

PROPOSED EQUITY INVESTMENT BY CELCOM MOBILE SDN BHD (“CMSB”) IN DIGITAL NASIONAL BERHAD (“DNB”).

1.0 INTRODUCTION

Axiata Group Berhad (“**Axiata**”) is pleased to announce that its wholly-owned subsidiary, Celcom Mobile Sdn Bhd (“**CMSB**”) held via Celcom Axiata Berhad (“**Celcom**”), has today entered into a conditional Share Subscription Agreement with Digital Nasional Berhad (“**DNB**”) (“**SSA**”) for the subscription by CMSB of (i) One Hundred Thousand (100,000) ordinary shares in DNB (“**Subscription Shares**”) for the sum of Ringgit Malaysia One Hundred Thousand (RM100,000) and (ii) One Hundred Seventy-Eight Million Four Hundred Seventy-One Thousand Four Hundred and Twenty-Nine (178,471,429) Rights to Allotment (“**Subscription Rights to Allotment**”) for the sum of Ringgit Malaysia One Hundred Seventy-Eight Million Four Hundred Seventy-One Thousand Four Hundred and Twenty-Nine (178,471,429) (collectively, the “**Subscription Price**”) (“**Transaction**”).

Each Subscription Rights to Allotment will entitle CMSB to have the right to allotment of one ordinary share in DNB with certain rights as set out in the SSA (including the same rights as accorded to the holder of ordinary share in DNB) as if the ordinary share relating to the Subscription Rights of Allotment has been allotted, issued and registered in the name of CMSB in the register of members of DNB.

Notwithstanding completion of the Transaction, in the event the merger of Celcom and Digi.com Berhad is not completed by 30 June 2023 and provided that there is no termination of the other share subscription agreements, the Subscription Rights to Allotment of CMSB shall be adjusted from One Hundred Seventy-Eight Million Four Hundred Seventy-One Thousand Four Hundred and Twenty-Nine (178,471,429) Rights to Allotment to Two Hundred Ninety-One Million Five Hundred Sixty-Six Thousand Six Hundred and Sixty-Seven (291,566,667) Rights to Allotment.

2.0 INFORMATION OF THE PARTIES

2.1 CMSB

CMSB is a private company duly incorporated in Malaysia on 15 July 1976 with an issued and fully paid share capital of RM 313,000,000 comprising 313,000,000 ordinary shares.

The principal activities of CMSB are mobile communications, network and application services and content.

2.2 DNB

DNB is a company incorporated in Malaysia and is currently a wholly-owned subsidiary of the Minister of Finance (Incorporated) (“**MoF Inc.**”). DNB has been mandated to deploy Malaysia’s 5G network on an accelerated schedule. DNB will exclusively own, build and manage the 5G network, and provide wholesale 5G services to licensed service providers in Malaysia. DNB is licenced as a telecommunications network and services operator by the industry regulator, the Malaysian Communications and Multimedia Commission (“**MCMC**”).

3.0 DETAILS OF THE TRANSACTION

3.1 Basis for Subscription Price

The Subscription Price is at par value of RM 1.00 per ordinary share of DNB and is the same for all the investors at DNB.

3.2 Conditions Precedent

Completion of the SSA is conditional upon, inter-alia, satisfaction of the following conditions (or waiver) on or before 30 October 2022:

- i. the execution of an access agreement between a related corporation of CMSB and DNB for the offtake of wholesale 5G services nationwide by that related corporation of CMSB (“**Access Agreement**”);

- ii. the execution of a shareholders agreement between CMSB, DNB and other investors under the other share subscription agreements and MoF Inc.;
- iii. the approval of the Minister of Communications and Multimedia for the changes required to the Network Facilities Provider and Network Services Provider licenses held by DNB to enable DNB to meet its obligations under the SSA;
- iv. the amendment of the DNB Board Charter with written approval from the MCMC;
- v. written consent from DNB's lenders;
- vi. written consent or waiver from major vendors of DNB;
- vii. written confirmation from the MCMC that no merger approval is required for the Transaction under the SSA and the other share subscription agreements;
- viii. a certified true copy of an extract of the shareholder's resolution of DNB approving the execution, delivery and performance of its obligations under the SSA;
- ix. a letter from MoF Inc. waiving its pre-emptive rights on the issue of the Subscription Shares and the grant of the Subscription Rights to Allotment to CMSB;
- x. written consent by the MoF Inc. to grant to CMSB a put option where CMSB may put to and require the MoF Inc. to purchase all shares owned by CMSB at RM 1.00 per share in the event the MCMC (or any government agency with the relevant authority) determines that (a) DNB is no longer the single wholesale provider of 5G services in Malaysia or (b) any MCMC licensee(s) (including CMSB) is entitled to re-deploy its existing spectrum to provide 5G services or is otherwise provided with or acquires spectrum to provide 5G services, whether on a wholesale or retail basis; and
- xi. the appointment of an escrow agent and execution of an escrow agreement between the escrow agent, CMSB and DNB.

