

AXIATA GROUP BERHAD (“AXIATA”)

DISPOSAL OF REYNOLDS HOLDING LIMITED (“REYNOLDS”)

(Unless stated otherwise, the exchange rates of RM1.00:USD 0.2145 and RM1.00:NPR 28.6205 based on Bank Negara Malaysia (“BNM”) as at 0500 PM on 30 November 2023, being the latest practicable date, are used throughout this announcement for illustration purpose unless otherwise specified)

1.0 INTRODUCTION

We would like to announce that Axiata Investments (UK) Limited (“**AIUK**”), a 100.0%-owned subsidiary of Axiata, had on 1 December 2023 entered into an unconditional sale and purchase agreement with Spectrlite UK Limited (“**Purchaser**”) for the sale of Reynolds (“**Agreement**”) which owns an approximately 80.0% equity stake in Ncell Axiata Limited (“**Ncell**”) (“**Proposed Transaction**”). The total consideration for the Proposed Transaction is split between a Fixed Consideration of USD 50.0 million and Conditional Consideration that is contingent upon future business performance and future distributions declared by Ncell. Both the Fixed Consideration and Conditional Consideration are payable in cash.

As the Agreement is not subject to any conditions precedent, the disposal was also completed on the same day.

2.0 DETAILS OF THE AGREEMENT

2.1 Total Consideration, Implied Valuation and Post-Completion Adjustments

- i) The total consideration for the Proposed Transaction is payable in cash under two categories of Fixed Consideration and Conditional Consideration
- ii) The Fixed Consideration is total of USD 50.0 million payable in two tranches of:
 - a. USD 5.0 million on or before the date that is 6 months after completion
 - b. USD 45.0 million on or before the date that is 48 months after completion
- iii) The Conditional Consideration is contingent upon the future business performance and distributions declared by Ncell as follows:
 - a. 80.0% of the net distributions declared and approved by Ncell for 2023
 - b. 40.0% of net distributions due to Reynolds declared and approved by Ncell for 2024 and 2025,
 - c. 30.0% of net distributions due to Reynolds declared and approved by Ncell for the years 2026 and 2027,
 - d. 20.0% of net distributions due to Reynolds declared and approved by Ncell for the years 2028 and 2029,and is subject to Ncell receiving relevant regulatory clearances for the payment of the relevant distribution to Reynolds.
- iv) The Fixed Consideration and Conditional Consideration are not subject to any post-completion adjustments for changes to net debt or net working capital.
- v) Axiata will also retain the right to receive dividends declared in 2022 but not yet paid by Ncell to Reynolds, subject to Ncell receiving relevant regulatory clearances for the payment of that dividend to Reynolds.
- vi) Axiata also retains the right to a share of upside if a significant stake in Ncell is disposed of at a higher price prior to 31 December 2029.

3.0 INFORMATION ON REYNOLDS

Reynolds is a private limited company incorporated in St Kitts and Nevis under the provisions of the Nevis Business Corporation Ordinance 1984 (“**NBCO**”) on 4 July 2001 as a corporation. The issued and paid-up share capital of Reynolds is USD101,001 divided by 101,001 ordinary shares of USD1 each. Upon acquisition by Axiata, Reynolds has changed the functional currency to Ringgit Malaysia. Reynolds owns an approximately 80.0% direct equity stake in Ncell which is currently the largest telecommunications operator in the Federal Democratic Republic of Nepal (“**Nepal**”) providing 2G, 3G and 4G wireless and fixed broadband services.

4.0 INFORMATION ON PURCHASER

Spectrlite UK Limited is a company incorporated in the United Kingdom as an investment holding company. The issued and paid-up capital of Spectrlite UK Limited is USD100,000 represented by 100,000 ordinary shares of USD 1 each. Spectrlite UK Limited is fully owned by Satish Lal Acharya.

Mr Satish Lal Acharya, who is of Nepali origin is based in Singapore. He has been involved in investments in the telecom sector in Nepal and in other countries for over two decades.

5.0 BASIS AND JUSTIFICATION FOR THE CONSIDERATION

The Proposed Transaction has been negotiated on a willing buyer, willing seller basis, and is the result of a strategic review which included an outreach to alternative credible potential acquirors.

In determining the final consideration and structure of payments, the Board considered the future potential of the business of Ncell along with the uncertainties in relation to its license renewal in 2029 together with ongoing litigation in which Ncell is involved which is periodically disclosed in Axiata’s audited financial statements for the financial year ended (“**FYE**”) 31 December 2022 and quarterly financial results announced till date for the financial year ending 31 December 2023. This includes litigation relating to a tax assessment issued by the Large Taxpayers Office in Nepal against Ncell in January 2021 for approximately NPR57.9 billion (approximately USD433.6 million or RM2.0 billion), excluding any further interest after the date of the assessment, in connection with Axiata’s indirect acquisition of Ncell in 2016 (“**January 2021 Assessment**”). Ncell has challenged the validity of the January 2021 Assessment before the Supreme Court of Nepal under both Nepalese and international law. The proceedings in Nepal remain pending, having been postponed several times. This has created additional uncertainty over the future potential of the business of Ncell.

