE	15 July 2013		16 July 2014		16 July 2015	
	NPR million	RM million	NPR million	RM million	NPR million	RM million
Turnover	38,761	1,565	48,415	1,955	55,728	2,250
Profit before tax	17,519	707	23,893	965	25,076	1,013
Profit after tax/PATAMI <sup>(2)</sup>	12,975	524	17,864	721	18,326	740
Shareholders' funds / NA	21,690	876	39,554	1,597	57,880	2,337
Borrowings	-	-	-	-	-	-
Number of shares in issue (million)	1	1	1	1	1	1
NA per share (NPR, RM)	21,690	876	39,554	1,597	57,880	2,337
Gearing (times)	-	-	-	-	-	-

**Notes:**

(1) The audited accounts of Ncell are based on a 15 or 16 July year end, as the case may be, based on the Nepalese calendar. Further, they are prepared in conformity with Generally Accepted Accounting Principles (GAAP) and Nepal Accounting Standards (NAS).

(2) Ncell does not have any minority interest.

(Source: Audited accounts of Ncell for the past three financial years ended 15 July 2013, 16 July 2014 and 16 July 2015)