3.3 Termination

The SSA may be terminated by CMSB if,

- i. there is a breach by DNB of any of the covenants and undertakings agreed by DNB prior to completion;
- ii. there is a breach by DNB of its warranties resulting in an individual claim or multiple claims on an aggregate basis that is equal to or more than an agreed threshold;
- iii. there is a breach of certain representations or warranties by DNB;
- iv. the MCMC (or any government agency with the relevant authority) determines that (a) DNB will no longer be the single wholesale provider of 5G services in Malaysia or (b) any MCMC licensee(s) (including CMSB) is entitled to re-deploy its existing spectrum to provide 5G services or is otherwise provided with or acquires spectrum to provide 5G services, whether on a wholesale or retail basis;
- v. there is a change in law which prohibits DNB from: (a) imposing a target capacity, volume commitment and/or bandwidth under the Access Agreement to all Access Seekers; and/or (b) requiring all Access Seekers to subscribe to the national 5G wholesale network product to gain access to other services;
- vi. any law which comes into effect prior to completion which has the effect of prohibiting, restraining or making illegal the consummation of the transaction contemplated by the SSA;
- vii. DNB does not receive confirmation in writing from the Ministry of Finance within a period of twelve (12) months from the date of the SSA that the MoF Inc. has exempted DNB from corporate income tax for a period of not less than five (5) years from the date DNB first receives chargeable income on terms and conditions acceptable to CMSB; and
- viii. CMSB does not receive confirmation in writing from the Ministry of Finance within a period of twelve (12) months from the date of the SSA that CMSB's equity investment in DNB pursuant to the SSA is deductible from its chargeable income at a prescribed rate per annum determined by the MoF Inc., subject to any clawback in the event there is a termination or rescission of the SSA for any reason whatsoever and other terms and conditions acceptable to CMSB.

The SSA may be terminated by DNB if CMSB does not pay the Subscription Price on the completion date, or such other date agreed between the parties.

4.0 SOURCE OF FUNDING

The Transaction will be funded through internally generated funds.

5.0 RATIONALE FOR THE TRANSACTION

Taking into account the long-term perspective wherein CMSB has been instrumental in shaping the telecommunications industry in Malaysia over the past three decades, CMSB is continuing with its firm commitment to delivering 5G services to the nation, in full support of the Government's vision for the country. A strong and strategic collaboration between CMSB, the Government and industry will be a catalyst in facilitating the digital transformation of Malaysia and enable CMSB to shape development of a thriving 5G ecosystem in Malaysia.

6.0 MARKET OVERVIEW AND FUTURE PROSPECTS

6.1 Overview of the Malaysian Economy

The Malaysian economy grew by 5.0% in the first quarter of 2022 (4Q 2021: 3.6%). Growth was supported mainly by higher domestic demand as economic activity continued to normalise with the easing of containment measures. The improvement also reflects the recovery in the labour market and continued policy support. In addition, strong external demand, amid the continued upcycle in global technology, provided a further lift to growth. In terms of economic activity, the services and manufacturing sectors continued to drive growth. On a quarter-on-quarter seasonally-adjusted basis, the economy registered an increase of 3.9% (4Q 2021: 4.6%).

Save for mining and construction sectors which recorded a negative growth, all economic sectors recorded a positive growth in fourth quarter 2022. The services sector grew by 6.5% (4Q 2021: 3.2%). Consumer-related activities continued to recover amid the reopening of the economy. This was reflected in stronger growth in the retail and leisure-related subsectors. The strong expansion was also seen in business-related activities, including transport and storage, real estate, business services and private healthcare. Growth in the information and communication subsector provided further support amid greater coverage of 4G services as well as sustained demand for data communications services, particularly for e-commerce and e-payment activities.