In addition, Axiata is not providing any form of warranties or indemnities in respect of the business of Ncell or any of its liabilities (including contingent liabilities) with Ncell retaining responsibility for the same. The Purchaser will further indemnify Axiata against all existing and future Nepalese tax claims in relation to Ncell.

Due to the above factors, the consideration has been structured with a lower guaranteed cash payment but including variable components depending on the business performance of, and distributions declared by Ncell.

6.0 RATIONALE FOR THE PROPOSED TRANSACTION

Post the acquisition of Reynolds in 2016, Ncell had settled a total of approximately NPR 47.0 billion (approximately USD421.9 million or RM1.8 billion)¹ in capital gains tax (“**CGT**”) as full and final liability under Nepalese law and received confirmation from Large Taxpayers Office of Nepal (“**LTPO**”) in April 2020 that no further taxes remain in relation to the acquisition of Reynolds in 2016.

Despite the payment of CGT, as noted above, Ncell was further assessed in January 2021 by the LTPO under Section 57 of the Income Tax Act of Nepal for a sum of approximately NPR57.9 billion (approximately USD433.6 million or RM2.0 billion).

¹ Based on the actual transacted historical rates.

Ncell brought ICSID arbitration proceedings under the UK-Nepal BIT in 2019 in relation to the tax that had been demanded from Ncell by that point in time in connection with the 2016 Reynolds transaction. Those proceedings were concluded on 9 June 2023. In delivering its Award, the arbitration tribunal (“**Tribunal**”) ruled in the Award that Nepal should refrain from demanding any further tax, fees, penalties or interest in relation to the acquisition of Reynolds in 2016 and, in particular, that Nepal should refrain from enforcing the January 2021 Assessment. For further information on the Award rendered by the Tribunal, please refer to Axiata’s announcement dated 12 June 2023.

Despite the Award, the government of Nepal and its tax authority (the LTPO) have thus far failed to withdraw the January 2021 Assessment which is likely to carry a present-day value of USD 433.6 million inclusive of interest up to 13 January 2021 and penalties but excluding any further interest after the date of assessment. If the January 2021 Assessment was upheld, and ignoring any further interest after 13 January 2021, this would take the total taxation on the purchase price of USD 1.365 billion in 2016 to USD 855.5 million, or 62.7% of the purchase price.

In addition to the uncertainties related to the licensing and potential tax position associated with Reynolds outlined above, Axiata has considered the following factors:

The financial performance of Ncell has been adversely impacted by significant structural changes in the industry. Ncell’s revenue has decreased by 33.8% for the last twelve months (“**LTM**”) ended June 2023 compared to the full year 2015 (the year prior to Axiata’s acquisition of Ncell). Profitability has been impacted even more, with Ncell’s EBITDA decreasing by 42.1% and net profit decreasing by 74.6% between LTM June 2023 and 2015.

During the same period, Ncell has incurred cumulative capital expenditure of NPR 62.7 billion to improve its coverage and quality of service and maintain its infrastructure. This has caused Ncell’s borrowings including lease liabilities to increase from NIL to NPR 3.5 billion. The borrowings and lease liabilities will be de-consolidated from Axiata consolidated statements of financial position after this Proposed Transaction is completed.

Ncell needs to pay NPR 20 billion for its license for a period of 5 years from 2024 to 2029. There is no certainty on future licensing arrangements after its expiry in 2029.

Axiata has received dividends of MYR 2.2 billion from Ncell since the acquisition in 2016. As described above, Axiata may also receive additional proceeds from a share of future dividends due to Reynolds from Ncell as Conditional Consideration for this transaction.

7.0 USE OF FUNDS

The cash received shall be utilised to meet working capital requirements of Axiata.

8.0 RISK FACTORS

- a. Conditional Consideration – The quantum and timing of any Conditional Consideration may be uncertain depending on the business performance of Ncell and its ability to declare and pay dividends offshore. In particular, if the January 2021 Assessment is upheld and enforced, the resulting tax liability to Ncell will be substantial and will materially affect the performance of the business and its ability to declare dividends offshore.
- b. Fixed Consideration – The Fixed Consideration is secured via a pledge of certain shares in Axiata (Cambodia) Holdings Limited which are ultimately controlled by the shareholder of the Purchaser. However, the value of the pledged shares in the future may not cover the amount due from the Fixed Consideration.
- c. Upside sharing – There is no guarantee that any upside sharing could be triggered as it is dependent on both the future sale of Ncell, and also at a price that surpasses the aggregate of the Fixed Consideration and Conditional Consideration prior to 31 December 2029.