During the quarter, domestic demand expanded by 4.4% (4Q 2021: 1.9%). Growth was supported by higher consumption and improvement in investment activities amid the normalisation of economic activity. Private consumption grew at a faster pace of 5.5% (4Q 2021: 3.7%), supported by higher spending on necessities and selected discretionary items such as restaurants and hotels, recreational services and household furnishings. The continued strength in consumer expenditure was primarily driven by the recovery in the labour market with higher wage and employment growth. Policy measures, such as Bantuan Keluarga Malaysia, also provided additional support to consumer spending. Public consumption grew by 6.7% (4Q 2021: 1.6%). The expansion was driven mainly by higher growth in supplies and services amid continued support from COVID-19 related expenditure, including vaccine procurement and logistics spending.

Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), moderated to 2.2% during the quarter (4Q 2021: 3.2%). Core inflation increased to 1.7% during the quarter (4Q 2021: 0.8%), reflecting a combination of normalisation after a period of subdued prices, and continued price adjustments amid the high-cost environment and improving demand conditions.

(Source: First Quarter 2022 Bulletin, Bank Negara Malaysia)

6.2 Overview of the Telecommunication Industry in Malaysia

The new normal in household and business activities following the implementation of MCOs and lockdowns necessitated the need to work remotely using cloud services and video conferencing, consuming entertainment from online subscription services and purchasing meals, groceries, goods and services through digital platforms. The COVID-19 pandemic (“**Pandemic**”) has also accelerated the urgency for adaptability and transformation across industry structures and business models, with an estimated 70% of the new value being created through digital platform business models (World Economic Forum, 2020). Consequently, specific subsectors with high digitalisation fared better during the crisis, particularly the information and communication and finance and insurance subsectors.

The information and communication subsector expanded by 6.1% in the first half of 2021, boosted by greater digital usage among businesses and individuals, particularly online transactions, entertainment, education, and work from home activities. The subsector is projected to increase by 5.5% in the second half of the year, buoyed by the extension of special tax relief of up to RM2,500 for the purchase of mobile phones, computers and tablets. The Jaringan Prihatin initiative, which provides subsidies to Bantuan Prihatin Rakyat recipients to purchase broadband internet plans and smartphones from participating telecommunication service providers, would also support the growth of the subsector. As at 7 October, 4.1 million individuals have subscribed to the broadband internet plans and 1.6 million smartphones valued at RM525.8 million were redeemed under this initiative. Therefore, the subsector is anticipated to rise by 5.8% in 2021.

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(Source: Economic Outlook 2022, Ministry of Finance)

The Malaysian telecommunications industry saw a steady growth in recent years, driven by increasing population, broadband penetration rate and rising adoption of digital services.

According to GlobalData, the overall telecom revenue is expected to increase and recover from 2021 and reach RM36.9 billion or USD9.1 billion in 2024, indicating a CAGR of 1.10% over 2019-2024, led by increasing service revenues from mobile data, fixed broadband and Pay TV segments.

Fixed broadband revenue will be the fastest growing segment revenue expected to reach RM9.7 billion (USD2.4 billion) by 2024. This is driven by robust growth in fibre to the home subscriptions on the back of ongoing investments by the Government in fixed broadband network expansion.

(Source: MCMC Industry Report 2020)

6.3 Prospects for Axiata and CMSB post completion of the Transaction

The Transaction is not expected to have any adverse impact to CMSB's future prospects. It will provide CMSB increased visibility of financial and operational performance of the 5G Single Wholesale Provider and an opportunity to safeguard that deployment of the single wholesale network infrastructure can cater for the future demands and requirements of CMSB and its customers.

7.0 RISK FACTORS OF THE TRANSACTION

The following are the risks identified which is not exhaustive, in relation to the Transaction:-

i) Investment Risk

There is no assurance that the anticipated benefits of the Transaction will be realised or that Axiata will be able to generate sufficient returns from this investment to offset the investments costs.

ii) Completion and Subsequent Risks

The completion of the Transaction is conditional upon Conditions Precedent under the SSA including those set out in section 3.0 above being fulfilled or waived. There can be no assurance that such conditions will be fulfilled or waived within the timeframe stipulated in the SSA. Nevertheless, it is anticipated that these risks can be mitigated if DNB proactively engaging with the relevant third parties to obtain all the necessary approvals, consents, no objections and documents required within the timeframe stipulated in the SSA.

iii) Political, Economic and Regulatory Conditions

The performance of DNB could be materially impacted by the changes in the political, economic and regulatory conditions in Malaysia. The various political, economic and regulatory conditions could range from changes in political leadership, introduction of new regulations, economic downturn and changes in interest rates.

iv) Changes in Telecommunications Market Landscape

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

v) Regulations and Licenses

The operations of DNB and provision of related 5G wholesale services in Malaysia are subject to certain approvals, licences, and permissions granted by the Malaysian Government, and MCMC. Changes in laws, regulations or government policy in Malaysia or in relation to the licences to the telecommunications industry in Malaysia or in relation to the licences held by DNB, could adversely affect DNB's business.

Any breach by DNB of terms and conditions of its approvals, licences, and permissions or failure to comply with the applicable regulations on DNB's part may result in penalties or licences being suspended or revoked by the MCMC, or Government of Malaysia. Any revocation or unfavourable amendments to the terms of, or conditions imposed on, the licences, failure to renew them on comparable terms in a timely manner could have a material adverse effect on DNB's businesses and performance in Malaysia.

vi) Technological Risks

5G technology deployment in Malaysia is relied on a single-network (owned and operated by DNB) which in turn plans to resell bandwidth capacity on a wholesale model. Advent of new technology that results in obsolescence of 5G technology may result in deterioration of DNB's financial performance.

8.0 FINANCIAL EFFECTS OF THE TRANSACTION

8.1 Issued and Paid-Up Share Capital and Substantial Shareholders' Shareholdings

The Transaction will not have any effect on Axiata's issued and paid-up share capital and/or substantial shareholders' shareholding in Axiata as it does not involve any issuance of new ordinary shares in Axiata.

8.2 Net Asset ("NA"), NA per Share and Gearing

The Transaction will not have a material impact on Axiata NA, NA per Share and Gearing of Axiata as at 31 December 2022.

8.3 Earnings and Earnings per Share ("EPS")

The Transaction will not have a material impact on EPS of Axiata for the Financial Year Ending 31 December 2022.

9.0 APPROVAL / CONSENT REQUIRED

The Transaction is not subject to the approval of the shareholders of Axiata.

10.0 INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND PERSONS CONNECTED

Save as disclosed below, none of our directors, major shareholders and/or persons connected to them have any interest, direct or indirect in the Transaction:

- a) MoF Inc, a body corporate established under the Minister of Finance (Incorporation) Act, 1957, is the holding company of DNB and Khazanah Nasional Berhad (“**Khazanah**”);
- b) Khazanah is a major shareholder of Axiata with an equity interest of 36.74%;
- c) Our Director, Ong King How (Director of Investments at Khazanah) and his Alternate Director, Eysa Zulkifli (Senior Vice President of Investments at Khazanah), who are full-time executives of Khazanah, are Khazanah’s representatives on Axiata Board (“**Interested Directors**”).

11.0 BOARD AUDIT COMMITTEE AND BOARD OF DIRECTORS’ STATEMENT

The Board of Audit Committee of Axiata is of the view that the Transaction is in the best interest of the Group and is fair, reasonable and on normal commercial terms and it is not detrimental to the interest of the minority shareholders.

The Board of Axiata (save for the Interested Directors) after having considered all aspects, is of the opinion that the Transaction is in the best interest of Axiata and its shareholders.

The above is on the basis that the Transaction is at the same price and terms similar to what is being offered to other investors in DNB without any preferential pricing or terms for either Axiata or DNB.

12.0 TRANSACTION WITH THE SAME RELATED PARTY FOR THE PRECEDING 12 MONTHS

Save for this Transaction, there were no other material transactions entered into between Axiata Group with the same related party for the 12 months preceding the date of this announcement.

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 Transaction pursuant to paragraph 10.02(g) (ii) of the Main LR is 0.99% based on audited consolidated financial statements of Axiata for the financial year ended 31 December 2021.

14.0 ADVISORS

CMSB has appointed Zul Rafique & Partners as its legal advisors. PricewaterhouseCoopers (“**PwC**”) has been appointed to perform financial and tax due diligence services.

15.0 ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all approvals being obtained, the Transaction is expected to be completed by 30 October 2022.

16.0 DOCUMENT FOR INSPECTION

The SSA is available for inspection at Axiata’s registered office at Level 5, Axiata Centre, 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 07 October 2022.