9.0 FINANCIAL EFFECTS

9.1 Issued and Paid-up Share Capital and Substantial Shareholders' Shareholdings

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

9.2 Net Asset ("NA"), NA per share and Gearing

For illustrative purposes only, based on the latest audited consolidated statements of financial position of Axiata as at FYE 31 December 2022 and on the assumption that the Proposed Transaction had been effected on that date, the pro forma effects of the Proposed Transaction on the NA and gearing of Axiata are as follows:

	Audited as at 31 December 2022	After the Proposed Transaction⁽¹⁾
	RM'000	RM'000
Share capital	13,914,272	13,914,272
Reserves	10,020,787	⁽²⁾ 8,601,386
Total equity attributable to owners of Axiata	23,935,059	22,515,658
Non-controlling interests	6,745,291	6,193,956
Total equity	30,680,350	28,709,614
No. of Axiata Shares in issue ('000)	9,177,237	9,177,237
NA per Axiata Share (RM) ⁽³⁾	2.61	2.45
Total borrowings (including lease liabilities) (RM'000) ⁽⁴⁾	35,879,523	35,115,998
Gearing (times) ⁽⁵⁾	1.17	1.22

Notes:

- (1) The pro forma effects have been arrived at using the exchange rate of RM1: NPR 0.03316 and RM1: USD 0.2278 being the closing rate as at 31 December 2022.
- (2) After taking into account a pro forma loss on the Proposed Transaction of approximately RM1.9 billion (includes provision for impairment of assets recognised in the Statement of Comprehensive Income for the financial year ending 31 December 2023), assuming the Proposed Transaction had been effected on 31 December 2022 as illustrated below:

	RM'000
Present value of the Fixed Consideration	156,879
Less: Carrying amounts as at 31 December 2022	(1,558,721)
Currency translation differences reclassified to profit or loss	(457,194)
Estimated expenses relating to the Proposed Transaction	(17,560)
Pro forma loss	(1,876,596)

- (3) Computed based on total equity attributable to owners of Axiata divided by total number of Axiata Shares in issue as at 31 December 2022.
- (4) After de-consolidation of Ncell's borrowings (including lease liabilities) of RM763.5 million.
- (5) Computed based on total borrowings (including lease liabilities) divided by total equity.

9.3 Earnings and Earnings per Share (“EPS”)

For illustrative purposes only, based on the latest audited consolidated financial statements of Axiata for the FYE 31 December 2022 and assuming that the Proposed Transaction has been effected on 1 January 2022, being the beginning of the FYE 31 December 2022, the pro forma effects of the Proposed Transaction on the basic EPS of Axiata are as follows:

	Audited	After the Proposed Transaction ⁽¹⁾
	RM'000	RM'000
Revenue ⁽²⁾	21,700,151	20,327,080
Earnings before interest, taxes, depreciation and amortisation (“EBITDA”) ⁽²⁾	9,597,212	8,872,119
Profit after tax and minority interests (“PATAMI”) ⁽³⁾	9,751,077	7,867,776
-Continuing	(5,132,165)	(7,015,466)
-Discontinued	14,883,242	14,883,242
EPS ⁽⁴⁾		
-Basic	106.3	85.7
-Diluted	106.2	85.7

Notes:

- (1) The pro forma effects have been arrived at using the exchange rate of RM1: NPR 0.0350 and RM1: USD 0.2274 being the average rate for the financial year ended 31 December 2022.
- (2) Being the revenue and EBITDA of continuing operations.
- (3) After taking into account a pro forma loss on the Proposed Transaction of approximately RM4.8 billion (includes provision for impairment of assets recognised in the Statement of Comprehensive Income for FYE 31 December 2022 and financial year ending 31 December 2023), assuming the Proposed Transaction had been effected on 1 January 2022 as illustrated below.

	RM'000
Present value of the Fixed Consideration	149,285
Less: Carrying amounts as at 1 January 2022	(4,708,872)
Currency translation differences reclassified to profit or loss	(219,679)
Estimated expenses relating to the Proposed Transaction	(16,710)
Pro forma loss	<u>(4,795,976)</u>

The pro forma net loss has been arrived at using the exchange rate of RM1: NPR 0.0351 and RM1: USD 0.2394 being the closing rate as at 31 December 2021.

- (4) Computed based on the combined PATAMI from continuing and discontinued operations divided by weighted average number of Axiata Shares in issue during the FYE 31 December 2022.

10.0 NO MALAYSIAN REGULATORY APPROVAL OR SHAREHOLDER APPROVAL REQUIRED

The Proposed Transaction does not require the approval of the shareholders of Axiata or any regulatory authorities in Malaysia.

11.0 INTERESTS OF DIRECTORS AND MAJOR/SUBSTANTIAL SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM

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

12.0 DIRECTORS' STATEMENT

The Board of Axiata, after having considered all aspects including but not limited to the rationale discussed in Section 6 above, is of the opinion that the Proposed Transaction is in the best interests of Axiata.

13.0 OTHER INFORMATION REQUIRED UNDER THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD ("MAIN LR")

The highest percentage ratio applicable to the Proposed Transaction pursuant to paragraph 10.02(g) of the Main LR is 6.51% based on the audited consolidated financial statements of Axiata for the financial year ended 31 December 2022.

14.0 ADVISERS

DB Corporate Advisory Malaysia Sdn Bhd ("**Deutsche Bank**") acted as the sole financial advisor for Axiata.

15.0 DOCUMENT FOR INSPECTION

The Agreement and ancillary agreements in relation to the transaction are available for inspection at Axiata's registered office 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 3 months from the date of this announcement.

This announcement is dated 1 December 2023.